MARKET SEGMENT ANALYSIS

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STEP 1: Deciding (not) to Segment

1. Implications of Committing to Market Segmentation

i. Long-term Commitment:

When it comes to market segmentation, you need to be in it for the long haul. It's not a quick fix. The organization has to be ready for some significant changes and investments.

ii. Cost Considerations:

Let's talk money. Conducting research, surveys, focus groups, creating multiple packaging options, and running advertisements all come with a price tag. So, before you dive into segmentation, make sure the increase in sales justifies the expenses.

iii. Organizational Changes:

Get ready to shake things up! Market segmentation often requires developing new products or tweaking existing ones. You might have to adjust pricing, distribution channels, and the way you communicate with different market segments. It might even mean restructuring your organization to focus on these new segments.

iv. Executive Decision and Communication:

This is a top-level decision. The bigwigs need to be on board. Only when the highest executives are committed to pursuing market segmentation can the organization move forward. And remember, communication is key! You need to keep everyone informed and on the same page.

2. Implementation Barriers

i. Senior Management Issues:

Strong leadership, commitment, and involvement are crucial for success. If the senior management isn't fully on board, it can throw a wrench in the works. Also, make sure you allocate enough resources for analysis and long-term implementation. Otherwise, you'll be shooting yourself in the foot.

ii. Organizational Culture:

Changing the way things are done can be tough. Resistance to change, a lack of market orientation, poor communication, and short-term thinking can all hinder your segmentation efforts. So, foster a culture of creativity and information sharing to overcome these obstacles.

iii. Training and Expertise:

You can't expect success if you don't understand the basics of market segmentation. Lack of knowledge about its foundations and consequences is a recipe for failure. It's also important to have qualified marketing experts or a formal marketing function in place to drive the segmentation strategy.

iv. Resource and Structural Constraints:

Sometimes, money and structural limitations get in the way. If you're strapped for cash or unable to make necessary changes to your organization's structure, it can put a damper on your segmentation efforts.

v. Process-related Barriers:

To make segmentation work, you need clear objectives, solid planning, and structured processes. Without them, you'll be spinning your wheels. Also, don't forget to allocate responsibilities and avoid time pressure. Rushing through the process won't yield the best segmentation outcomes.

vi. Operational Challenges:

Sometimes, management can be hesitant to embrace new techniques they don't fully understand. But fear not! Simple and easy-to-understand analysis, along with graphical visualizations, can help bridge that gap and make the results more accessible.

vii. Proactive Removal of Barriers:

Spot those barriers early on and get rid of them! Identifying and removing obstacles at the outset will set you up for successful implementation. But if you find that certain barriers can't be removed, it might be time to reconsider your segmentation strategy.

viii. Resolute Purpose and Patience:

Implementing market segmentation requires dedication, patience, and a willingness to tackle problems head-on. It can be challenging sailing, but with the right mindset, you can make it happen.

STEP 2: Specifying the Ideal Target Segment

1. Segment Evaluation Criteria

i. User Involvement:

When it comes to market segmentation, user input is crucial throughout the entire process, not just at the beginning or end. We need their involvement in providing conceptual contributions, guiding data collection, and selecting target segments.

ii. Determining Evaluation Criteria:

To make informed decisions, organizations must establish two sets of criteria: knock-out criteria (which are non-negotiable features) and attractiveness criteria (used to evaluate the relative appeal of segments). Knock-out criteria automatically eliminate unsuitable segments, while attractiveness criteria help us identify the most promising ones.

iii. Literature on Evaluation Criteria:

Different authors propose various criteria for evaluation, including size, growth, competition, profitability, and socio-political factors. In Table 4.1, you can find criteria from multiple sources, such as Day (1984), Croft (1994), Myers (1996), and Kotler and Keller (2012).

2. Knock-Out Criteria

i. Purpose:

The purpose of knock-out criteria is to ensure that we only consider market segments that are viable for further evaluation. These essential features include substantiality, measurability, accessibility, homogeneity, distinctiveness, size, compatibility, identifiability, and reachability.

ii. Implementation:

For knock-out criteria to be effective, it's important that senior management, the segmentation team, and the advisory committee all understand and agree on them. Some criteria may require specific details, such as the minimum viable target segment size.

