Step 1 – Deciding (Not) to Segment

1.1 Implications of Committing to Market Segmentation

Market seg mentation is a powerful and widely used marketing strategy, but it is not always suitable for every organization. Committing to a segmentation strategy involves significant long-term obligations. As described by McDonald and Dunbar (1995), segmentation is a deep commitment—akin to a marriage, not a date—requiring organizations to be ready for substantial changes and ongoing investment. These may include developing or modifying products, altering pricing and distribution channels, and tailoring communication efforts to specific segments.

Cahill (2006) highlights that segmentation comes with costs—market research, surveys, customized packaging, and multiple communication messages. Therefore, unless the increase in profitability outweighs the expenses involved, segmentation may not be worth pursuing. Furthermore, the internal structure of an organization may need to be realigned. Croft (1994) suggests organizing around market segments rather than products to maximize benefits, which often requires creating strategic business units for each segment.

Given the extensive and transformative nature of segmentation, the decision to explore it must be taken at the highest executive level. It also requires consistent communication and reinforcement across all organizational levels to maintain alignment and dedication.

1.2 Implementation Barriers

Despite its potential, several barriers can hinder the successful implementation of a segmentation strategy. These fall into several categories:

1. Senior Management-Related Barriers

- Lack of leadership, commitment, and proactive support from top executives undermines segmentation efforts.
- Absence of adequate financial and human resources allocated by senior management also poses a major challenge.

2. Organizational Culture Barriers

- Cultural resistance to change, lack of market orientation, poor communication, internal politics, and short-term thinking all serve as roadblocks.
- A lack of understanding or training in segmentation principles among staff and management can lead to failure.

3. Structural and Personnel Issues

- Organizations without formal marketing functions or trained marketing/data experts struggle to implement segmentation effectively.
- Lack of qualified analysts and data managers limits the quality and interpretation of segmentation efforts.

4. Objective and Process-Related Barriers

- Limited financial resources, structural rigidity, unclear objectives, lack of planning, and unclear responsibility allocation impede the process.
- Time pressure can compromise the depth and quality of analysis.

5. Operational and Interpretative Challenges

- Complex or unfamiliar segmentation tools and techniques may be dismissed by management.
- To counter this, it is essential to simplify findings through visualization tools that enhance comprehension and decision-making.

Many of these barriers can be identified early and proactively addressed. However, if key issues—such as leadership buy-in or resource limitations—cannot be resolved, organizations are advised to reconsider pursuing segmentation.

1.3 Step 1 Checklist

The chapter concludes with a comprehensive checklist to determine whether an organization is ready to pursue a market segmentation strategy. Key knockout criteria include:

- Is the organization market-oriented and open to new ideas?
- Is it willing and able to undergo change?
- Does it have a long-term strategic perspective and sufficient financial resources?

Additionally, organizations must:

- Secure visible and active support from senior management.
- Ensure that both segmentation concepts and their implications are fully understood through training, if necessary.
- Assemble a competent team including marketing, data, and analysis experts.

- Develop a structured process, assign responsibilities, clarify objectives, and allocate enough time for thorough analysis.

This checklist helps organizations self-assess their readiness and ability to benefit from market segmentation. If any fundamental criteria are unmet, the strategy should not be pursued until conditions improve.

Step –2 Specifying the Ideal Target

2.1 Objective:

To guide organizations in identifying the most suitable target market segments through two key sets of criteria: knock-out criteria and attractiveness criteria.

2.2 Segment Evaluation Criteria:

- Organizations must actively participate in segmentation analysis beyond initial briefing and final marketing mix development.
- Two types of criteria are essential:
    - Knock-Out Criteria: Mandatory conditions that a segment must meet to be considered (non-negotiable).
    - Attractiveness Criteria: Used to rank and compare qualifying segments (flexible and negotiable).

2.3 Knock-Out Criteria:

These eliminate segments that do not meet fundamental requirements. Key knock-out criteria include:

- Homogeneity: Members are similar within the segment.
- Distinctness: Clear difference from other segments.
- Size: Segment is large enough to justify tailored marketing.
- Match with company capabilities: The organization can meet their needs.
- Identifiability: Members can be recognized in the market.
- Reachability: Communication and access to the segment is possible.

These must be well-understood and agreed upon by all stakeholders early in the process.

2.4 Attractiveness Criteria:

- These criteria are not binary; segments are rated for how attractive they are.
- Used later (in Step 8) to choose the most promising segment(s).
- Criteria include factors like market growth, competition, profitability, socio-political risks, and strategic fit.
- Each criterion should be weighted based on its importance to the organization.

2.5 Implementing a Structured Process:

- Use tools like a segment evaluation plot, mapping segment attractiveness vs. organizational competitiveness.
- Select ~6 criteria and assign weights (e.g., distribute 100 points among them).
- Involve representatives from all organizational units to ensure broad perspective and buy-in.
- Choosing criteria early ensures relevant data is collected in Step 3 and simplifies segment selection in Step 8.

