STEPS OF MARKET SEGMENTATION

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Step 1: Deciding (not) to segment

Step 2: Specifying the ideal target segment

Step 3: Collecting data

Step 1: Deciding (not) to Segment

Implications of Committing to Market Segmentation

- Market segmentation is a key marketing strategy used by many organizations.
- However, it's essential to understand the implications before pursuing this strategy.
- Market segmentation requires a long-term commitment, not a short-term approach.
- The organization must be willing to make substantial changes and investments.
- Costs associated with research, surveys, designing packages, and advertisements are involved.
- The expected increase in sales should justify the expenses of implementing segmentation.

Potentially Required Changes

- Organizations may need to develop new products or modify existing ones.
- Changes in pricing, distribution channels, and communication with the market might be necessary.
- Internal organizational structure might need adjustments to cater to different market segments.

Involvement of Senior Management

- The decision to pursue market segmentation must be made at the highest executive level.
- Senior management's leadership, commitment, and involvement are crucial for successful implementation.

Implementation Barriers

- Lack of senior management support and resources can hinder successful segmentation.
- Organizational culture must be consumer-oriented and open to change and creativity.
- Adequate training and understanding of market segmentation are essential for success.
- A formal marketing function or a qualified marketing expert can enhance the process.
- Objective restrictions, such as financial limitations, may pose challenges.

Step 1 Checklist

- Before proceeding with market segmentation, consider these questions:
- Is the organization willing to commit to a long-term segmentation strategy?
- Does senior management actively support and champion the process?
- Is the organization open to change and willing to invest in resources for segmentation?
- Is there a market-oriented culture, creative thinking, and effective communication within the organization?

- Barriers identified during the analysis should be proactively addressed or considered for potential abandonment.
- Successful implementation requires dedication, patience, and a sense of purpose.

Market segmentation is a powerful strategy, but it requires careful evaluation and support from the entire organization for successful outcomes.

Step 2: Specifying the Ideal Target Segment

Segment Evaluation Criteria

- In Step 2 of market segmentation analysis, user input plays a crucial role throughout the process.
- Two sets of segment evaluation criteria need to be determined: knock-out criteria and attractiveness criteria.
- Knock-out criteria are essential and non-negotiable features that segments must possess to be considered for targeting.
- Attractiveness criteria help evaluate the relative attractiveness of the remaining segments compliant with knock-out criteria.

Knock-Out Criteria

- Knock-out criteria determine if market segments qualify for assessment using attractiveness criteria.
- Criteria include homogeneity, distinctness, size, match with organizational strengths, identifiability, and reachability.

Attractiveness Criteria

- Attractiveness criteria are diverse and can be used to rate segments based on their relative appeal.
- Segments are not binary; they are rated based on their attractiveness for each criterion.
- Determining the attractiveness criteria is essential early in the process to guide data collection and target segment selection in Step 8.

Implementing a Structured Process

- Following a structured approach is recommended for evaluating market segments.
- A segment evaluation plot is a popular tool, showing attractiveness on one axis and organizational competitiveness on the other.
- Identifying the most important attractiveness criteria and assigning weights to them helps in the evaluation process.
- Representatives from various organizational units should be involved in this process for diverse perspectives and stakeholder buy-in.

Step 2 Checklist

1. Convene a segmentation team meeting.
2. Agree on the knock-out criteria (homogeneity, distinctness, size, match, identifiability, and reachability).
3. Present the knock-out criteria to the advisory committee for discussion and adjustment.
4. Study available criteria for segment attractiveness evaluation.
5. Agree on a subset of no more than six attractiveness criteria with the segmentation team.
6. Distribute 100 points across the selected attractiveness criteria to reflect their relative importance.

7. Discuss and agree on the weighting of the attractiveness criteria with the segmentation team.
8. Present the selected criteria and weights to the advisory committee for discussion and adjustment.

Step 3: Collecting Data

Segmentation Variables

- Empirical data is the foundation of both commonsense and data-driven market segmentation.
- In commonsense segmentation, a single characteristic (e.g., gender) is used as the segmentation variable to split the sample into market segments.
- Descriptor variables (e.g., age, number of vacations) are other personal characteristics used to describe the segments in detail.

Data-Driven Market Segmentation

- Data-driven segmentation relies on multiple segmentation variables to identify or create market segments.
- These variables serve as the starting point for segment identification.
- Descriptor variables help in describing the segments and developing targeted marketing strategies.

