Market Segmentation Analysis

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Step 1: Deciding (not) to Segment

Market segmentation is a strategic tool that allows organizations to target specific customer groups with unique marketing messages and offerings. However, implementing this strategy requires careful consideration because it is a long-term commitment with significant resource investment.

This passage outlines the pros and cons of market segmentation and the decision-making process involved. Here is a breakdown of the key points:

Benefits of Market Segmentation

- **Increased Sales and Return on Investment (ROI):** By tailoring products, messaging, and pricing to specific customer segments, organizations can increase their sales effectiveness and profitability.

- **Improved Customer Satisfaction:** A deeper understanding of customer needs within each segment allows companies to develop products and services that better meet those needs, leading to higher customer satisfaction.

Challenges of Market Segmentation

- **Long-Term Commitment and Investment:** Shifting to a segmentation strategy requires upfront investment in market research, product development, and potentially changes to organizational structure. It is a long-term commitment that requires ongoing support from leadership.

- **Implementation Barriers:** Several hurdles can impede successful implementation, including lack of buy-in from senior management, resistance to change within the company culture, and a lack of marketing expertise or resources.

Decision-Making Process

- **Carefully Consider the Challenges:** Organizations should weigh the potential benefits against the implementation challenges before deciding to segment their market.

- **High-Level Decision and Communication:** The decision to segment should be made at a high executive level and communicated throughout the organization to ensure alignment and support.

- **Evaluate Internal Capabilities:** Companies need to assess their internal capabilities, including marketing expertise, data analysis skills, and financial resources, to determine if they are equipped to handle segmentation effectively.

By carefully considering these factors, organizations can make informed decisions about whether market segmentation is the right strategy for them.

Step 2: Specifying the Ideal Target Segment

This passage discusses the second step in market segmentation analysis: specifying the ideal target segment. It emphasizes the importance of clearly defined criteria for evaluating potential target segments.

Here is a breakdown of the key points:

Knock-Out Criteria

- These are essential, non-negotiable features that a target segment must possess.
- Examples include segment size, measurability, and compatibility with the organization's strengths.
- The segmentation team and senior management need to be on the same page regarding these criteria.

Attractiveness Criteria

- These criteria help assess the relative appeal of different segments that meet the knock-out criteria.
- There is no one-size-fits-all approach - the most relevant criteria will vary depending on the organization's goals.
- The team should select a small set (around 6) of the most important attractiveness criteria.
- Each criterion should be assigned a weight to reflect its relative importance in the decision-making process.

Implementing a Structured Process

- A popular approach involves plotting segment attractiveness on one axis and organizational competitiveness on another.
- This helps visualize which segments are most appealing and where the organization has a competitive edge.
- Input from various departments is crucial for selecting appropriate criteria as each department has a unique perspective.

Checklist

- The passage also includes a checklist to guide the team through defining knock-out criteria, attractiveness criteria, and their weights.

- This ensures everyone involved is aligned on the target segment characteristics and facilitates informed decision-making later in the process.

Step 3: Collecting Data

Market segmentation relies on high-quality data to effectively group customers. Here is a breakdown of data sources and considerations for Step 3 of the segmentation process:

Data Sources:

Traditional: Demographics (age, income), Geographic (location), Psychographics (interests, values) and Behavioural (purchase history) data from external sources like government databases or surveys.

Internal: Customer behaviour data from a company's operations (scanner data, purchase history, loyalty programs). This data reflects actual behaviour and is often automated, but may be biased towards existing customers.

Experimental: Data from controlled experiments (ad testing, conjoint analysis) that provide insights into customer preferences and reactions.

Checklist:

Meeting: Convene a team to discuss segmentation variables.

Segmentation Variables: Identify characteristics that will be used to group customers into segments (e.g., demographics, behavioural patterns).

Descriptive Variables: Discuss additional characteristics needed to understand the segments in detail (e.g., interests, media habits).

Data Collection: Determine how to collect data for both segmentation and description variables in a valid way.

Data Design: Design data collection to minimize bias and errors.

Data Collection: Collect the required data.

By using a variety of data sources and following a structured approach, companies can ensure their market segmentation is accurate and leads to targeted marketing strategies.

Step 8: Selecting the Target Segment(s)

Market segment evaluation is a process that helps businesses assess the attractiveness of different market segments and their relative competitiveness within those segments.

How is it done?

- A decision matrix is used to visualize two key factors:
  - Segment attractiveness: How appealing is the segment to the business based on factors like size, growth potential, and profitability?
  - Relative organizational competitiveness: How well-positioned is the business to compete within the segment compared to other players?

- Each segment is plotted on the decision matrix based on its score for these two factors. The size of the bubble representing the segment might indicate another relevant factor like profit potential.

How to determine attractiveness and competitiveness?

- A set of criteria is defined for both segment attractiveness and relative organizational competitiveness. These criteria could include factors like size, growth potential, brand awareness, product-market fit, etc.
- Each criterion is assigned a weight based on its importance.
- Segments are rated on a scale for each criterion.
- The ratings are multiplied by the corresponding weights and summed up to get a total score for attractiveness and competitiveness for each segment.

How to use the results?

- The decision matrix provides a visual tool to compare segments and identify the most promising ones.
- Segments with high attractiveness and high competitiveness are ideal targets.
- The decision matrix can help eliminate segments that are unattractive or where the business is not competitive.
- It can also help identify trade-offs - a segment might be very attractive but require overcoming competitive hurdles, or vice versa.

Additional considerations:

- Profit potential is often used as the bubble size in the decision matrix, but other factors like volunteer hours for non-profits could be used depending on the context.

- The segment evaluation process involves multiple steps, including team discussions, assigning weights and ratings, and plotting the results on the decision matrix.

By following this approach, businesses can make informed decisions about which market segments to target, maximizing their chances of success.

Step 9: Customising the Marketing Mix

Market segmentation is not a standalone strategy. It works together with other marketing areas like positioning and competition, often referred to as the STP (Segmentation-Targeting-Positioning) approach.

The STP approach involves segmenting the market, selecting target segments, and then positioning the product to resonate with those segments.

Marketing Mix and its Elements

- The marketing mix refers to the controllable elements a business uses to influence the demand for its products. Traditionally, it is represented by the 4Ps: Product, Price, Place (distribution), and Promotion.
- Once target segments are identified, the marketing mix needs to be customized to best suit those segments.
- This customization involves reviewing each element of the 4Ps:

    - Product: How can the product (or service) be designed or modified to better cater to the target segment's needs?
    - Price: What pricing strategy (including discounts) is most effective for the target segment?
    - Place: How should the product be distributed to reach the target segment? What channels do they prefer?
    - Promotion: What message and communication channels resonate best with the target segment?

Example: Targeting Tourists

- The document uses the example of a tourist destination targeting a segment interested in cultural heritage (museums, monuments, etc.).
- By analysing tourist data, the destination can learn about this segment's preferences regarding spending, booking channels, information sources (tourist centers), and even TV channel viewership.

- This information can then be used to tailor the marketing mix:
    - Product: Develop a "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" package.
    - Price: Consider offering the package at a premium price based on the segment's higher spending.
    - Place: Ensure the package is bookable online and available at tourist information centers.
    - Promotion: Advertise the package in tourist centers and potentially on Channel 7 (based on the segment's viewership preference).

By customizing the marketing mix for each target segment, businesses can increase their chances of reaching the right audience with the right message and offer.