**Feynn Labs Services**

**Project 2nd Study Task**

**Market Segmentation**

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**Summary**

**Part I Introduction**

**Chapter 1 Market Segmentation**

* 1. **Strategic and Tactical Marketing**

The purpose of marketing is to match the genuine needs and desires of consumers with the offers of suppliers particularly suited to satisfy those needs and desires. This matching process benefits consumers and suppliers, and drives an organisation’s marketing planning process. A marketing plan consists of two components: a strategic and a tactical marketing plan.

The strategic explain long term goals of organisation like where the organisation want to go and why whereas tactical explains these long-term goals in a detail each step to reach.

A SWOT analysis explicitly states an organisation’s strengths (S), weaknesses (W), opportunities (O), and threats (T). As such, the SWOT analysis outlines one side of the matching process: what the supplier is particularly suitable to offer consumers. The other side of the matching process – consumer needs and desires – is typically investigated using market research.

Once organisational strengths have been established, potential interference by external factors has been assessed, and consumer needs and desires have been thoroughly investigated, two key decisions have to be made as part of the strategic marketing planning process: which consumers to focus on (segmentation and targeting), and which image of the organisation to create in the market (positioning).

Tactical marketing planning usually covers a period of up to one year. It is traditionally seen to cover four areas: the development and modification of the product in view of needs and desires of the target segment (Product), the determination of the price in view of cost, competition, and the willingness to pay of the target segment (Price), the selection of the most suitable distribution channels to reach the target segment (Place), and the communication and promotion of the offer in a way that is most appealing to the target segment (Promotion).

* 1. **Definitions of Market Segmentation**

Market segmentation is a decision-making tool for the marketing manager in the crucial task of selecting a target market for a given product and designing an appropriate marketing mix. Market segmentation is one of the key building blocks of strategic marketing.

Conceptually, market segmentation sits between the two extreme views that (a) all objects are unique and inviolable and (b) the population is homogeneous (Saunders 1980, p. 422). One of the simplest and clearest definitions is that used in a newsletter by Grey Advertising Inc. and cited in Haley (1985, p. 8): market segmentation means cutting markets into slices. Ideally, consumers belonging to the same market segments – or sets of buyers

* 1. **The Benefits of Market Segmentation**

Market segmentation has a number of benefits. At the most general level, market segmentation forces organisations to take stock of where they stand, and where they want to be in future. In so doing, it forces organisations to reflect on what they are particularly good at compared to competitors, and make an effort to gain insights into what consumers want. Market segmentation offers an opportunity to think and rethink, and leads to critical new insights and perspectives. When implemented well, market segmentation also leads to tangible benefits, including a better understanding of differences between consumers, which improves the match of organisational strengths and consumer needs

Taking market segmentation to the extreme would mean to actually be able to offer a customised product or service to very small groups of consumers. This approach is referred to as micro marketing or hyper-segmentation

Market segmentation has also been shown to be effective in sales management (Maier and Saunders 1990) because it allows direct sales efforts to be targeted at groups of consumers rather than each consumer individually.

* 1. **The Costs of Market Segmentation**

A large number of people have to dedicate a substantial amount of time to conduct a thorough market segmentation analysis. If a segmentation strategy is pursued, more human and financial resources are required to develop and implement a customised marketing mix.

**Chapter 2**

**Market Segmentation Analysis**

**2.1 The Layers of Market Segmentation Analysis**

The process of grouping consumers into naturally existing or artificially created segments of consumers who share similar product preferences or characteristics.

The layers of market segmentation analysis

Conducting high quality market segmentation analysis: Extracting market segments

Enabling high quality market segmentation analysis: Collecting good data, exploring data, profiling segments, describing segments

Making it happen in practice: Deciding to segment, defining the ideal segment, selecting (the) target segment(s), developing a customised marketing mix, assessing effectiveness and monitoring marketing changes

**2.2 Approaches to Market Segmentation Analysis**

By Dibb and Simkin: No one single approach is best when conducting market segmentation analysis. Instead, approaches to market segmentation analysis can be systematised in a number of different ways. We present two systematics here; one uses as its basis the extent to which the organisation conducting the market segmentation study is willing or able to make changes to their current approach of targeting the market or a segment of the market and has been proposed

The second systematics is based on the nature of the segmentation variable or variables used in the market segmentation analysis.

**2.2.1 Based on Organisational Constraints**

Dibb and Simkin (2008) distinguish three approaches to market segmentation: the quantitative survey-based approach, the creation of segments from existing consumer classifications, and the emergence of segments from qualitative research. These three approaches differ in how radical the resulting change is for the organisation.

