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1 Market Segmentation

1.1 What is Market Segmentation?

- **Purpose of Market Segmentation:**

- Essential for marketing managers to identify target markets and craft effective strategies.
- Involves dividing a diverse market into smaller, homogeneous groups based on specific criteria.

- **Benefits of Market Segmentation:**

- Enables firms to tailor marketing approaches to distinct consumer groups.
- Ensures marketing efforts are more impactful by addressing the unique needs of each segment.
- Allows businesses to manage diverse markets as a collection of smaller, manageable segments.

- **Segmentation Criteria:**

- Based on consumer characteristics such as age, gender, or purchasing behavior.
- Can range from simple criteria (e.g., single feature preference) to complex criteria (e.g., desired product benefits, spending patterns).

- **Impact of Effective Segmentation:**

- Allows companies to target specific groups rather than using a one-size-fits-all approach.
- Enhances short-term sales and long-term market positioning by addressing the unique needs and preferences of each group.

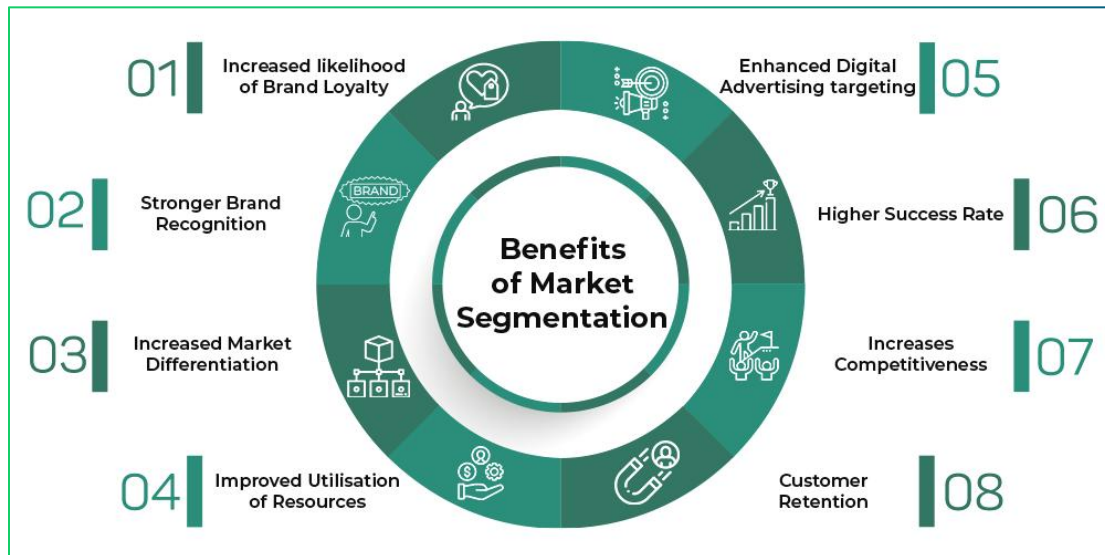
1.2 Why is it important?

- **Key Benefits of Market Segmentation:**

- Encourages organizations to evaluate their current position and future goals.
- Prompts reflection on organizational strengths relative to competitors.
- Provides valuable insights into consumer needs, fostering critical thinking and new perspectives.

- **Advantages of Effective Segmentation:**

- Leads to a deeper understanding of consumer differences.
- Helps align organizational strengths with consumer needs, potentially creating a long-term competitive advantage.
- Can result in market dominance by effectively serving niche segments.



STEP 1

2 Key Considerations and Implications

2.1 Strategic Considerations for Implementing Market Segmentation

Market segmentation can be a powerful marketing strategy for organizations, but it requires careful consideration before implementation. Key implications include:

1. Long-Term Commitment: Adopting a market segmentation strategy is a long-term commitment, akin to a "marriage" rather than a "date." It demands substantial and ongoing investments of time and resources.

2. Costs and Investments: Segmentation involves costs such as research, surveys, focus groups, and the development of tailored products, packaging, advertisements, and communication strategies. The benefits must outweigh these expenses to justify the investment.

3. Organizational Changes: Effective segmentation often necessitates significant changes, including the development of new products, modifications to existing ones, and adjustments in pricing, distribution channels, and marketing communications. These changes may also require reorganizing the internal structure of the organization to focus on different market segments rather than just products.

