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(Step 1) Deciding (not) to Segment

Market segmentation is a powerful marketing strategy that is widely used by organizations. However, before deciding to pursue market segmentation, it is crucial to understand the implications and potential barriers associated with this strategy.

Implications of Committing to Market Segmentation:

- Market segmentation requires a long-term commitment from the organization. It is not a short-term solution but a strategic approach that needs continuous investment and support.
- Significant changes may be necessary, including the development or modification of products, pricing adjustments, changes in distribution channels, and adjustments to communication strategies.
- These changes can also impact the internal structure of the organization, which may need to be adjusted to align with the targeted market segments.
- Organizing the company around market segments rather than products can maximize the benefits of market segmentation.
- Implementing a segmentation strategy incurs costs, such as research, surveys, focus groups, package and advertisement design, and communication expenses.
- The expected increase in sales should justify the expenses of developing and implementing a segmentation strategy.

Implementation Barriers:

- Lack of leadership, commitment, and involvement from senior management can undermine the success of market segmentation.
- Insufficient allocation of resources, both for the initial analysis and long-term implementation, can hinder the effective rollout of a segmentation strategy.
- Organizational culture plays a crucial role. Resistance to change, lack of market or consumer orientation, poor communication, and a lack of sharing information across departments can impede successful implementation.

- Lack of understanding or training on market segmentation concepts and methodologies can hinder the adoption and execution of segmentation strategies.
- The absence of a qualified marketing expert or a formal marketing function within the organization can create barriers to successful implementation.
- Objective restrictions, such as limited financial resources or the inability to make required structural changes, can pose obstacles.
- Process-related barriers include undefined objectives, lack of planning, lack of structured processes, absence of allocated responsibilities, and time pressure.

Step 1 Checklist:

- Assess the organization's market orientation, willingness to change, long-term perspective, openness to new ideas, and communication across departments.
- Ensure the organization has the ability to make significant changes and sufficient financial resources to support a segmentation strategy.
- Secure visible commitment and active involvement of senior management.
- Provide training to ensure a thorough understanding of market segmentation concepts and implications.
- Assemble a segmentation team consisting of marketing, data, and data analysis experts.
- Establish an advisory committee representing relevant organizational units.
- Clearly define the objectives of the market segmentation analysis.
- Develop a structured process and assign responsibilities to the segmentation team.
- Allow sufficient time for the analysis without time pressure.

So, before embarking on market segmentation, organizations need to consider the long-term commitment required, potential implementation barriers, and ensure alignment with the organization's culture, resources, and leadership support.

(Step 2) Specifying the Ideal Target Segment

Step 2 of market segmentation analysis involves specifying the ideal target segment. This step includes the identification and evaluation of segment criteria to determine which segments are suitable for targeting. The process requires input from the organization and collaboration among the segmentation team and advisory committee.

Segment Evaluation Criteria:

The evaluation criteria consist of two sets: knock-out criteria and attractiveness criteria.

Knock-out criteria:

Knock-out criteria are essential and non-negotiable features that must be met for a segment to be considered for targeting. These criteria include homogeneity, distinctness, size, match, identifiability, and reachability. If a segment fails to comply with these criteria, it will be automatically eliminated in later steps.

Attractiveness Criteria:

Attractiveness criteria, on the other hand, are used to assess the relative attractiveness of the remaining market segments. These criteria are not binary but are rated on a scale. The literature offers a variety of proposed attractiveness criteria, such as substantiality, measurability, accessibility, compatibility, profitability, and more. The segmentation team needs to select a subset of these criteria based on their relevance to the organization's specific situation. The importance or weight of each attractiveness criterion is also determined through discussions and negotiations among team members.

Implementing a Structured Process:

To implement a structured process, it is recommended to use a segment evaluation plot that depicts segment attractiveness on one axis and organizational competitiveness on the other axis. The values on these axes are determined by the segmentation team, considering the selected criteria. The process of selecting criteria and determining their weights should involve

representatives from various organizational units to ensure a comprehensive perspective and stakeholder involvement.

At the end of Step 2, the segmentation team should have a list of approximately six segment attractiveness criteria with assigned weights. These criteria will guide the data collection in Step 3 and facilitate the selection of a target segment in Step 8.

Step 2 Checklist:

1. Convene a segmentation team meeting.
2. Discuss and agree on knock-out criteria.
3. Present knock-out criteria to the advisory committee for discussion.
4. Individually study and discuss available attractiveness criteria.
5. Agree on a subset of no more than six criteria.
6. Distribute 100 points across the selected attractiveness criteria.
7. Discuss and agree on the weighting of criteria.
8. Present selected criteria and weights to the advisory committee for discussion.

(Step 3) Collecting Data

Segmentation Variables:

- Empirical data is used to identify or create market segments.
- Segmentation variables are used to split the sample into market segments.
- Common-sense segmentation uses one single characteristic as the segmentation variable.
- Descriptor variables are used to describe the segments in detail.