Looking at each one of these approaches in more detail, the segment revolution or quantitative survey-based segmentation approach tends to be seen as the prototypical market segmentation analysis. The key assumption underlying this approach is that the organisation conducting market segmentation analysis is willing and able to start from scratch.

The continuous tracking of the nature of market segments in large streams of data flowing in on a continuous basis can be used to check on an ongoing basis whether market structure has changed in ways which make it necessary to adapt the segmentation strategy to ensure organisational survival and prosperity.

**2.2.2 Based on the Choice of (the) Segmentation Variable(s)**

More technical way of systematising segmentation approaches. Unidimensional or multidimensional. Unidimensional is called priori -- decision about what characterises each segment is made in advance, before any data analysis is conducted. convenience-group -- segments are chosen for the convenience of serving common sense market segmentation -- apply their common sense to choose their target segment. Proactive approach, which exploits multiple segmentation variables, is referred to as a posteriori, cluster based or post hoc segmentation market segments is not known until after the data analysis has been conducted. Data-driven segmentation -- segmentation solution is determined through data analysis, that data analysis creates the solution

When data-driven segmentation is conducted, the organisation has certain assumptions about the consumer characteristics that are critical to identifying a suitable market segment to target, but does not know the exact profiles of suitable target segments. The aim of data-driven segmentation, therefore, is twofold: first, to explore different market segments that can be extracted using the segmentation variables chosen, and, second, to develop a detailed profile and description of the segment(s) selected for targeting.

**2.3 Data Structure and Data-Driven Market Segmentation Approaches**

The term reproducible segmentation refers to the case where natural market segments do not exist in the data. But the data are not entirely unstructured either. Rather, the data contain some structure – other than cluster structure – making it possible to generate the same segmentation solution repeatedly.

**2.4 Market Segmentation Analysis Step-by-Step**

Step 1: Deciding (not) to segment, adv. and disadvantage.

Step 2: specify characteristics of their ideal market segment.

Step 3: data collection.

Step 4: Exploring data.

Step 5: Extracting segments

Step 6: Profiling segments.

Step 7: Describing segments.

**Part II**

**Ten Steps of Market Segmentation Analysis**

**Chapter 3 Step 1: Deciding (not) to Segment**

**3.1 Implications of Committing to Market Segmentation**

Although market segmentation has developed to be a key marketing strategy applied in many organisations, it is not always the best decision to pursue such a strategy. The key implication is that the organisation needs to commit to the segmentation strategy on the long term. The commitment to market segmentation goes hand in hand with the willingness and ability of the organisation to make substantial changes (McDonald and Dunbar 1995) and investments. 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.

**3.2 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.

As McDonald and Dunbar (1995, p. 158) state: 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.

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

Another potential problem is lack of training

If senior management and the team tasked with segmentation do not understand the very foundations of market segmentation, or if they are unaware of the consequences of pursuing such a strategy, the attempt of introducing market segmentation is likely to fail.

**Chapter 4**

**Step 2: Specifying the Ideal Target Segment**

**4.1 Segment Evaluation Criteria**

It is important to understand that – for a market segmentation analysis to produce results that are useful to an organisation – 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.

**4.2 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, distinct, large enough, matching the strengths of the organisation, identifiable, reachable.

Knock-out criteria must be understood by senior management, the segmentation team, and the advisory committee. Most of them do not require further specification, but some do.

**Chapter 5**

**Step 3: Collecting Data**

**5.1 Segmentation Variables**

Throughout this book we use 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.

In common sense segmentation, the segmentation variable is typically one single characteristic of the consumers in the sample.

**5.2 Segmentation Criteria**

Geographic Segmentation

Socio-Demographic Segmentation

Psychographic Segmentation

Behavioural Segmentation

**5.3 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.

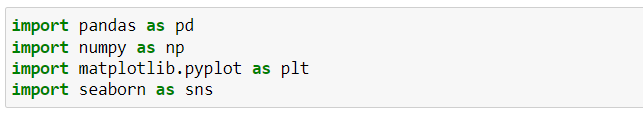
A few key aspects that need to be considered when using survey data are below

Choice of Variables, Response Options, Response Styles, Sample Size, Data from Internal Sources, Data from Experimental Studies

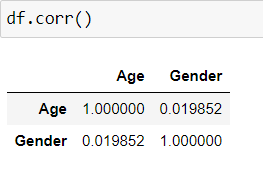
**STUDY TASK**

**Chapter 7**

**Step 5: Extracting Segments**

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