Implications of Committing to Market Segmentation

- Segmenting a market is not free. There are costs of performing the research, fielding surveys, and focus groups, designing multiple packages, and designing multiple advertisements and communication messages
- Cahill recommends not to segment unless the expected increase in sales is sufficient to justify implementing a segmentation strategy, stating (p. 77) that 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.
- 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
- Because of the major implications of such a long-term organisational commitment, the decision to investigate the potential of a market segmentation strategy must be made at the highest executive level, and must be systematically and continuously communicated and reinforced at all organisational levels and across all organisational units.

Implementation Barriers

- The first group of barriers relates to senior management
- There can be no doubt that unless the chief executive sees the need for a segmentation review, understands the process and shows an active interest in it, it is virtually impossible for a senior marketing executive to implement the conclusions in a meaningful way
- 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. A second group of barriers relates to organisational culture
- a resolute sense of purpose and dedication is required, tempered by patience and a willingness to appreciate the inevitable problems which will be encountered in implementing the conclusions

Step 1 Checklist

- This first checklist includes not only tasks, but also a series of questions which, if not answered in the affirmative, serve as knock-out criteria

Step 2:

- The third layer of market segmentation analysis depends primarily on user input.
- user input cannot be limited to either a briefing at the start of the process, or the development of a marketing mix at the end
- the user needs to be involved in most stages, literally wrapping around the technical aspects of market segmentation analysis
- After having committed to investigating the value of a segmentation strategy in the organisation has to make a major contribution to market segmentation analysis
- 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

- the literature proposes a wide array of possible segment evaluation criteria and describes them at different levels of detail
- The shorter set of knock-out criteria is essential.
- 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 first set of such criteria was suggested by Kotler (1994) and includes substantiality, measurability and accessibility (Tynan and Drayton 1987). Kotler himself and a number of other authors have since recommended additional criteria that fall into the knock-out criterion category.
- Thesegment 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.
- Thesegmentmustbelargeenough;thesegmentmustcontainenoughconsumers 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.

Attractiveness Criteria:

- Attractiveness criteria are not binary in nature
- each market segment is rated; it can be more or less attractive with respect to a specific criterion

Implementing a Structured Process:

- The segment attractiveness and organizational competitiveness values are determined by the segmentation team.
- Factors which constitute both segment attractiveness and organizational competitiveness need to be negotiated and agreed upon.
- a large number of possible criteria has to be investigated before agreement is reached on which criteria are most important for the organization. McDonald and Dunbar recommend using no more than six factors as the basis for calculating these criteria.
- each organisational unit has a different perspective on the business of the organisation
- if the segmentation strategy is implemented, it will affect every single unit of the organisation. Consequently, all units are key stakeholders of market segmentation analysis.
- At the end of this step, the market segmentation team should have a list of approximately six segment attractiveness criteria.
- The typical approach to weighting is to ask all team members to distribute 100 points across the segmentation criteria

Step 3:

Segmentation Variables:

- the segmentation variable is typically one single characteristic of the consumers in the sample.
- Typical descriptor variables include socio-demographics, but also information about media behaviour, allowing marketers to reach their target segment with communication messages.
- The difference between commonsense and data-driven market segmentation is that data-driven market segmentation is based not on one, but on multiple segmentation variables
- 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 criterion is used here in a broader sense than the term segmentation variable
- The most common segmentation criteria are geographic, sociodemographic, psychographic and behavioural
- the most relevant in terms of market segmentation: profitability, bargaining power, preferences for benefits or products, barriers to choice and consumer interaction effects
- The key advantage of geographic segmentation is that each consumer can easily be assigned to a geographic unit
- The key disadvantage is that living in the same country or area does not necessarily mean that people share other characteristics relevant to marketers.

Response:

- Options allowing respondents to select an answer from a range of unordered categories correspond to nominal variables
- A response bias is a systematic tendency to respond to a range of questionnaire items on some basis other than the specific item content

Market Segmentation Process:

- Market segmentation involves selecting target segments that impact an organization's future performance.
- After choosing a global segmentation solution, segments are profiled and inspected.Step 8 aims to select one or more segments that meet criteria and are attractive to the organization.

Decision-Making Process:

- The segmentation team evaluates segment attractiveness and organizational competitiveness.They consider which segments the organization prefers to target and which organization each segment prefers to buy from.

- A decision matrix is used to visualize these factors.Using the Decision Matrix:The matrix assesses alternative segments based on attractiveness and competitiveness.
- Example: x-axis represents segment attractiveness, y-axis represents organizational competitiveness.Circles indicate segments, with circle size reflecting other criteria like turnover contribution or loyalty.

Calculating Segment Attractiveness:
- Step 2 determines attractiveness criteria and assigns weights.In Step 8, the team assigns values to each criterion for segments.
- Overall attractiveness is calculated by weighting and summing assigned values.

Organizational Competitiveness:
- Similar process as for segment attractiveness, considering organization's competitiveness in each segment.

Segment Location on Decision Matrix:
- The goal is to position each segment on the decision matrix through calculations.Aligning with the ideal target segment specified in Step 2 is important.
- Attractiveness values come from the segmentation team's profiling and descriptions.Weighted attractiveness values aid in target segment decision-making.

Segment Selection Considerations:
- Segments are assessed for selection based on the matrix.For instance, segments 3 and 7 might be excluded despite high profit potential.
- Segment 5 might be attractive but not interesting, while segment 8 matches well but with lower profit potential.
- This could lead to consideration of segment 2.Recreating the Plot in R:Use the MSA library's decisionMatrix function."x" and "y" matrices hold segment data, and "wx" and "wy" have corresponding weights.Command generates the segment evaluation plot.

Additional Notes:
- Bubble size on the plot typically reflects profit potential.Different criteria can be used depending on the context (e.g., volunteered hours for non-profits).