

# Market Segmentation

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## Strategic and Tactical Marketing:

- Strategic Marketing:

Strategic marketing focuses on long-term planning and decision-making to achieve the organization's overall objectives. It involves analyzing the market, identifying target customers, and formulating a marketing strategy that aligns with the company's goals.

- Tactical Marketing:

Tactical marketing focuses on implementing specific marketing actions and campaigns to execute the strategic plan. It involves day-to-day operational decisions and activities aimed at reaching the target audience and achieving short-term objectives

As long as the strategic marketing is good, the expedition leads to the right peak. Whether tactical marketing is efficient or not only determines how comfortable or uncomfortable survival is. If, however, the strategic marketing plan is bad, tactical marketing cannot help. It only affects if the wrong mountain and with-it organisational failure is reached quickly or slowly. or slowly.

## Definition of Market Segmentation:

Market segmentation is a decision-making tool for the marketing manager in the crucial task of selecting a target market for a given product and designing an appropriate marketing mix. Market segmentation is one of the key building blocks of strategic marketing.

## The benefits of Market Segmentation:

Market segmentation offers a variety of advantages. Market segmentation pushes businesses to evaluate where they are now and where they want to go in the future on the broadest possible level. In doing so, it compels businesses to consider what makes them stand out from rivals and to make an effort to understand consumer preferences.

## The Cost of Market Segmentation:

The organisation must make a large expenditure to implement market segmentation. To carry out a complete market segmentation study, many people must invest a significant amount of time. In order to establish and implement a segmentation strategy, additional financial and human resources are needed.

In the worst case, if market segmentation is not implemented well, the entire exercise is a waste of resources. Instead of leading to competitive advantage, a failed market

segmentation strategy can lead to substantial expenses generating no additional return at all, instead disenfranchising staff involved in the segmentation exercise.

There are ten steps of Market Segmentation Analysis:

### Step 1: Deciding(not) to Segment:

#### **Implications of Committing to Market Segmentation**

Market segmentation has become a crucial marketing tactic used by several firms, although it is not always the wisest course of action. It is crucial to comprehend the ramifications of following a market segmentation strategy before devoting time and money to a market segmentation investigation.

The key implication is that the organisation needs to commit to the segmentation strategy on the long term. If Market segmentation is not done for long term then it may also lead to loss for the company because it is not free, it is very costly includes costs of performing the research, fielding surveys, and focus groups, designing multiple packages, and designing multiple advertisements and communication messages. One of the truisms of segmentation strategy is that using the scheme has to be more profitable than marketing without it, net of the expense of developing and using the scheme itself.

The decision to look into the possibility of a market segmentation strategy must be made at the highest executive level due to the significant implications of such a long-term organisational commitment, and it must be systematically and continuously communicated and reinforced at all organisational levels and across all organisational units.

#### **Implementation Barriers:**

There are mainly two groups of barriers:

The first group of barriers relates to senior management. Due to their lack of support and buy-in, short-term orientation, aversion to change, lack of knowledge and understanding, and lack of experience, senior management can be a barrier to the adoption of market segmentation. Senior management can also prevent market segmentation to be successfully implemented by not making enough resources available, either for the initial market segmentation analysis itself, or for the long-term implementation of a market segmentation strategy. Senior management must be informed, involved, and convinced of the advantages of segmentation, and the resources required for implementation must be provided.

A second group of barriers relates to organisational culture. Organizational culture barriers to market segmentation implementation include lack of market or consumer orientation, resistance to change and new ideas, lack of creative thinking, poor communication and information sharing, short-term thinking, unwillingness to make changes, and office politics. Overcoming these barriers requires fostering a customer-centric culture, encouraging innovation and collaboration, promoting open communication, supporting long-term thinking, and providing resources and training for successful segmentation implementation.

## Step 2: Specifying the Ideal Target Segment:

In market segmentation analysis, user input is crucial for producing useful results. Users should be involved in multiple stages of the analysis, not just at the beginning or end. Step 1 includes the investigating the value of a segmentation, In Step 2 the organisation has to make a major contribution to market segmentation analysis similarly Step 3 includes data collection.

In Step 2 the organisation must determine two sets of segment evaluation criteria.

