**10 Steps for Market Segmentation**

**What is Market Segmentation?**

Market segmentation is a marketing strategy in which select groups of consumers are identified so that certain products or product lines can be presented to them in a way that appeals to their interests.

**Step 1: Deciding (not) to segment**

* Not always the best decision to pursue this strategy.
* Requires time and resources.
* Might have some barriers in implementations
* Some of the barriers are:
  + Lack of leadership, commitment and involvement.
  + Required resources are not available.
  + Lack of market or consumer orientation
  + Lack of resistance to change & new ideas.
  + Lack of creative thinking, communication skills.
  + Unwillingness to make changes and office politics
  + Lack of formal marketing function
  + Not having clarified objectives of market segmentation
* Most of these barriers can be identified and proactively removed.
* If barriers cannot be removed, the attempt should be abandoned
* The checklist given in the book can be used to ask a series of question to decide whether market segmentation is the way to go

**Step 2: Specifying the ideal target**

* Market segmentation depends on user input.
* User inputs cannot be limited to the beginning or end or development of the process.
* Users have to be involved in all stages.
* Orgs. must determine two set of segment evaluation criteria.
* One set is called *knock-out* criteria, these are essential, non-negotiable features that are to be considered.
* Other is called *attractiveness* criteria, these are used to relative attractiveness of remaining market segmentation.
* Different books give different sets of criteria that are given in table 4.1 of book (pg. 32)
* Knock out criteria:
  + The segments must be homogeneous
  + Must be distinct.
  + Must be large enough, must have enough consumers to make it worthwhile to spend money.
  + Must match the strengths of the organisation; the segment members must be satisfied too.
  + Must be reachable.
* Attractiveness criteria:
* Each segment is rated differently.
* Can be more or less attractive with respect to specific criteria.
* Attractiveness across all criterion decides if segment is selected as target or not.
* Structured process is beneficial.
* Segment attractiveness VS Organisational competitiveness plot is used to select target segments.
* These values are determined by segmentation teams.
* While the plot cannot be completed in this stage because there is no segment, The attractiveness criteria should be selected in this step.
* This will help in knowing precisely what it is about market segments that matter to the organisation, ensuring all info is captured whilst collecting data in next step.
* At the end, the segmentation team should have a list of approx. six segment attractiveness criteria.
* Each criteria should have a weight marking its importance.

**Step 3: Collecting Data**

* Variable to decide the segments is to be selected
* segmentation is of two types, common sense and data driven
* Data driven segmentation is based on multiple variables
* Common sense might be segmenting on gender, data driven will be segmenting based on user needs and reviews.
* Different segmentation criterion exists, from which the best is to be used
* They are
  + Geographic segmentation
  + Socio-demographic segmentation (age, gender, income, etc.)
  + Psychographic segmentation (belief, interests, preferences, etc.)
  + Behavioural segmentation (frequency of purchase, money spent, etc.)
* Many segmentation analysis is done on surveys
* Survey questions and answers are to be considered carefully
  + Unnecessary variables make questionnaires long and results in low quality response
  + Also increases dimensionality of the problem with noisy data
  + Response options to be selected as per the requirement of the data wanted (binary/metric/nominal)
  + The sample size must be determined (2p or 10pk where p is the no. of segmentation variables, k is the number of segments)
* data used in market segmentation analyses should

• contain all necessary items;

• contain no unnecessary items;

• contain no correlated items;

• contain high-quality responses;

• be binary or metric;

• be free of response styles;

• include responses from a suitable sample given the aim of the segmentation study

• include a sufficient sample size given the number of segmentation variables (100 times the number of segmentation variables).

* Data can be collected from internal sources and experimental studies

**Step 8: Selecting the target segment(s)**

* All market segments under step 8 must comply with the knock-out criteria.
* The team has to consider the following questions in selecting a target segment
  + Which of the market segments would the organisation most like to target? Which segment would the organisation like to commit to?
  + Which of the organisations offering the same product would each of the segments most like to buy from? How likely is it that our organisation would be chosen? How likely is it that each segment would commit to us?
* Use of decision matrix to visualize segment attractiveness
* Segment attractiveness vs relative organisational competitiveness graph s plotted. Segments appear as circles.
* Size of circles represent another criteria of choice relevant to selection
* In step 2, we decided the weight of each criteria on segment attractiveness, this weight is used to plot the graph
* The plot is between ‘How attractive is the segment to us?’ VS ‘How attractive are we to the segment?’ (i.e., if the segment gets another organisation with similar services, will they switch?)
* The size of the segment bubble in the graph is based on how profitable that particular segment is to the organisation.
* Refer to page 239-241 for mathematical calculations.

**Step 9: Customising the Market Mix**

* Marketing mix consists of 4 Ps, Product, Price, Promotion, Place
* Market segmentation goes together with other areas of marketing, most importantly; positioning and competition
* Segmentation process is seen as part of STP (segmentation-targeting-positioning)
  + Segmentation: the extraction, profiling and description of segments
  + Targeting: the assessment of segments and selection of a target segment
  + Positioning: the measures an organisation can take to ensure that their product is perceived as distinctly different from competing products, and in line with segment needs
* All of the aspects of marketing mix need to be reviewed once target segment(s) have been selected.
* To maximize benefits, the marketing mix are customised to target segments, such as discounts, rebranding, selection of distribution channels, etc.
* The product needs to be specified in view of customer need, by modifying the existing product.
* Other decisions n Product mix are: naming, packaging, warranties, after sales support, etc.
* The price mix includes decisions like: selling price, discount rates, etc.
* Example from case study of Australian vacation is given to determine the expenditure of people of segment 3 taking a vacation.
* The decisions under Place mix are how to distribute the product, should the product be available online or offline, direct selling should be available or a wholesaler should be involved etc.
* The same example is used to determine the means of booking a vacation by segment 3 people in the Australian vacation case study.
* The Promotion mix includes decisions like: developing an advertising message, and finding the most effective way of communicating the message. Public relations, personal selling, sponsorships, etc.
* Using the same example, it was observed that the source of advertisement most used by segment 3 in Australian vacation case study was tourist centre, and most watched TV channel were channel 7 and 9 by the users.
* The checklist is provided to go through the processes of this step thoroughly.