**Step 1: Deciding (Not) to Segment**

**1.1 Implications of Committing to Market Segmentation**

Market segmentation is a fundamental marketing strategy but not always the best choice. Before investing in segmentation analysis, it is crucial to understand its long-term implications. Segmentation requires a long-term commitment, significant changes, and investments. McDonald and Dunbar (1995) emphasize that segmentation involves substantial costs for research, surveys, packaging, and advertising. Cahill (2006) warns that the profitability of segmentation must outweigh its expenses. Necessary changes may include developing new products, modifying existing ones, adjusting pricing and distribution channels, and altering market communications. These changes can impact the internal structure of the organization, which may need to realign around market segments instead of products. The decision to explore segmentation must come from the highest executive level and be consistently communicated across all organizational units.

**1.2 Implementation Barriers :**

Successful market segmentation faces several barriers. One group relates to senior management: lack of leadership, commitment, and resources can undermine segmentation efforts. McDonald and Dunbar (1995) assert that without the chief executive's support, implementing segmentation meaningfully is nearly impossible. Another group of barriers involves organizational culture. Resistance to change, poor communication, lack of creative thinking, and short-term focus can hinder segmentation. Croft (1994) developed a questionnaire to assess market orientation within organizational culture. Lack of training is another barrier; if senior management and the segmentation team lack understanding of segmentation principles, efforts are likely to fail. Furthermore, the absence of a formal marketing function or a qualified marketing expert can pose significant challenges, especially in diverse and large organizations. Objective restrictions, such as limited financial resources or the inability to make structural changes, also present obstacles. Beane and Ennis (1987) suggest that companies with limited resources should pursue only the best opportunities.

Process-related barriers include unclear objectives, poor planning, lack of structured processes, insufficient responsibility allocation, and time pressure. Doyle and Saunders (1985) note that management's lack of understanding of management science techniques can hinder acceptance. This can be mitigated by making segmentation analysis easy to understand and presenting results graphically to facilitate interpretation.

Most barriers can be identified and proactively addressed at the start of a segmentation study. If barriers cannot be removed, abandoning the segmentation attempt should be considered. McDonald and Dunbar (1995) recommend a resolute sense of purpose and patience, acknowledging the inevitable problems in implementing segmentation conclusions.

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

**2.1 Segment Evaluation Criteria**

The third layer of market segmentation analysis necessitates significant user involvement throughout the process, not just during the initial briefing or the final marketing mix development. Active user engagement at various stages is crucial to ensure the analysis is beneficial to the organization. After deciding to explore segmentation strategy value in Step 1, the organization must significantly contribute to Step 2, guiding subsequent steps, especially Step 3 (data collection) and Step 8 (target segment selection).

In Step 2, the organization must establish two sets of segment evaluation criteria: knock-out criteria and attractiveness criteria. Knock-out criteria are the essential, non-negotiable features of segments the organization would consider targeting. Attractiveness criteria are used to evaluate the relative attractiveness of the remaining market segments that meet the knock-out criteria.

Literature offers a variety of proposed criteria without distinguishing between knock-out and attractiveness criteria. Table 4.1 lists several proposed criteria from various sources. These include criteria like measurability, substantiality, accessibility, competitive advantage, profitability, socio-political considerations, and technological factors, among others.

**2.2 Knock-Out Criteria**

Knock-out criteria determine if market segments qualify for further assessment using attractiveness criteria. Initially suggested by Kotler (1994) and expanded by others, these criteria include:

* **Homogeneity**: Segment members must be similar to one another.
* **Distinctness**: Segment members must be different from other segments.
* **Size**: The segment must be large enough to justify custom marketing.
* **Match to Organization's Strengths**: The organization must be capable of satisfying segment needs.
* **Identifiability**: It must be possible to identify segment members in the market.
* **Reachability**: There must be a way to communicate with segment members.

These criteria must be well-understood by senior management, the segmentation team, and the advisory committee. Some criteria, like segment size, may require specific definitions.

**2.3 Attractiveness Criteria**

Attractiveness criteria, unlike knock-out criteria, are not binary. Segments are rated based on how attractive they are concerning each criterion. This rating determines whether a market segment is selected as a target in Step 8. Table 4.1 includes a wide range of segment attractiveness criteria for the segmentation team to consider.

**2.4 Implementing a Structured Process**

Following a structured process in assessing market segments is widely recommended. The most popular method involves using a segment evaluation plot that shows segment attractiveness on one axis and organizational competitiveness on the other. The segmentation team determines the values for these axes.

