Summary of the Book

Market Segmentation Analysis

Understanding it, Doing it,

And Making It Useful

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Marketing planning is a logical sequence and a series of activities leading to the setting of marketing objectives and the formulation of plans to achieving them. A marketing plan consists of two components: a strategic and a tactical marketing plan. The strategic plan outlines the long-term direction of an organisation, but does not provide much detail on shortterm marketing action required to move in this long-term direction. The tactical marketing plan does the opposite. It translates the long-term strategic plan into detailed instructions for short-term marketing action. The strategic marketing plan states where the organisation wants to go and why. The tactical marketing plan contains instructions on what needs to be done to get there.

Before starting a hike, it is critically important to organise a map, and figure out where exactly one's present location is. Once the present location is known, the next step is to decide which mountain to climb. The choice of the mountain is a strategic decision; it determines all subsequent decisions. As soon as this strategic decision is made, the expedition team can move on to tactical decisions, such as: which shoes to wear for this particular hike, which time of day to depart, and how much food and drink to pack. All these tactical decisions are important to ensure a safe expedition, but they depend entirely on the strategic decision of which mountain to climb.

The tactical marketing plan depends entirely on the strategic marketing plan, but the strategic marketing plan does not depend on the tactical marketing plan.

 Approaches to Market Segmentation Analysis

1. Based on Organisational Constraints
2. Based on the Choice of the Segmentation Variables

STEP 1: Deciding (not) to Segment

Implications of Committing to Market Segmentation

The key implication is that the organisation needs to commit to the segmentation strategy on the long term. There are costs of performing the research, fielding surveys, and focus groups, designing multiple packages, and designing multiple advertisements and communication messages. Potentially required changes include the development of new products, the modification of existing products, changes in pricing and distribution channels used to sell the product, as well as all communications with the market. These changes, in turn, are likely to influence the internal structure of the organisation, which may need to be adjusted in view of, for example, targeting a handful of different market segments.

Implementation Barriers:-

The first group of barriers relates to senior management. Lack of leadership, pro-active championing, commitment and involvement in the market segmentation process by senior leadership undermines the success of market segmentation.

A second group of barriers relates to organisational culture. Lack of market or consumer orientation, resistance to change and new ideas, lack of creative thinking, bad communication and lack of sharing of information and insights across organisational units, short-term thinking, unwillingness to make changes and office politics have been identified as preventing the successful implementation of market segmentation.

Most of these barriers can be identified from the outset of a market segmentation study, and then proactively removed. If barriers cannot be removed, the option of abandoning the attempt of exploring market segmentation as a potential future strategy should be seriously considered.

Step 2: Specifying the Ideal Target Segment

Segment Evaluation Criteria

In Step 2 the organisation must determine two sets of segment evaluation criteria. One set of evaluation criteria can be referred to as knock-out criteria. These criteria are the essential, non-negotiable features of segments that the organisation would consider targeting. The second set of evaluation criteria can be referred to as attractiveness criteria. These criteria are used to evaluate the relative attractiveness of the remaining market segments – those in compliance with the knock-out criteria.

The shorter set of knock-out criteria is essential. It is not up to the segmentation team to negotiate the extent to which they matter in target segment selection. The second, much longer and much more diverse set of attractiveness criteria represents a shopping list for the segmentation team. Members of the segmentation team need to select which of these criteria they want to use to determine how attractive potential target segments are. The segmentation team also needs to assess the relative importance of each attractiveness criterion to the organisation.

Knock-Out Criteria:-

Knock-out criteria are used to determine if market segments resulting from the market segmentation analysis qualify to be assessed using segment attractiveness criteria.

• The segment must be homogeneous; members of the segment must be similar to one another.

• The segment must be distinct; members of the segment must be distinctly different from members of other segments. 34 4 Step 2: Specifying the Ideal Target Segment

• The segment must be large enough; the segment must contain enough consumers to make it worthwhile to spend extra money on customising the marketing mix for them.

• The segment must be matching the strengths of the organisation; the organisation must have the capability to satisfy segment members' needs.

• Members of the segment must be identifiable; it must be possible to spot them in the marketplace.

• The segment must be reachable; there has to be a way to get in touch with members of the segment in order to make the customised marketing mix accessible to them.

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. Segments are not assessed as either complying or not complying with attractiveness criteria. Rather, each market segment is rated; it can be more or less attractive with respect to a specific criterion. The attractiveness across all criteria determines whether a market segment is selected as a target segment.