Quality of Empirical Data

- The quality of empirical data is crucial for developing valid segmentation solutions.
- Good data ensures correct assignment of individuals to market segments and accurate segment descriptions.
- Data quality impacts product customization, pricing strategies, distribution channels, and communication effectiveness.

Sources of Empirical Data

- Empirical data for segmentation studies can come from various sources, such as surveys, observations (e.g., scanner data), or experimental studies.
- Survey data is commonly used but may not always reflect actual consumer behavior.
- The preferred source is one that closely reflects real consumer behavior.

Segmentation Criteria

- Segmentation criteria are the basis for dividing consumers into market segments.
- Different segmentation criteria can be used, such as geographic, socio-demographic, psychographic, and behavioral.
- The choice of segmentation criteria depends on the marketing context and product/service being offered.
- It is advisable to use the simplest approach that works for the product or service at the least possible cost.

Geographic Segmentation

- Uses the consumer's location of residence as the segmentation variable.
- Easy to target communication messages and select appropriate communication channels.
- Might not explain product preferences, as people living in the same area may have diverse preferences.

Socio-Demographic Segmentation

- Uses socio-demographic characteristics like age, gender, income, and education as segmentation criteria.
- Useful in industries where certain characteristics are strongly associated with product preferences (e.g., luxury goods, cosmetics).
- Does not always provide sufficient insights for segmentation decisions and may only explain a small portion of consumer behavior.

Psychographic Segmentation

- Groups consumers based on psychological criteria such as beliefs, interests, preferences, and benefits sought.
- Benefit segmentation and lifestyle segmentation are popular psychographic approaches.
- Reflects the underlying reasons for differences in consumer behavior.
- More complex than geographic or socio-demographic segmentation, requires multiple segmentation variables.

Behavioral Segmentation

- Directly looks for similarities in behavior or reported behavior.
- Uses behaviors like prior experience, purchase frequency, amount spent, and information search behavior as segmentation variables.
- Advantageous if based on actual behavior, as it focuses on the most critical similarity.
- Might not be readily available for potential customers who have not previously purchased the product.

Choice of Variables

- Selecting the right variables for market segmentation is crucial for obtaining accurate results.
- In data-driven segmentation, include all relevant variables related to the segmentation criterion and avoid unnecessary ones.
- Unnecessary variables can lead to respondent fatigue, make the segmentation task more challenging, and interfere with the identification of correct segments.

Response Options

- Survey response options determine the scale of the data for analysis.
- Binary or metric response options are preferred for segmentation analysis as they allow for straightforward distance measures.
- Ordinal data, where the distance between adjacent options is unclear, can be challenging to use in segmentation analysis.

Response Styles

- Response styles are systematic tendencies in respondents' answers that can introduce biases into survey data.
- Biases like extreme responses, midpoint preference, or agreement with all items can affect segmentation results.

- It is essential to minimize the capture of response styles when collecting data for market segmentation.

Sample Size

- Sufficient sample size is critical for accurate segmentation analysis.
- Increasing the sample size improves the accuracy of segment recovery.
- A sample size of at least 60 times the number of segmentation variables is recommended for optimal results.
- Sample size requirements can vary based on market characteristics, data characteristics, and the presence of noisy variables.

Optimal Data Quality

- Collect data with all necessary items, no unnecessary or correlated items.
- Ensure high-quality responses with binary or metric scales, avoiding response styles.
- Use a sufficient sample size to support accurate segment extraction.

By following these guidelines, organizations can ensure that the data collected for market segmentation analyses is of high quality and leads to reliable results.

Data from Internal Sources

Internal Data for Market Segmentation

- Organizations have access to substantial amounts of internal data that can be used for market segmentation analysis.
- Examples of internal data sources include scanner data from grocery stores, booking data from airline loyalty programs, and online purchase data.
- The advantage of internal data is that it represents actual consumer behavior, avoiding biases present in survey data.
- Internal data is automatically generated and readily available if stored in an accessible format.

Potential Bias in Internal Data

- A potential danger of using internal data is that it may over-represent existing customers.
- Internal data may lack information about potential future customers who may have different consumption patterns.

Data from Experimental Studies

- Experimental data from field or laboratory experiments can also be used for market segmentation.
- Experimental data can result from tests on how people respond to specific advertisements or from choice experiments and conjoint analyses.
- Conjoint studies and choice experiments provide information about how consumers' preferences are influenced by different product attributes and levels.

Using internal data and experimental data for market segmentation can offer valuable insights, especially when aiming to understand actual consumer behavior and preferences. However, it's essential to consider potential biases and limitations associated with each data source. Combining data from various sources can provide a more comprehensive view of the market and support effective segmentation strategies.