

# **Market Segmentation Analysis**

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

- Segmentation is a long-term strategy, not something to try and abandon quickly.
- Only segment if the expected benefits outweigh the cost and effort involved (like new products, messaging, packaging, etc.).
- Leadership support is essential without senior buy-in and resources, the strategy may fail.
- Company culture matters openness to change and collaboration across departments is needed.
- Missing skills or poor planning can become major barriers to success.

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

### **4.1 Segment Evaluation Criteria**

- Decide who the ideal customer is before choosing segments.
- Use two types of criteria:
  - Knock-out criteria: Must-have traits (e.g., size, reachability, internal similarity).
  - Attractiveness criteria: Help compare and rank viable segments based on factors like fit, growth, and profit potential.

### **4.2 Knock-Out Criteria**

- Segments must be:
  - Big enough to justify targeting,
  - Internally similar and externally different,
  - Reachable and identifiable,
  - Aligned with the company's strengths.

### **4.3 Attractiveness Criteria**

- Used to score and rank segments (not a yes/no filter).
- Segments are evaluated on how well they meet selected factors (e.g., profitability, fit, size, risk).

## **4.4 Implementing a Structured Process**

- Use a segment evaluation plot to compare attractiveness vs. company strength.
- Select and weight 5–6 key evaluation criteria.
- Involve different departments to ensure alignment and diverse input.
- Set evaluation criteria early, so the right data is collected and used later.

## **Step 3: Collecting Data**

### **5.1 Segmentation Variables**

- Segmentation variables divide the market (e.g., behavior or needs).
- Descriptor variables describe segments (e.g., age, income).
- Good data quality is essential for accurate segmentation.
- Use data from surveys, purchases, observations, or experiments — behavior data is often more reliable.

### **5.2 Segmentation Criteria (Types)**

#### **5.2.1 Geographic**

- Based on location (e.g., region, country).
- Easy to apply but doesn't always reflect true customer needs.

#### **5.2.2 Socio-Demographic**

- Based on age, gender, income, etc.
- Easy to collect but explains only a small part of consumer behavior.

#### **5.2.3 Psychographic**

- Based on values, interests, beliefs, or motivations.
- More powerful but harder to measure and segment accurately.

#### **5.2.4 Behavioral**

- Based on actual behavior (e.g., purchases, frequency, spending).

- Highly useful but data may be hard to get for new customers.

## **5.3 Data from Survey Studies**

### **5.3.1 Choice of Variables**

- Include only necessary variables — avoid irrelevant or duplicate ones.
- Use qualitative research to guide question development.

### **5.3.2 Response Options**

- Binary and metric response types are most suitable for segmentation.
- Ordinal data (e.g., Likert scales) is less precise unless handled carefully.
- Slider scales (visual analogue) are a good modern alternative.

### **5.3.3 Response Styles**

- Watch out for biases like always agreeing or choosing extremes.
- These can distort the segments, so use neutral wording and double-check results.

### **5.3.4 Sample Size**

- Too small a sample leads to poor results.
- General rules:
  - At least 60× number of variables for standard cases.
  - 100× number of variables for best accuracy.
- Clean, relevant, and well-structured data improves outcomes more than sheer size.

## **5.4 Data from Internal Sources**

- Includes sales records, loyalty data, online purchases, etc.
- Reflects real behavior and requires no extra effort to collect.
- However, it often only covers existing customers — not future prospects.

## **5.5 Data from Experimental Studies**

- Comes from lab/field tests (e.g., ad responses, choice experiments).
- Helps segment based on how people react to different features or messages.
- Great for understanding preference and decision-making.