### **Knock-Out Criteria:**

This criterion is essential, non-negotiable features of segments that the organisation would consider targeting. Knock-out criteria are used to determine if market segments resulting from the market segmentation analysis qualify to be assessed using segment attractiveness criteria. Knock-out criteria must be understood by senior management, the segmentation team, and the advisory committee.

### **Attractiveness Criteria:**

Attractiveness criteria are not binary in nature. Attractiveness criteria are used in market segmentation analysis to evaluate the relative appeal or desirability of the remaining segments that meet the knock-out criteria. These criteria help prioritize and select the most attractive segments for targeting.

### **Implementing a Structured Process:**

The most popular method to evaluate market segment is the use of a segment evaluation plot. It involves segment attractiveness and organisational competitiveness which are determined by segmentation team. This method uses a plot of segment attractiveness and organisational competitiveness. It is necessary to discuss and come to an agreement on the factors that both contribute to segment attractiveness and organisational competitiveness. To do this, a wide range of potential criteria must be looked at before it is decided which criteria are most crucial for the company.

There is a huge benefit in selecting the attractiveness criteria for market segments at this early stage in the process: knowing precisely what it is about market segments that matters to the organisation ensures that all of this information is captured when collecting data.

The market segmentation team should have a list of around six segment attractiveness criteria at the conclusion of this process. Each of these factors should be assigned a weight to signify its relative importance to the organisation in comparison to the other factors.

### Step 3: Collecting Data:

#### **Segmentation Variables**

Empirical data forms the basis of both commonsense and data-driven market segmentation. In commonsense segmentation, the segmentation variable is typically one single characteristic of the consumers in the sample. Market segments are created by simply splitting the sample using this segmentation variable into a segment of women and a segment of men.

Variables used to describe segments in details are called descriptor variables which includes personal characteristics such as age, the number of vacations taken etc.

Common sense and data-driven market segmentation vary in that the latter is based on multiple segmentation characteristics rather than just one. These segmentation variables serve as the starting point for identifying naturally existing, or artificially creating market segments useful to the organisation.

The quality of empirical data is important for developing a valid segmentation solution. The same holds for data-driven market segmentation where data quality determines the quality of the extracted data-driven market segments, and the quality of the descriptions of the resulting segments. Good market segmentation analysis requires good empirical data.

Empirical data for segmentation studies can come from a range of sources: from survey studies; from observations such as scanner data where purchases are recorded and, frequently, are linked to an individual customer's long-term purchase history via loyalty programs; or from experimental studies.

#### **Segmentation Criteria**

The selection of a segmentation criteria is very essential, it should be done before data collection. The term segmentation criterion relates to the nature of the information used for market segmentation.

The most common segmentation criteria are geographic, sociodemographic, psychographic and behavioural. From these many segmentation criteria one should use the simplest one not the complex.

#### **Geographic Segmentation**

Geographic segmentation is often the most appropriate and simple, it uses the customer's location of residence to form market segmentation.

Its advantage is that each customers have their specific geographic locations which makes easier to target communication messages and communication channels to reach the selected geographic segments.

The key disadvantage is that living in the same country or area does not necessarily mean that people share other characteristics relevant to marketers, such as benefits they seek

when purchasing a product. People living in same area may have different cultures which will lead to different interests in different products.

### **Socio-Democratic Segmentation**

Many industries such as luxury goods, cosmetics etc. do not use Geographic segmentation because everybody of an area do not have same interests so, these industries uses Socio-Democratic Segmentation, it uses criteria such as age, gender, income and education.

Some argue that socio-demographics do not represent a strong basis for market segmentation, suggesting that values, tastes and preferences are more useful because they are more influential in terms of consumers' buying decisions.

### **Psychographic Segmentation**

When people are grouped according to psychological criteria, such as their beliefs, interests, preferences, aspirations, or benefits sought when purchasing a product, the term psychographic segmentation is used. By their very nature, psychographic criteria are more complicated than geographic or sociodemographic criteria since it is challenging to identify one aspect of a person that would insight on the relevant psychographic dimension.

As a result, several segmentation factors are used in most psychographic segmentation investigations.

The psychographic approach has the advantage that it is generally more reflective of the underlying reasons for differences in consumer behaviour.

The disadvantage of the psychographic approach is the increased complexity of determining segment memberships for consumers. Also, the power of the psychographic approach depends heavily on the reliability and validity of the empirical measures used to capture the psychographic dimensions of interest.