4. Strategic Alignment: To maximize the benefits of segmentation, organizations should structure themselves around market segments rather than products. This approach helps ensure a sustained focus on the evolving needs of the market.

5. Executive Involvement: Decisions regarding market segmentation should be made at the highest executive level and communicated consistently across the organization to ensure alignment and commitment at all levels.

2.2 Identifying and Overcoming Barriers

Books on market segmentation, such as those by Dibb and Simkin (2008), Croft (1994), and McDonald and Dunbar (1995), emphasize various barriers to successfully implementing a market segmentation strategy. These barriers can be grouped into several categories:

1. Senior Management Issues: Lack of leadership, commitment, and involvement from senior management can hinder the success of segmentation efforts. Insufficient resource allocation for both the analysis and long-term implementation can also be problematic.

2. Organizational Culture: A culture that lacks market orientation, resists change, and struggles with communication and information sharing can obstruct segmentation. Short-term thinking and office politics further complicate implementation.

3. Training and Expertise: A lack of understanding about market segmentation among senior management and the implementation team, along with the absence of a formal marketing function or qualified marketing experts,

can undermine the process. The presence of skilled data managers and analysts is crucial.

4. Resource Limitations: Financial constraints and an inability to make necessary structural changes can restrict an organization's ability to pursue effective segmentation.

5. Process-Related Challenges: Unclear objectives, poor planning, lack of structured processes, and time constraints can impede the segmentation process.

6. Operational and Technical Issues: Management's reluctance to use unfamiliar techniques and the need for segmentation results to be easily understandable can also be barriers. Using graphical visualizations can help make the results more accessible.

STEP 2

3 Specifying the Ideal Target Segment

Knock-Out Criteria are used to filter market segments and determine if they are suitable for further evaluation with segment attractiveness criteria. Key knock-out criteria include:

- **Substantiality:** The segment must be large enough to justify targeting.
- **Measurability:** The segment's characteristics must be measurable.
- **Accessibility:** The segment must be reachable through marketing efforts.
- **Homogeneity:** Members of the segment should be similar to each other.
- **Distinctiveness:** The segment must be clearly different from other segments.
- **Alignment with Organizational Strengths:** The organization must have the capability to meet the segment's needs.
- **Identifiability:** The segment members must be identifiable in the marketplace.
- **Reachability:** There must be a way to contact and serve the segment effectively.

Attractiveness Criteria are used to evaluate and prioritize different market segments to identify the most promising ones for targeting. Key criteria include:

Market Size: Measures the number of potential customers in a segment.

Growth Potential: Assesses the expected growth rate of a segment.

Profitability: Evaluates potential profit margins within the segment.

Competitive Intensity: Considers the level of competition within the segment.

Accessibility: Looks at how easily a company can reach and serve the segment, including distribution, communication, and geographical factors.

STEP 3

4 Collecting Data

Empirical Data Use: Essential for both commonsense and data-driven market segmentation to identify and describe market segments.

Commonsense Segmentation:

- Utilizes a single segmentation variable (e.g., gender) to divide the sample into distinct segments (e.g., men vs. women).
- Employs descriptor variables (e.g., age, vacation frequency, vacation benefits) to provide detailed descriptions of the segments.

· **Data-Driven Segmentation:**

- Relies on multiple segmentation variables to identify or create market segments.
- Provides a more nuanced understanding of market segments by leveraging multiple factors.

Segmentation Criterion Selection:

Common Criteria: Geographic, socio-demographic, psychographic, and behavioral factors.

Market Segmentation and Survey Data:

Prevalence: Most market segmentation analyses rely on survey data due to its cost-effectiveness and ease of collection.

Potential Biases: Survey data can be subject to various biases, which may affect the accuracy and reliability of market segmentation results.

Impact of Biases: These biases can compromise the quality of the segmentation solutions derived from the analysis.

Experimental Data in Market Segmentation:

Sources: Experimental data can come from field or laboratory experiments, such as testing responses to advertisements or conducting choice experiments.

Application: Responses to advertisements or product attributes can be used as segmentation criteria.

Conjoint Analysis: Involves presenting consumers with various combinations of product attributes to determine preferences, providing insights into the impact of each attribute on consumer choice.