Step 3: Collecting Data

Segmentation variable

The term segmentation variable to refer to the variable in the empirical data used in common-sense segmentation to split the sample into market segments. I

In commonsense segmentation, the segmentation variable is typically one single characteristic of the consumers in the sample. All the other personal characteristics available in the data – in this case: age, the number of vacations taken, and information about five benefits people seek or do not seek when they go on vacation – serve as so-called descriptor variables. They are used to describe the segments in detail. Describing segments is critical to being able to develop an effective marketing mix targeting the segment. The difference between common-sense and data-driven market segmentation is that data-driven market segmentation is based not on one, but on multiple segmentation variables. These segmentation variables serve as the starting point for identifying naturally existing, or artificially creating market segments useful to the organisation.

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.

Segmentation Criteria

The term segmentation variable refers to one measured value, for example, one item in a survey, or one observed expenditure category. The term segmentation criterion relates to the nature of the information used for market segmentation. It can also relate to one specific construct, such as benefits sought.

- **Geographic Segmentation :-** Geographic information is seen as the original segmentation criterion used for the purpose of market segmentation. The key advantage of geographic segmentation is that each consumer can easily be assigned to a geographic unit. As a consequence, it is easy to target communication messages, and select communication channels (such as local newspapers, local radio and TV stations) to reach the selected geographic segments.
- **Socio-Demographic Segmentation:-** Typical socio-demographic segmentation criteria include age, gender, income and education. Socio-demographic segments can be very useful in some industries. For example: luxury goods (associated with high income), cosmetics (associated with gender; even in times where men are targeted, the female and male segments are treated distinctly differently), baby

products (associated with gender), retirement villages (associated with age), tourism resort products (associated with having small children or not). As is the case with geographic segmentation, socio-demographic segmentation criteria have the advantage that segment membership can easily be determined for every consumer. In some instances, the socio-demographic criterion may also offer an explanation for specific product preferences (having children, for example, is the actual reason that families choose a family vacation village where previously, as a couple, their vacation choice may have been entirely different).

- **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. Psychographic criteria are, by nature, more complex than geographic or sociodemographic criteria because it is difficult to find a single characteristic of a person that will provide insight into the psychographic dimension of interest. As a consequence, most psychographic segmentation studies use a number of segmentation variables, for example: a number of different travel motives, a number of perceived risks when going on vacation.

- **Behavioural Segmentation:** - A wide range of possible behaviours can be used for this purpose, including prior experience with the product, frequency of purchase, amount spent on purchasing the product on each occasion (or across multiple purchase occasions), and information search behaviour. The key advantage of behavioural approaches is that – if based on actual behaviour rather than stated behaviour or stated intended behaviour – the very behaviour of interest is used as the basis of segment extraction. But behavioural data is not always readily available, especially if the aim is to include in the segmentation analysis potential customers who have not previously purchased the product, rather than limiting oneself to the study of existing customers of the organisation.

Data from Survey Studies

Most market segmentation analyses are based on survey data. Survey data is cheap and easy to collect, making it a feasible approach for any organisation. But survey data – as opposed to data obtained from observing actual behaviour – can be contaminated by a wide range of biases. A few key aspects that need to be considered when using survey data are discussed below.

- **Choice of Variables**

  In data-driven segmentation, all variables relevant to the construct captured by the segmentation criterion need to be included.

- **Response Options**

Options allowing respondents to answer in only one of two ways, generate binary or dichotomous data. Such responses can be represented in a data set by 0s and 1s. The distance between 0 and 1 is clearly defined and, as such, poses no difficulties for subsequent segmentation analysis. Preferably, therefore, either metric or binary response options should be provided to respondents if those options are meaningful with respect to the question asked. Using binary or metric response options prevents subsequent complications relating to the distance measure in the process of data-driven segmentation analysis.

- **Response Styles**

    A response bias is a systematic tendency to respond to a range of questionnaire items on some basis other than the specific item content. If a bias is displayed by a respondent consistently over time, and independently of the survey questions asked, it represents a response style.

- **Sample Size**

    Many statistical analyses are accompanied by sample size recommendations. Not so market segmentation analysis. When the sample size is insufficient, it is impossible to determine which the correct number of market segments is. If the sample size is sufficient, however it is very easy to determine the number and nature of segments in the data set. 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.

    Market characteristics studied included: the number of market segments present in the data, whether those market segments are equal or unequal in size, and the extent to which market segments overlap. Larger sample sizes always improve an algorithm's ability to identify the correct market segmentation solution. The extent to which this is the case, however, varies substantially across market and data characteristics. Also, some of the challenging market and data characteristics can be compensated by increasing sample size; others cannot. For example, using uncorrelated segmentation variables leads to very good segment recovery. But, correlation cannot be well compensated for by increasing sample size. Overall, this study demonstrates the importance of having a sample size sufficiently large to enable an algorithm to extract the correct segments (if segments naturally exist in the data).