Factors constituting both segment attractiveness and organizational competitiveness need to be negotiated and agreed upon. McDonald and Dunbar (2012) recommend using no more than six factors to calculate these criteria. Ideally, a team of two to three people could propose an initial solution, which would then be discussed and possibly modified by an advisory committee representing various organizational units.

Including representatives from different organizational units is crucial for two reasons: each unit brings a unique perspective, and all units are stakeholders in the segmentation strategy implementation. Although the segment evaluation plot cannot be completed in Step 2, selecting attractiveness criteria early ensures all necessary information is collected during data collection (Step 3), simplifying target segment selection in Step 8.

By the end of Step 2, the market segmentation team should have a list of approximately six segment attractiveness criteria, each weighted according to its importance. The typical approach involves team members distributing 100 points across the criteria, negotiating until agreement is reached, and seeking approval from the advisory committee to ensure comprehensive organizational input.

**Step 3: Collecting data**

The process of market segmentation involves dividing a market into distinct groups of consumers who have similar needs, characteristics, or behaviors. This process is essential for businesses to effectively target their products and services to specific customer segments. In step 3 of the market segmentation process, collecting data is crucial to identify and describe these segments accurately. This step involves gathering empirical data, choosing segmentation criteria, and selecting appropriate sources of data.

**3.1 Segmentation Variables:**

Empirical data is used to identify or create market segments and describe them in detail. Segmentation variables are the variables in empirical data used to split the sample into market segments. In commonsense segmentation, one characteristic, such as gender, is typically used as the segmentation variable. In contrast, data-driven segmentation involves using multiple segmentation variables, such as benefits sought when going on vacation, to identify market segments. Descriptor variables, such as age and number of vacations taken, are used to describe these segments in detail.

**3.2 Data Sources for Segmentation Studies**:

Empirical data for segmentation studies can come from various sources, including survey studies, observations such as scanner data, and experimental studies. Survey data is commonly used but may not always reflect actual consumer behavior accurately. Other sources, such as scanner data and experimental studies, can provide more reliable insights into consumer behavior.

**3.3 Segmentation Criteria:**

Before collecting data, organizations must choose segmentation criteria based on factors such as geographic, socio-demographic, psychographic, or behavioral characteristics. The choice of segmentation criterion depends on prior knowledge about the market and the specific context of the business. Geographic segmentation divides consumers based on their location of residence, while socio-demographic segmentation considers factors like age, gender, income, and education. Psychographic segmentation groups consumers based on beliefs, interests, and preferences, while behavioral segmentation focuses on actual behaviors or reported behaviors.

Advantages and Disadvantages of Segmentation Criteria: Each segmentation criterion has its advantages and disadvantages. Geographic segmentation is straightforward and easy to target communication messages but may not capture other relevant consumer characteristics. Socio-demographic segmentation provides insights into specific product preferences but may not explain all variations in consumer behavior. Psychographic segmentation offers deeper insights into consumer motivations but can be complex and challenging to implement. Behavioral segmentation is based on actual consumer behavior but may not always be readily available for analysis.

**3.4 Data from Survey Studies:**

Survey data is commonly used for market segmentation analysis due to its accessibility and affordability. However, survey data can be influenced by biases, such as social desirability bias or imperfect memory, which can affect the quality of segmentation solutions derived from the analysis.

**3.5 Data from Internal Sources:** Organizations can also leverage internal data, such as scanner data and online purchase data, for segmentation analysis. Internal data represent actual consumer behavior but may be biased towards existing customers, limiting insights into potential new customer segments.

**3.6 Data from Experimental Studies:**

Experimental data, such as choice experiments or conjoint analyses, can provide valuable insights into consumer preferences and behaviors. These studies allow researchers to control variables and measure consumer responses accurately, providing reliable segmentation criteria for analysis.

In summary, collecting high-quality empirical data is essential for developing effective market segmentation solutions. Organizations must carefully choose segmentation criteria and select appropriate data sources to ensure accurate segmentation analysis and actionable insights for targeting specific consumer segments.

**Step 9: Customising the Marketing Mix: An In-depth Approach**

1. **Implications for Marketing Mix Decisions**

Marketing was initially conceptualized as a toolbox designed to optimize product sales, with marketers mixing the "ingredients" within this toolbox to achieve the best possible sales results (Dolnicar and Ring, 2014). Early marketing theorist Borden (1964) identified twelve key ingredients for this toolbox: product planning, packaging, physical handling, distribution channels, pricing, personal selling, branding, display, advertising, promotions, servicing, and fact-finding and analysis. Over time, these elements have been streamlined, with McCarthy (1960) introducing the widely accepted model of the 4Ps: Product, Price, Promotion, and Place.