STEP 6

5 Profiling Segments

Data-Driven Segmentation: Segments are not predefined. Profiling is necessary to identify and differentiate segments based on data analysis.

Commonsense Segmentation: Segments are predefined (e.g., age groups). Profiling is unnecessary as segment characteristics are already known.

Profiling Process:

Individual Segments: Describe each segment's defining features.

Comparative Analysis: Compare segments to highlight distinctive characteristics.

5.1 Traditional Approaches to Profiling Market Segments

Overwhelming Complexity: Traditional profiling methods involve a large volume of comparisons, which can be overwhelming.

Careful Analysis Needed: Effective profiling necessitates thorough analysis of segment characteristics.

Consider Alternative Methods: Profiling might benefit from more manageable and accurate methods to simplify the process and enhance interpretability.

5.2 Segment Profiling with Visualisations

Graphics vs. Tabular Data: Traditional methods for presenting market segmentation often use overly simplified or complex tables, which lack the clarity that graphics can provide.

Importance of Visualization:

- **Exploratory Analysis:** Graphics are essential for exploring complex variable relationships, particularly in cluster analysis.
- **Big Data:** Visualization helps track changes and trends over time in large datasets.

Benefits of Visualisations:

- **Detailed Inspection:** Enable in-depth analysis of individual segments.
- **Enhanced Interpretation:** Make it easier to understand and evaluate segment profiles.

STEP 8

6 Selecting the Target Segment

6.1 The Targeting Decision

After identifying and profiling potential segments (Steps 5-7), Step 8 involves choosing which segments to focus on, turning preliminary analysis into actionable strategy.

Criteria Application:

- **Knock-Out Criteria:** Segments should already meet pre-established criteria for size, homogeneity, distinctiveness, identifiability, and reachability, with initial applications occurring in earlier steps.
- **Double-Checking:** Re-confirm that all remaining segments comply with knock-out criteria before proceeding.

Evaluation Process:

- **Segment Attractiveness:** Assess which segments best align with the organization's goals and capabilities.
- **Competitive Position:** Evaluate the organization's potential to attract each segment compared to competitors, including the likelihood of segments choosing the organization and the organization's ability to meet their needs.

6.2 Purpose of Decision Matrices:

Objective: To assess and visualize how attractive different market segments are and how effectively the organization can compete for them.

Types: Includes various matrices such as the Boston matrix, General Electric/McKinsey matrix, directional policy matrix, and market attractiveness-business strength matrix, each designed to aid in segment evaluation and selection.

Plot Setup: The segment evaluation plot features segment attractiveness on the x-axis and organizational competitiveness on the y-axis. Segments are depicted as circles, with their size representing additional criteria such as potential revenue or customer loyalty.

Segment Attractiveness: Measures how desirable each segment is to the organization.

Relative Organizational Competitiveness: Evaluates how well the organization can compete for each segment compared to competitors.

STEP 9

7 Implications for Marketing Mix Decisions

Marketing Toolbox: Originally viewed as a set of tools to enhance sales, including various elements such as product planning, pricing, and promotions (Borden 1964).

4Ps Model: The most common framework, consisting of Product, Price, Promotion, and Place (McCarthy 1960), which simplifies the marketing mix into key components.

Impact on Marketing Mix:

Customization: The marketing mix must be tailored to the selected target segments. This may involve:

- **Product:** Designing new products or modifying existing ones.
- **Price:** Adjusting pricing strategies or discount structures.
- **Place:** Choosing appropriate distribution channels.
- **Promotion:** Crafting communication messages and promotional strategies that appeal to the target segment.

Product Dimension in Marketing Mix

Customer Alignment: Focus on aligning the product with customer needs, often involving modifications to existing products rather than creating new ones.

Additional Aspects: Decisions also include product naming, packaging, warranties, and after-sales support.

Place Dimension in Marketing Mix

Channels: Determine whether the product should be available online, offline, or both.

Sales Channels: Decide if the product will be sold directly by the manufacturer or through intermediaries like wholesalers or retailers.

Promotion Dimension in Marketing Mix

Advertising Message: Develop a message that resonates with the target market.

Communication Channels: Choose the most effective methods to deliver the message, including public relations, personal selling, and sponsorship.

GITHUB LINK - <https://github.com/Himanshu-Tagde/FeynnLabs.git>