### **Behavioural Segmentation**

An alternative method for segment extraction involves directly searching for similarities in behaviour or reported behaviour. This approach considers various behavioural aspects such as previous product experience, purchase frequency, amount spent per purchase, and information-seeking behaviour. By analysing these behavioural patterns, segments with similar behaviours can be identified and targeted accordingly.

Behavioural segmentation groups people by the similarity which matters most for the specific product but behavioural data is not always readily available, specially when you want to increase your consumers who have not purchased previously.

## **Data from Survey Studies**

The majority of market segmentation analyses rely on survey data, which is a cost-effective and easily accessible method for data collection, making it feasible for any organization. However, survey data is susceptible to various biases that can impact its accuracy. These biases can introduce errors and limitations that ultimately affect the quality of insights and solutions derived from market segmentation analysis based on survey data compared to data obtained from observing actual behaviour.

A few key aspects that need to be considered when using survey data are discussed below:

### **Choice of variables**

Carefully selecting the variables that are included as segmentation variable in commonsense segmentation, or as segmentation variables in data-driven segmentation, is critical to the quality of the market segmentation solution. All the necessary variables should be included in the segmentation and Unnecessary variables should not be included.

Unnecessary variables included as segmentation variables divert the attention of the segment extraction algorithm away from information critical to the extraction of optimal market segments. Such variables are referred to as noisy variables or masking variables. These types of variables do not contribute for the identification of the correct market segmentation, their presence makes difficult to choose correct market segmentation.

The recommendation is to ask all necessary and unique questions, while resisting the temptation to include unnecessary or redundant questions.

### **Response Options**

The scope of the data accessible for future studies depends on the survey response options given to respondents. Not all survey response alternatives are equally acceptable for segmentation analysis since many data analytic approaches are based on distance measures.

Options allowing respondents to answer in only one of two ways, generate binary or dichotomous data. These responses are represented by 0 and 1.

Options allowing respondents to select an answer from a range of unordered categories correspond to nominal variables. Nominal variables can be transformed into binary data by introducing a binary variable for each of the answer options.

Options allowing respondents to indicate a number, such as age or nights stayed at a hotel, generate metric data.

### **Response Style**

Survey data is susceptible to biases, including response bias, which is a systematic tendency for respondents to answer questionnaire items based on factors unrelated to the specific content of the items. If a respondent consistently displays a bias over time, regardless of the survey questions asked, it is known as a response style.

A wide range of response styles manifest in survey answers, including respondents' tendencies to use extreme answer options (STRONGLY AGREE, STRONGLY DISAGREE), to use the midpoint (NEITHER AGREE NOR DISAGREE), and to agree with all statements.

### **Sample size**

While statistical analyses often come with recommended sample sizes, market segmentation analysis does not provide such specific guidelines. Insufficient sample size makes it impossible to accurately determine the correct number of market segments. On the other hand, with a sufficient sample size, it becomes much easier to determine both the number and characteristics of segments within the dataset.

Many psychologists recommended different methods to get sample size, some are mentioned below:

Viennese psychologist Formann (1984) recommends that the sample size should be at least  $2p$  (better five times  $2p$ ), where  $p$  is the number of segmentation variables.

According to Qiu and Joe (2015), the sample size should – in the simple case of equal cluster sizes – be at least ten times the number of segmentation variables times the number of segments in the data.

### **Data from Internal Sources**

Organizations now have access to large amounts of internal data that can be utilized for market segmentation analysis. The benefit of using such data is that it represents the actual behaviour of consumers, rather than relying on their statements or intentions, which can be influenced by imperfect memory and response biases. Additionally, internal data is often automatically generated and readily accessible if stored properly, requiring no additional data collection effort.

However, a potential drawback of relying solely on internal data is the risk of systematic bias. Internal data may over-represent existing customers, lacking information about other potential customers that the organization aims to attract in the future. These potential customers may exhibit different consumption patterns compared to current customers.

### **Data from Experimental Studies**

Another possible source of data that can form the basis of market segmentation analysis is experimental data. Experimental data can result from field or laboratory experiments.

Experimental data can also result from choice experiments or conjoint analyses. The objective of these studies is to present consumers with carefully designed stimuli that include different levels of specific product attributes. Consumers are then asked to indicate their preferences among the products, which are characterized by various combinations of attribute levels.