It can be concluded from the body of work studying the effects of survey data quality on the quality of market segmentation results based on such data that, optimally, 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; and
• include a sufficient sample size given the number of segmentation variables (100 times the number of segmentation variables)

Sociodemographics		Travel behaviour	Benefits sought				
gender	age	Nº of vacations	relaxation	action	culture	explore	meet people
Female	34	2	1	0	1	0	1
Female	55	3	1	0	1	0	1
Male	87	2	1	0	1	0	1
Female	68	1	0	1	1	0	0
Female	34	1	0	0	1	0	0
Female	22	0	1	0	1	1	1
Female	31	3	1	0	1	1	1
Male	55	4	0	1	0	1	1
Male	43	0	0	1	0	1	0
Male	23	0	0	1	1	0	1
Male	19	3	0	1	1	0	1
Male	64	4	0	0	0	0	0
	descriptor variables		segmentation variables				

Data from Internal Sources

When organisations rely solely on internal data, they risk limiting their understanding of the market to their existing customers, while ignoring potential customers who may have different needs and preferences. This can result in a biased market segmentation analysis that does not accurately represent the broader market. Therefore, it's important for organisations to supplement internal data with external data sources, such as market research surveys, to gain a more comprehensive understanding of the market and its potential customers. Additionally, it's important for organisations to carefully consider the potential biases in their internal

data and take steps to mitigate them, such as by weighting the data to account for the over-representation of existing customers.

Data from Experimental Studies

Experimental data can provide a valuable source of information for market segmentation analysis. Such data can be collected from field or laboratory experiments that test how people respond to certain advertisements. The response to these advertisements can then be used as a segmentation criterion. Additionally, experimental data can result from choice experiments or conjoint analyses, which present consumers with carefully developed stimuli consisting of specific levels of product attributes. Consumers indicate which products they prefer, providing information about the extent to which each attribute and attribute level affects choice, which can also be used as a segmentation criterion.

STEP 8 Selecting the Target Segment(s)

The Targeting Decision

Market segmentation involves the selection of one or more target segments for an organization. This is a long-term decision that significantly affects the organization's future performance. Before selecting a target segment, knock-out criteria for market segments have been agreed upon, and segment attractiveness criteria have been selected and weighed. It is to ensure that all the market segments still under consideration have passed the knock-out criteria test. Then, the attractiveness of the remaining segments and the relative organizational competitiveness for these segments needs to be evaluated. The target segment decision is based on answering two broad categories of questions: which segment the organization most wants to target, and which organization offering the same product each segment would most like to buy from and commit to.

Market Segment Evaluation

market segments based on their attractiveness and relative organizational competitiveness. This can be done using a generic segment evaluation plot that measures the two criteria along the axes. The article also highlights the importance of returning to the specifications of an ideal target segment and assigning a value for each attractiveness criterion to each segment. This information is critical for target segment selection in market segmentation analysis.

The article discusses how to evaluate market segments based on their attractiveness and relative organizational competitiveness. This can be done using a generic segment evaluation plot that measures the two criteria along the axes. The article also highlights the importance of returning to the specifications of an ideal target segment and assigning a value for each attractiveness criterion to each segment. This information is critical for target segment selection in market segmentation analysis.

Anything can be plotted onto the bubble size. Typically profit potential is plotted. Profit combines information about the size of the segment with spending and, as such, represents a critical value when target segments are selected. In other contexts, entirely different criteria may matter. For example, if a non for profit organisation uses market segmentation to recruit volunteers to help with land regeneration activities, they may choose to plot the number of hours volunteered as the bubble size.
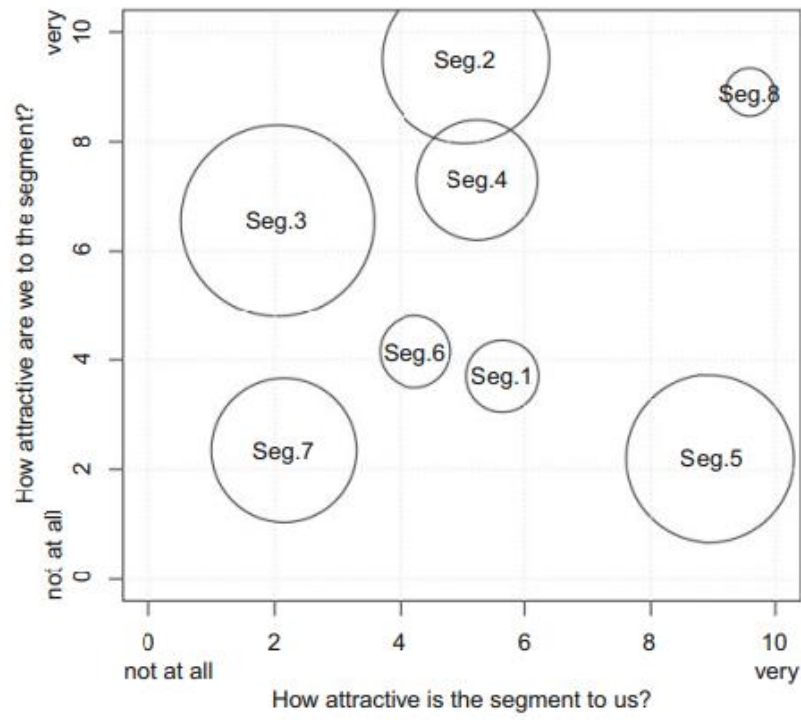
STEP 9:- Customising the Marketing Mix