Market segmentation is a fundamental aspect of strategic marketing and is closely intertwined with positioning and competition strategies. Rather than being a standalone tactic, market segmentation is part of the segmentation-targeting-positioning (STP) approach, which involves a sequential process. This process starts with market segmentation—identifying, profiling, and describing market segments. It is followed by targeting, where segments are assessed, and one or more are selected as the focus. Finally, positioning entails developing measures to ensure that the product is perceived as distinctly different from competing products and aligns with the needs of the target segment (Lilien and Rangaswamy, 2003).

Understanding market segmentation as the initial step in the STP approach is beneficial because it ensures integration with other strategic marketing decisions. However, the process is not strictly linear; revisiting segmentation and targeting steps may be necessary before making a long-term commitment to specific target segments.

1. **Customising the Marketing Mix**

Once target segments are identified, customising the marketing mix to these segments is essential. The traditional 4Ps—Product, Price, Place, and Promotion—serve as a foundation for this discussion.

1. **Product**

A critical decision in developing the product aspect of the marketing mix is specifying the product based on customer needs. This often involves modifying an existing product rather than creating an entirely new one. Other decisions include naming the product, packaging, offering warranties, and providing after-sales support services. For instance, if targeting a segment interested in cultural activities, the product might be packaged to highlight local museums and monuments, possibly including an activities pass to enhance the experience.

In the context of the Australian vacation activities dataset, a destination with a rich cultural heritage targeting segment 3 (interested in museums, monuments, and scenic walks) could develop a product bundle like "MUSEUMS, MONUMENTS & MUCH, MUCH MORE." This product could help visitors locate and engage with activities of interest, aligning with their vacation preferences.

1. **Price**

Pricing decisions include setting product prices and determining discount structures. Understanding the spending behavior of the target segment is crucial for making these decisions. For example, analyzing vacation expenditures of segment 3 tourists revealed that they spend more per day compared to other tourists. This insight suggests that products targeting this segment could be priced at a premium rather than at a discounted rate. The analysis process involves data extraction and segmentation, providing valuable insights into consumer behavior and preferences.

1. **Place**

The place dimension of the marketing mix focuses on how the product is distributed to customers. Key decisions include whether the product should be available online, offline, or both, and whether the manufacturer should sell directly to customers or through wholesalers or retailers. Understanding the booking preferences of the target segment is crucial. For instance, segment 3 tourists primarily book accommodations online. Therefore, ensuring that the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product is bookable online would be essential. Visualizing booking behaviors using tools like propBarchart can help identify the most effective distribution channels.

1. **Promotion**

Promotion involves developing advertising messages that resonate with the target market and identifying the most effective communication channels. Other promotional tools include public relations, personal selling, and sponsorship. To effectively promote to segment 3, understanding their preferred information sources and media channels is vital. For example, if segment 3 relies heavily on tourist information centers and has a preference for specific TV channels, promotional efforts should focus on these mediums. This ensures that the communication message reaches the target audience effectively.

1. **Integrating Market Segmentation with Marketing Mix Decisions**

Structuring market segmentation analysis around one of the 4Ps can guide the choice of segmentation variables. For example, if segmentation analysis is undertaken to inform pricing decisions, variables like price sensitivity and deal proneness are suitable. Similarly, for advertising decisions, variables such as benefits sought, lifestyle segmentation, and psychographics are useful. When focusing on distribution decisions, store loyalty and patronage are valuable segmentation variables.

However, market segmentation analysis is typically not conducted with one specific P in mind. Instead, insights from the detailed description of the target segment guide the overall development or adjustment of the marketing mix. The goal is to ensure that all elements of the marketing mix align with the preferences and behaviors of the target segment.

1. **Practical Application: Australian Vacation Activities Dataset**

The Australian vacation activities dataset provides a practical example of how market segmentation can drive marketing mix decisions. For instance, segment 3 tourists exhibit distinct preferences for cultural activities, which informs product development strategies. Additionally, their higher vacation expenditures suggest potential for premium pricing. Their preference for online booking indicates the importance of having an online distribution channel. Finally, their reliance on tourist information centers and specific TV channels guides promotional strategies.

1. **Conclusion**

Customising the marketing mix to target segments is essential for maximizing the benefits of market segmentation. By integrating segmentation insights into product development, pricing strategies, distribution choices, and promotional activities, organisations can effectively position their products in the market. This approach ensures that products meet the needs of specific consumer groups, enhancing their appeal and driving sales. The flexibility of the STP approach allows for iterative adjustments, ensuring alignment with market dynamics and consumer behavior.