3. Attractiveness Criteria

i. Nature:

Attractiveness criteria are not simply a binary choice; segments are rated based on how well they meet these criteria. The overall attractiveness across all criteria determines which segments are selected as target segments.

ii. Examples:

Table 4.1 provides examples of attractiveness criteria, such as profitability, competitive advantage, growth potential, and how well they align with the company's strengths.

4. Implementing a Structured Process

i. Benefits:

It is widely recommended to follow a structured process when assessing market segments. Using a segment evaluation plot can help us visualize the attractiveness of each segment and how it aligns with our organizational competitiveness.

ii. Criteria Selection:

It's important to have a team of people negotiate and agree on the most important criteria. Typically, it's best to limit the factors used for segment evaluation to no more than six.

iii. Team Involvement:

To ensure a well-rounded perspective, a core team proposes initial solutions, which are then discussed and modified by an advisory committee with representatives from all organizational units. This diverse involvement ensures that all relevant aspects are considered and facilitates smoother implementation.

iv. Early Selection of Criteria:

Selecting attractiveness criteria early in the process ensures that we capture the necessary data during data collection. It also simplifies the task of selecting target segments later on.

v. Weighting Criteria:

To reflect their importance, criteria should be weighted accordingly. Team members distribute 100 points across the criteria, and these allocations are negotiated until consensus is reached. It's recommended to seek approval from the advisory committee for a well-rounded perspective.

I hope this version sounds more natural and engaging while maintaining the integrity and accuracy of the original information! Let me know if you need any further revisions.

STEP 3: Collecting Data

1. Segmentation Variables

Empirical data is fundamental for both common-sense and data-driven market segmentation, used to identify or create market segments and describe them in detail. The term "segmentation variable" refers to a characteristic in the empirical data used in commonsense segmentation to split the sample into market segments. Typically, in commonsense segmentation, this involves a single characteristic of the consumers in the sample. For example, gender can be used as a segmentation variable to create segments of men and women. Other personal characteristics available in the data, such as age, the number of vacations taken, and benefits sought on vacation, serve as descriptor variables to provide detailed descriptions of the segments. These descriptions are critical for developing an effective marketing mix targeting the segment.

In contrast, data-driven market segmentation is based on multiple segmentation variables, which serve as the starting point for identifying naturally existing or creating useful market segments. For instance, sorting data by benefits sought on vacation, rather than gender, can reveal segments characterized by common interests like relaxation, culture, and meeting people. Both commonsense and data-driven segmentation require high-quality empirical data to assign each person to the correct segment and accurately describe the segments, enabling effective product customization, pricing, distribution, and communication strategies.

Empirical data for segmentation studies can come from various sources, including surveys, observations like scanner data, or experimental studies. Optimally, the data used should reflect actual consumer behaviour. Although surveys are the most common source, they can be unreliable for behaviours that are socially desirable, such as charitable donations or environmentally friendly actions. Therefore, surveys should not be the default source; instead, a range of possible sources should be explored to find the one that most accurately reflects consumer behaviour.

2. Segmentation Criteria

Segmentation criteria encompass broader strategic decisions than segmentation variables, focusing on the nature of information used for segmentation.

i. Decision Making:

Choosing a segmentation criterion requires in-depth market knowledge and cannot be easily delegated to consultants or data analysts.

ii. Common Criteria:

- Geographic
- Socio-demographic
- Psychographic
- Behavioural

2.1 Geographic Segmentation:

i. Purpose and Origins:

Initially used to categorize consumers based on their residential location.

ii. Applicability:

Effective for targeting based on regional differences, such as language preferences for tourists from neighbouring countries.

iii. Examples:

- National tourism organizations adjust marketing based on language variations across countries.
- Global companies like Amazon and IKEA customize offerings and pricing based on customer location.

iv. Advantages:

- Facilitates precise targeting through local media channels (newspapers, radio, TV).

v. Disadvantages:

- Limited correlation between location and other consumer preferences like product choices or benefits sought.
- Socio-demographic factors often provide more insightful segmentation criteria within geographic regions.

vi. Renewed Interest and Challenges:

- Increasingly used in international studies to identify market segments across diverse cultural backgrounds.
- Challenges include ensuring meaningful segmentation variables across varied regions and addressing biases in data collection.

