**Market segmentation**

**Summary**

Market segmentation is a significant marketing strategy but requires long-term commitment and substantial investment. Organizations must be prepared for costs related to research, surveys, packaging, advertising, and communication. As Cahill (2006) emphasizes, segmentation should only be pursued if the expected sales increase outweighs the expenses. Implementing segmentation may necessitate changes in product development, pricing, distribution, and internal structures. Croft (1994) suggests that to maximize benefits, companies should structure themselves around their target markets.

Several books on market segmentation, including those by Dibb and Simkin (2008), Croft (1994), and McDonald and Dunbar (1995), outline key barriers to successful implementation.

**1. Senior Management Barriers:** A lack of leadership, commitment, and resource allocation can hinder segmentation efforts. Without executive support, implementing conclusions becomes difficult (McDonald & Dunbar, 1995).

**2. Organizational Culture Barriers:** Resistance to change, poor communication, short-term thinking, and lack of market orientation can prevent effective segmentation (Dibb & Simkin, 2008). Croft (1994) even developed a questionnaire to assess cultural barriers.

**3. Lack of Training & Expertise:** Without proper understanding, both senior management and segmentation teams may struggle. The absence of a formal marketing function, qualified experts, or data analysts further complicates implementation (McDonald & Dunbar, 1995).

**4. Resource & Structural Limitations:** Financial constraints and the inability to make necessary structural changes can restrict segmentation efforts. Companies with limited resources must focus on the best opportunities (Beane & Ennis, 1987).

**5. Process-Related Issues:** Poor planning, unclear objectives, lack of structured processes, and time constraints can derail segmentation (Dibb & Simkin, 2008). Additionally, complex analytical techniques may be rejected by management if they are not easily understood (Doyle & Saunders, 1985).

Many of these barriers can be identified early and addressed proactively. However, if they cannot be overcome, abandoning segmentation should be considered. If pursued, a determined and patient approach is crucial (McDonald & Dunbar, 1995).

The third layer of market segmentation analysis relies heavily on user input throughout the process, not just at the beginning or end. After committing to segmentation in Step 1, organizations play a key role in Step 2 by defining segment evaluation criteria, which influence later steps like data collection (Step 3) and target selection (Step 8).

There are two types of evaluation criteria:

1. **Knock-out Criteria** – Essential, non-negotiable characteristics a segment must meet.
2. **Attractiveness Criteria** – Used to assess the relative appeal of remaining segments

Market segmentation analysis requires defining **knock-out criteria** and **attractiveness criteria** to evaluate potential target segments.

**Knock-Out Criteria**

Knock-out criteria determine whether a segment qualifies for further assessment. Suggested by Kotler (1994) and expanded by other scholars, these criteria include:

* **Homogeneity** – Members must be similar.
* **Distinctiveness** – Segment must be clearly different from others.
* **Size** – Must be large enough to justify a customized marketing mix.
* **Organizational Fit** – Must align with the company’s strengths.
* **Identifiability** – Members must be recognizable in the market.
* **Reachability** – Must be accessible for targeted marketing efforts.

These criteria must be clearly understood and specified, such as defining the minimum viable segment size.

**Attractiveness Criteria**

Unlike knock-out criteria, attractiveness criteria are not binary but are used to rate and compare segments. The segmentation team evaluates segments based on these criteria to determine their viability as target markets in Step 8.

**Structured Process for Evaluation**

A structured approach, such as a **segment evaluation plot**, helps organizations assess market segments by plotting **segment attractiveness** against **organizational competitiveness** (Lilien & Rangaswamy, 2003; McDonald & Dunbar, 2012). Since no universal criteria exist, organizations must select and weight relevant factors, usually limiting them to six.

**Team Involvement and Approval**

To ensure a comprehensive evaluation, representatives from various organizational units should participate in defining criteria. This guarantees diverse perspectives and smooth future implementation. The segmentation team assigns weights to each attractiveness criterion through a points-based system, refining them through discussions with the advisory committee.

Empirical data is essential for both **commonsense** and **data-driven** market segmentation, helping to identify and describe market segments.

**Commonsense Segmentation**

* Uses a **single segmentation variable** (e.g., gender) to split consumers into groups.
* Other characteristics, called **descriptor variables** (e.g., age, vacations taken, benefits sought), help describe segments for targeted marketing.

**Data-Driven Segmentation**

* Uses **multiple segmentation variables** to identify or create meaningful market segments.
* This approach provides a more detailed and effective way to develop targeted marketing strategies than commonsense segmentation.

Before collecting data for market segmentation, an organization must choose a **segmentation criterion**—the type of information used to segment the market. This differs from a **segmentation variable**, a specific measured value (e.g., a survey item).

**Choosing a Segmentation Criterion**

* Common segmentation criteria include **geographic, socio-demographic, psychographic,** and **behavioral** factors.
* Bock and Uncles (2002) highlight key consumer differences, such as **profitability, bargaining power, preferences, barriers to choice,** and **consumer interaction effects,** as relevant for segmentation.
* Since there are no universal guidelines for selecting the best criterion (Hoek et al., 1996), the general recommendation is to **use the most straightforward, cost-effective approach** (Cahill, 2006).
* If **demographic or geographic** segmentation is sufficient, it should be used instead of more complex methods like psychographic segmentation, which may be unnecessary.

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