2.6 Step 2 Checklist (Key Actions):

- Convene a segmentation team.
- Agree on knock-out criteria and present to advisory committee.
- Research and discuss attractiveness criteria.
- Agree on top ~6 attractiveness criteria and assign weights.
- Get final approval from advisory committee.

Step 3: Collecting Data

3.1. Segmentation Variables vs Descriptor Variables

- Segmentation Variable: Used to form the segments (e.g., gender in Table 5.1).
- Descriptor Variables: Used to describe the formed segments in detail (e.g., age, vacation preferences).

- In data-driven segmentation, multiple variables (e.g., benefits sought) are used to discover naturally occurring segments.

3.2 Quality of Data Matters

- Accurate segmentation depends on high-quality empirical data.
- Poor data affects:
    - Correct assignment to segments.
    - The ability to meaningfully describe each segment.

3.3 Sources of Empirical Data

- Surveys (most common but sometimes unreliable).
- Observational data (e.g., scanner or loyalty card data).
- Experimental data.
- Ideal: Data that reflects actual consumer behavior, not just stated intentions.

3.4 Segmentation Criteria

The segmentation criterion is broader than a segmentation variable. It refers to the type of information used to segment a market. Main Types of Segmentation Criteria:

1. **Geographic Segmentation**
    a. Based on consumer location.
    b. Advantage: Easy to assign, easy to target.
    c. Disadvantage: People in the same area may not share relevant behavioral traits.
2. **Socio-Demographic Segmentation**
    a. Based on age, gender, income, education.
    b. Advantage: Simple, useful in some industries (e.g., baby products, luxury goods).
    c. Disadvantage: Often does not explain actual behavior well. Estimates suggest demographics explain only 5% of consumer behavior.
3. **Psychographic Segmentation**
    a. Based on beliefs, attitudes, preferences, motivations.
    b. Examples: Benefit segmentation, lifestyle segmentation.
    c. Advantage: Reflects underlying motivations.
    d. Disadvantage: Hard to measure and assign people to segments reliably.
4. **Behavioral Segmentation**
    a. Based on actual or reported behavior (e.g., purchases, frequency, amount spent).
    b. **Advantage**: Highly relevant to actual outcomes.
    c. **Disadvantage**: Hard to apply if the customer has no prior interaction or data is unavailable.

3.5 Survey Data Considerations

Challenges in Survey-Based Segmentation:

- Risk of bias (social desirability, fatigue, etc.).
- Variable selection is critical:
  - Include only relevant variables.
  - Avoid noisy/masking variables that confuse algorithms.

Ask only necessary and distinct questions that truly contribute to understanding segment differences.

Practical Use

- Start with a clear segmentation criterion (e.g., behavior, benefits).
- Collect high-quality, behavior-reflecting data when possible.
- Avoid including too many variables—more is not always better.
- Know your purpose: Use the simplest segmentation approach that works (demographic if sufficient, psychographic if needed).

Step 8: Selecting the Target Segment(s)

8.1 The Targeting Decision

Step 8 marks a pivotal stage in the market segmentation process—making the targeting decision. This is when the organization moves from exploring and profiling market segments to making a firm commitment to one or more segments for focused marketing efforts. This decision is long-term and strategic, shaping future resource allocation, messaging, product development, and overall marketing strategy.

At this stage:

- Segments have already been grouped (Step 5), profiled (Step 6), and described (Step 7).
- The knock-out criteria (from Step 2) should already have been applied to eliminate segments that are too small, unidentifiable, unreachable, or incompatible with the organization's offerings.
- Only viable and promising segments should remain for detailed evaluation.

The segmentation team now evaluates:

1. Which segment(s) are most attractive to the organization?
2. Which segment(s) find the organization most attractive?

This dual perspective ensures mutual value and viability. An ideal segment is one that is desirable, accessible, profitable, and one where the organization can compete effectively.

8.2 Market Segment Evaluation

The evaluation process relies heavily on structured decision-making tools, most commonly a segment evaluation matrix or decision matrix. These visual frameworks help compare multiple segments based on two primary dimensions:

- Segment Attractiveness (x-axis): How appealing the segment is to the organization.
- Organizational Competitiveness (y-axis): How appealing the organization is to the segment.

Additional criteria—like profit potential, loyalty, or growth opportunity—can be reflected in the size of the bubbles plotted on the matrix.

To build the matrix:

1. Revisit the segment attractiveness criteria and organizational competitiveness criteria defined in Step 2.
2. Assign weights to each criterion to reflect its relative importance.
3. Rate each segment (usually on a scale of 1–10) for every criterion based on profiling and description data.
4. Multiply ratings by their respective weights and sum them to get overall scores.
5. Plot the results using attractiveness (x), competitiveness (y), and a third variable (e.g., profit) for bubble size.