Implications for Marketing Mix Decisions

Market segmentation does not stand independently as a marketing strategy. Rather, it goes hand in hand with the other areas of strategic marketing, most importantly: positioning and competition. In fact, the segmentation process is frequently seen as part of what is referred to as the segmentation-targeting-positioning (STP) approach (Lilien and Rangaswamy 2003). The segmentation-targeting-positioning approach postulates a sequential process. The process starts with market segmentation (the extraction, profiling and description of segments), followed by targeting (the assessment of segments and selection of a target segment), and finally 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).

Viewing market segmentation as the first step in the segmentation-targetingpositioning approach is useful because it ensures that segmentation is not seen as independent from other strategic decisions. It is important, however, not to adhere too strictly to the sequential nature of the segmentation-targeting-positioning process. It may well be necessary to move back and forward from the segmentation to the targeting step, before being in the position of making a long-term commitment to one or a small number of target segments.

How the target segment decision affects marketing mix development

How the target segment decision – which has to be integrated with other strategic areas such as competition and positioning – affects the development of the marketing mix. For reasons of simplicity, the traditional 4Ps model of the marketing mix including Product, Price, Place and Promotion serves as the basis of this discussion. Be it twelve or four, each one of those aspects needs to be thoroughly reviewed once the target segment or the target segments have been selected. To best ensure maximising on the benefits of a market segmentation strategy, it is important to customise the marketing mix to the target segment .

The selection of one or more specific target segments may require the design of new, or the modification or re-branding of existing products (Product), changes to prices or discount structures (Price), the selection of suitable distribution channels (Place), and the development of new communication messages and promotion strategies that are attractive to the target segment (Promotion). One option available to the organisation is to structure the entire market segmentation analysis around one of the 4Ps. This affects the choice of segmentation variables. If, for example, the segmentation analysis is undertaken to inform pricing decisions, price sensitivity, deal proneness, and price sensitivity represent suitable segmentation variables.

If the market segmentation analysis is conducted for the purpose of informing distribution decisions, store loyalty, store patronage, and benefits sought when selecting a store may represent valuable segmentation variables. Typically, however, market segmentation analysis is not conducted in view of one of the 4Ps specifically. Rather, insights gained

from the detailed description of the target segment resulting from guide the organisation in how to develop or adjust the marketing mix to best cater for the target segment chosen.

Product

One of the key decisions an organisation needs to make when developing the product dimension of the marketing mix, is to specify the product in view of customer needs. Often this does not imply designing an entirely new product, but rather modifying an existing one. Other marketing mix decisions that fall under the product dimension are: naming the product, packaging it, offering or not offering warranties, and after sales support services.

In terms of the product targeted at this market segment, possible product measures may include developing a new product. For example, a MUSEUMS, MONUMENTS & MUCH, MUCH MORE product (accompanied by an activities pass) that helps members of this segment to locate activities they are interested in, and points to the existence of these offers at the destination during the vacation planning process. Another opportunity for targeting this segment is that of proactively making gardens at the destination an attraction in their own right.

Price

Typical decisions an organisation needs to make when developing the price dimension of the marketing mix include setting the price for a product, and deciding on discounts to be offered.

Place

The key decision relating to the place dimension of the marketing mix is how to distribute the product to the customers. This includes answering questions such as: should the product be made available for purchase online or offline only or both; should the manufacturer sell directly to customers; or should a wholesaler or a retailer or both be used. Returning to the example of members of segment 3 and the destination with a rich cultural heritage: the survey upon which the market segmentation analysis was based also asked survey respondents to indicate how they booked their accommodation during their last domestic holiday. Respondents could choose multiple options. This information is place valuable; knowing the booking preferences of members of segment 3 enables the destination to ensure that the MUSEUMS, MONUMENTS & MUCH, MUCH MORE product is bookable through these very distribution channels.

Promotion

Typical promotion decisions that need to be made when designing a marketing mix include: developing an advertising message that will resonate with the target market, and identifying the most effective way of communicating this message. Other tools in the promotion category of the marketing mix include public relations, personal selling, and sponsorship.