2.2 Socio-Demographic Segmentation

i. Criteria Used:

Includes age, gender, income, and education.

ii. Industry Examples:

Effective in segments like luxury goods, cosmetics, baby products, retirement villages, and tourism resort products.

iii. Advantages:

- Easily determines segment membership for each consumer.

iv. Disadvantages:

- Limited explanatory power for consumer preferences; demographics explain a small variance in behaviour.
- Values and preferences often more influential than socio-demographic factors in buying decisions.

2.3 Psychographic Segmentation

i. Criteria:

Based on psychological characteristics, beliefs, interests, aspirations, and benefits sought.

ii. Complexity:

 Requires multiple variables to capture psychographic dimensions effectively.

iii. Advantages:

- Reflects underlying reasons for consumer behaviour differences.
- Frequently used in tourism for segmentation based on travel motives and preferences.

iv. Disadvantages:

- Complex to determine segment memberships accurately.
- Reliability and validity of measures are critical for effective use.

2.4 Behavioural Segmentation

i. Approach:

Segments consumers based on their actual behaviours or reported behaviours.

ii. Examples:

Includes prior product experience, purchase frequency, amount spent, and brand choice over time.

iii. Advantages:

- Uses actual behaviour as the basis for segment extraction, avoiding reliance on stated intentions.

iv. Challenges:

- Requires access to comprehensive behavioural data, which may be limited if targeting non-customers.
- Ensuring behavioural data accuracy and relevance is crucial for effective segmentation.

3. Data from Survey Studies

3.1 Choice of Variables:

i. Careful Selection:

Critical for high-quality market segmentation.

ii. Data-Driven Segmentation:

Include all relevant variables to the segmentation criterion; avoid unnecessary ones to prevent respondent fatigue and data complexity.

iii. Noisy Variables:

Unnecessary variables can obscure optimal market segments.

iv. Best Practices:

Ask necessary and unique questions, conduct exploratory research to identify important variables.

3.2 Response Options:

i. Types of Data:

- Binary (0s and 1s): Clear distances, suitable for segmentation.
- Nominal: Can be transformed into binary.
- Metric: Suitable for statistical procedures, clear distances.
- Ordinal: Ordered but unclear distances, less ideal for segmentation.

ii. Preferred Options:

Use binary or metric response options to avoid complications.

iii. Visual Analogue Scale:

 Captures fine nuances, often used in online surveys.

3.3 Response Styles:

i. Biases:

Systematic tendencies that can distort segmentation results.

ii. Examples of Biases:

Extreme responding, midpoint responding, acquiescence bias.

iii. Impact:

Response styles can create misleading segments.

iv. Mitigation:

Minimize bias during data collection, remove biased respondents from the analysis.

3.4 Sample Size:

i. Importance of Adequate Sample Size:

 Ensures accurate segmentation.

ii. Recommendations:

- Formann (1984): At least 2p (or 5 times 2p) where p is the number of segmentation variables.
- Qiu and Joe (2015): At least 10 times the number of variables and segments.
- Dolnicar et al. (2014): 60p to 70p for improved segment recovery.

iii. Factors Influencing Sample Size:

Number of segments, segment size equality, segment overlap, sampling error, response biases, data quality.

iv. Conclusion:

Ensure at least 100 respondents per segmentation variable for high-quality, unbiased data.

4. Data from Internal Sources

i. Sources:

Organizations have substantial internal data for market segmentation. Examples include scanner data (grocery stores), booking data (airline loyalty programs), and online purchase data.

ii. Strengths of this Data:

- Reflects actual consumer behaviour.
- Not affected by memory issues or response biases (e.g., social desirability bias).
- Automatically generated, requiring no extra effort for collection.

iii. Limitations:

- Potential bias towards existing customers.
- Lacks information on potential future customers who may have different consumption patterns.

5. Data from Experimental Studies

Experimental data is another source for market segmentation analysis.

i. Types of Experimental Data:

- Field experiments.
- Laboratory experiments.

ii. Examples:

- Tests on how people respond to advertisements, used as segmentation criteria.
- Choice experiments or conjoint analyses.

iii. Purpose of Such Studies:

- Present consumers with stimuli of specific product attributes.
- Consumers indicate their preferences among different product attribute combinations.

iv. Outcomes:

- Provide information on how each attribute and its levels affect consumer choices.
- This information can be used as segmentation criteria