The result is a visual plot (see example plot above) which reveals:

- Ideal targets (e.g., high x and high y, large bubble)
- Segments to avoid (e.g., low x or low y, small bubble)
- Potential segments (high in one dimension but not the other)

Example: Segment 8 is highly attractive and sees the organization favorably—an excellent match, though it has a smaller profit potential. Segment 5 is attractive to the organization but does not reciprocate. Segment 2, on the other hand, shows strong mutual alignment and profit opportunity.

8.3 Final Target Segment Selection

After visualization and discussion, the team selects one or more segments to target. If multiple segments are chosen, ensure they:

- Align with the overall strategy
- Are mutually compatible
- Do not cannibalize each other
- Can be served efficiently and distinctly

Once selected, present the decision to leadership or the advisory committee for validation and prepare for positioning and marketing strategy development in subsequent steps.

8.4 Strategic Fit and Long-Term Potential

Beyond short-term profitability or immediate accessibility, it's essential to assess how well each segment aligns with the long-term strategic direction of the organization. Consider:

- Brand fit: Does targeting this segment align with your brand values and image?
- Scalability: Can this segment be scaled in the future (locally, nationally, globally)?
- Innovation alignment: Does the segment demand match your innovation pipeline?
- Synergies: Are there operational, technological, or channel synergies with existing segments?
- Use a SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) for each segment to support strategic alignment discussions.

8.5 Risk Assessment and Mitigation

Every segment comes with risks—some that may not be immediately visible in the attractiveness or competitiveness scores. Conduct a risk analysis covering:

- Market volatility (economic, regulatory, seasonal changes)
- Customer churn or loyalty risk
- Competitive intensity
- Channel dependency or gatekeepers
- Overreliance on niche demand

Use a risk heat map or a scenario analysis to visualize worst-case outcomes and develop contingency strategies.

8.6 Internal Readiness and Capability Check

Before finalizing, evaluate your organization's actual readiness to serve the target segment. This may include:

- Operational capacity (can we meet demand consistently?)
- Sales team capability and experience
- Customer service fit (do we have the right tone, speed, and support?)
- Technology and data infrastructure
- Regulatory or compliance limitations

Involve cross-functional teams (marketing, sales, logistics, product, legal) for a capability audit.

Step 9: Customizing the Marketing Mix

Market segmentation must be integrated with broader strategic marketing decisions, particularly positioning and competition. It is typically approached through the STP model (Segmentation → Targeting → Positioning), which guides how the 4Ps of the marketing mix—Product, Price, Place, Promotion—are tailored to the chosen target segment(s).

1. Product

- Adjust or develop products based on the specific preferences of the target segment.
- This includes naming, packaging, warranties, and after-sales support.
- Example: For tourists interested in culture (Segment 3), a bundled product like "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" could be created to highlight attractions of interest.

2. Price

- Set pricing strategies based on segment willingness to pay.
- Use data analysis (e.g., boxplots of spending behavior) to guide decisions.

- For Segment 3, higher daily vacation spending indicates **premium pricing** is viable.

3. Place

- Choose distribution channels that match segment preferences (e.g., online, offline, agents).
- Example: Segment 3 books hotels online more frequently, suggesting the need for robust online availability for offerings.

4. Promotion

- Craft communication strategies using preferred information sources of the segment.
- For Segment 3:
  - Use tourist information centers as a key promotional channel.
  - Promote via Channel 7, which this segment watches more than others.

5. Link to Positioning

- Positioning is about creating a distinct place in the minds of target customers.
- Effective customization of the marketing mix reinforces the chosen positioning of the brand or product for that segment.

6. Data-Driven Decision Making

- Segmentation results guide quantitative decisions:
  - Product preferences (what they value most)
  - Price sensitivity (what they are willing to pay)
  - Booking behavior (how they purchase)
  - Media consumption (where they get information)

7. Integration Across Marketing Functions

- The 4Ps must be aligned:
  - A premium product must be matched with premium pricing, suitable channels, and upscale promotional tone.
  - Inconsistency (e.g., cheap ads for a luxury product) damages credibility.

8. Competitive Advantage

- Tailoring the marketing mix to specific segment needs creates differentiation.
- This makes the offer more compelling than generic, one-size-fits-all strategies.

9. Collaboration Across Departments

- Product development, sales, pricing teams, and communication teams must work together.
- Segment knowledge must be shared across the organization to ensure consistency in execution.

10. Testing and Feedback

- Customized marketing mix strategies should be tested (e.g., A/B testing) and adapted based on feedback or performance metrics.

11. Innovation Opportunities

- Segment needs can inspire new product or service ideas not previously considered.
- This can lead to expansion into niche or underserved markets.