Segmentation Criteria:

- Segmentation criteria refer to the nature of the information used for market segmentation.
- Common segmentation criteria include geographic, socio-demographic, psychographic, and behavioural factors.
- The choice of segmentation criteria depends on the specific market and product/service being analysed.
- The recommendation is to use the simplest possible approach that works for the product or service at the least possible cost.

I. Geographic Segmentation:

- Geographic information, such as the consumer's location of residence, is used as the segmentation criterion.
- It is easy to assign consumers to geographic segments and target communication messages accordingly.
- However, living in the same area does not necessarily mean people share other relevant characteristics for marketers.

II. Socio-Demographic Segmentation:

- Socio-demographic criteria include age, gender, income, and education.
- Socio-demographic segments can be useful in certain industries but may not provide sufficient market insight in all cases.
- Socio-demographics explain only a small portion of consumer behaviour.

III. Psychographic Segmentation:

- Psychographic segmentation groups people based on psychological criteria, such as beliefs, interests, preferences, and benefits sought.
- Benefit segmentation and lifestyle segmentation are popular psychographic approaches.
- Psychographic criteria are more reflective of the underlying reasons for differences in consumer behaviour.
- Determining segment membership for consumers can be more complex, and the quality of empirical measures is crucial.

IV. Behavioural Segmentation:

- Behavioural segmentation focuses on similarities in behaviour or reported behaviour.
- Examples of behavioural variables include prior experience, purchase frequency, amount spent, and information search behaviour.
- Using actual behavioural data as segmentation variables can directly capture the behaviour of interest.
- Behavioural segmentation based on actual behaviour is advantageous but may require data that is not always readily available.

The passage discusses various aspects to consider when using survey data for market segmentation analysis. Here are the key points covered:

1. Choice of Variables: Carefully selecting the variables included as segmentation variables is crucial. Including unnecessary variables can lead to respondent fatigue and make the segmentation task more difficult. Unnecessary variables can divert the attention of the segmentation algorithm and prevent it from identifying the correct segmentation solution.

2. Response Options: The response options provided to respondents in surveys determine the scale of the data. Binary or metric response options are suitable for segmentation analysis as they allow for distance measurement. Ordinal data, where the distance between adjacent options is not clearly defined, pose challenges for distance-based analysis.

3. Response Styles: Survey data is prone to capturing biases, such as response styles. Response styles are systematic tendencies of respondents to answer questionnaire items based on factors other than the item content. These biases can affect segmentation results, as algorithms may not differentiate between a respondent's belief and their response style. It is important to minimize the capture of response styles to ensure accurate segmentation.

4. Sample Size: The sample size plays a crucial role in market segmentation analysis. Insufficient sample size can make it difficult to determine the correct number and nature of segments. Increasing the sample size improves the accuracy of segment extraction. Recommendations for sample size vary depending on the number of segmentation variables and the characteristics of the data and market.

Overall, the passage highlights the importance of careful variable selection, appropriate response options, minimizing response styles, and ensuring an adequate sample size when using survey data for market segmentation analysis.

Step 3 Checklist:

1. Convene a market segmentation team meeting to discuss the segmentation process.
2. Identify promising segmentation variables that can be used to extract consumer groups from the data.
3. Determine additional consumer characteristics that are needed to gain a comprehensive understanding of the market segments.
4. Plan how to collect data in a way that captures the segmentation variables and descriptor variables accurately.
5. Design the data collection process carefully to minimize biases and other sources of systematic error that could contaminate the data.
6. Collect the necessary data for the segmentation study.

(Step-8) Selecting the Target Segment(s)

The Targeting Decision:

The targeting decision is a crucial step in market segmentation where the selection of one or more target segments is made. This decision has a significant impact on the future performance of an organization. After conducting a global market segmentation analysis and profiling various segments, Step 8 involves selecting the market segments for targeting. The selection process takes into account previously established knock-out criteria and segment attractiveness criteria. The goal is to identify segments that align with the organization's objectives and have the potential for long-term commitment.

Market Segment Evaluation:

To facilitate the evaluation of alternative market segments, the use of a decision matrix is recommended. This matrix visualizes the relative segment attractiveness and organizational competitiveness for each market segment. The criteria used in the matrix cover two dimensions: segment attractiveness and relative organizational competitiveness. The segment attractiveness represents how desirable a segment is to the organization, while organizational competitiveness indicates how likely the organization is to be chosen by the segment. By plotting the segments on the matrix, the segmentation team can assess their overall attractiveness and competitiveness.

Step 8 Checklist:

The Step 8 checklist outlines the tasks involved in the target segment selection process. The checklist includes:

- Convening a segmentation team meeting
- Identifying the market segments under consideration for targeting
- Verifying that the remaining segments meet the knock-out criteria
- Discussing and determining the values for segment attractiveness and organizational competitiveness criteria for each segment

- Calculating the overall attractiveness and organizational competitiveness for each segment
- Creating a segment evaluation plot based on the calculated values
- Making a preliminary selection of target segments
- Ensuring compatibility among the selected target segments
- Presenting the selected segments for discussion and reconsideration, if necessary, to the advisory committee.

By following this checklist, the segmentation team can systematically evaluate and select the most suitable target segments for the organization's marketing strategy.