

Step 1: Deciding (not) to Segment

3.1 Implications of Committing to Market Segmentation:

- Long-term commitment: Requires organizational restructuring, financial investment, and strategic changes.
- Costs: Research, surveys, multiple marketing strategies.
- Key requirement: Segmentation must yield higher profits than costs.
- Organizational alignment: Shift from product-centric to segment-centric structures.
- Leadership requires top management to endorse and communicate decisions.

3.2 Implementation Barriers:

- Senior management barriers: Lack of leadership, resources, or involvement.
- Cultural barriers: Resistance to change, poor communication, short-term thinking.
- Skill gaps: Lack of marketing/data expertise, insufficient training.
- Resource constraints: Financial limitations, inability to restructure.
- Process issues: Unclear objectives, poor planning, time pressure.

3.3 Step 1 Checklist:

- Knock-out questions: Assess market orientation, willingness to change, long-term focus, communication, resources.
- Tasks: Secure senior management commitment, form a team, ensure understanding of segmentation implications.

Step 2: Specifying the Ideal Target Segment

4.1 Segment Evaluation Criteria:

- **Knock-out criteria:** Essential features (example size, homogeneity, accessibility).
- **Attractiveness criteria:** Desirable features (example. profitability, growth, competitive advantage).
- **Literature review:** Summarizes criteria from Day (1984), Kotler (2012), and others.

4.2 Knock-Out Criteria:

- **Essential criteria:** Homogeneity, distinctness, size, alignment with organizational capabilities, identifiability, reachability.

4.3 Attractiveness Criteria:

- **Examples:** Growth potential, profitability, segment stability, synergy with other segments.
- **Weighted evaluation:** Criteria are rated, not binary.

4.4 Implementing a Structured Process:

- **Segment evaluation plot:** Visualizes attractiveness vs. organizational competitiveness.
- **Team involvement:** Negotiate criteria weights with stakeholders.
- **Data alignment:** Ensure data collection aligns with criteria for later analysis.

4.5 Step 2 Checklist:

- **Tasks:** Define knock-out/attractiveness criteria, assign weights, present to advisory committee.

Step 3: Collecting Data

• 5.1 Segmentation Variables:

- **Commonsense segmentation:** Single variable (example gender).
- **Data-driven segmentation:** Multiple variables (example benefits sought).
- **Descriptor variables:** Used to describe segments (example demographics).

• 5.2 Segmentation Criteria:

- **Types:**
 - **Geographic:** Location-based (simple but may lack depth).
 - **Socio-demographic:** Age, income (limited explanatory power).
 - **Psychographic:** Beliefs, lifestyles (complex but insightful).
 - **Behavioural:** Actual actions (reliable but limited to existing customers).
- **Recommendation:** Use simplest effective criteria (example demographics if sufficient).

• 5.3 Data from Survey Studies:

- **Variable selection:** Avoid redundancy; prioritize binary/metric scales.
- **Response styles:** Mitigate biases (example acquiescence, midpoint tendency).
- **Sample size:** Minimum 100 respondents per segmentation variable.

• 5.4 Data from Internal Sources:

- **Pros:** Reflects actual behaviour (example purchase history).
- **Cons:** Bias toward existing customers; lacks potential customer data.

• 5.5 Data from Experimental Studies:

- **Examples:** Conjoint analysis, choice experiments.
- **Use:** Captures preferences through controlled stimuli.

• 5.6 Step 3 Checklist:

- **Tasks:** Select segmentation/descriptor variables, design unbiased data collection, ensure sample adequacy.

Step 6: Profiling Segments

8.1 Identifying Key Characteristics of Market Segments

- **Purpose:** Profiling aims to understand the defining characteristics of market segments derived from data-driven segmentation.
- **Commonsense vs. Data-Driven Segmentation:**
 - Commonsense segmentation (example age groups) has predefined profiles; profiling is unnecessary.
 - Data-driven segmentation (example benefits sought) requires profiling to uncover unknown segment characteristics.
- **Challenges:**
 - Segments must be characterized individually and in comparison, to others.
 - Interpretation is critical for strategic marketing decisions but is often difficult for managers.
- **Managerial Perspective:**
 - Many managers struggle with interpreting data-driven segmentation results, viewing them as a **"black box."**

8.2 Traditional Approaches to Profiling Market Segments

- **Presentation Methods:**
 - **High-level summaries:** Oversimplified and potentially misleading.
 - **Detailed tables:** Hard to interpret due to the volume of data (e.g., comparing 120–300 numbers per table).
- **Example:** Table 8.1 shows segment means for travel motives, requiring tedious comparisons to identify key differences.
- **Limitations:**
 - Statistical significance tests are inappropriate because segments are constructed to be maximally different.
 - Large tables are impractical, especially when multiple segmentation solutions are compared.

8.3 Segment Profiling with Visualisations

- **Advantages of Visualisations:**
 - Simplify complex data interpretation (e.g., segment profile plots, separation plots).
 - Reduce cognitive effort compared to tables (supported by eye-tracking studies).
- **Key Techniques:**
 - **Segment Profile Plot:** Highlights marker variables (defining characteristics) and compares segment means to overall means.
 - **Segment Separation Plot:** Visualizes segment overlap and relationships using projections (e.g., principal components analysis).
- **Example:** Figure 8.2 uses a segment profile plot to quickly identify key motives for each segment (e.g., Segment 6 focuses on nature).
- **Data Challenges:**
 - Visualisations become complex with high-dimensional data but remain more intuitive than tables.

8.4 Step 6 Checklist

- **Tasks:**
 1. Use selected segments from Step 5.
 2. Visualize segment profiles to understand distinct characteristics.
 3. Apply knock-out criteria to eliminate non-compliant segments.
 4. Pass remaining segments to Step 7 for further description.
- **Responsibility:** Data analysts and managers collaborate to ensure actionable insights.