

Summary of Steps 1, 2 and 3 of Market Segmentation

Step 1: Deciding (not) to Segment

Implications of Committing to Market Segmentation

Commitment to a market segmentation strategy will mean long-term commitment and high resource allocation as well as significant organizational changes in most cases. This cannot be a short-term strategy rather, it impacts what one does in the realm of product development, pricing, distribution, and communication.

Implementation Barriers

Some of the major obstacles to the introduction of market segmentation are:

- lack of leadership support
- resistance to organizational change
- inadequate training and resources
- financial constraints
- and poorly defined objectives.

It has to be led by top management with regular communication throughout the firm, supported by an adapted structure that is focused on markets. The success of the system will be determined by overcoming barriers like resource limitation, resistance to change, and lack of leadership buy-in, which will require careful planning and a dedicated team for effective implementation and long-term benefits.

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.

- if the organisation's culture is market-oriented
- if the organisation takes a long-term perspective.
- if the organisation has sufficient financial resources to support a market segmentation strategy.
- if the organisation is open to new ideas.

Step 2: Specifying the Ideal Target Segment

Segment Evaluation Criteria

One of the most important parts in market segmentation is identifying the correct target market, which must be involved at all stages rather than just the initial or final stages. Two categories that organisations must set include knock-out criteria and attractiveness criteria to ensure segments meet goals and resources.

Knock-Out Criteria

These are strict criteria to identify whether a segment can qualify for further study. Among the general criteria, the most common include substantiality, meaning the size of the segment is viable; measurable, accessible, homogeneous, unique, organizational capability, identifiable, and reachable. It is through these sieves that one narrows down the segmentation process in order to identify only the relevant and compatible ones to be used in further studies.

Attractiveness Criteria

After qualifying segments with knock-out criteria, attractiveness criteria determine how appealing a segment is, not on a yes-no basis but on a scale. Key factors generally involve growth potential, profitability, the competitive landscape, and whether it aligns with the organizational goals. With the rating of the criteria by an organization, they will know which segment has the most strategic value.

Implementing a Structured Process

Using a structured process for evaluating segments is essential. A common approach is mapping segment attractiveness against the organization's competitive position within that segment. Limiting the focus to around six key factors helps maintain clarity. Involving a cross-functional team from different departments ensures diverse insights, which contributes to more balanced and effective decision-making for later targeting.

Step 3: Collecting Data

Segmentation Variables

Data collection is crucial in segmentation, including segmentation variables that define groups and descriptor variables that provide more detailed information about each segment. Good segmentation relies on empirical data for the proper assignment of people and description of segments in marketing efforts.

Segmentation Criteria

Choosing effective segmentation criteria—geographic, socio-demographic, psychographic, or behavioral—is essential, aligning with market knowledge and product needs.

Geographic Segmentation: Targets customers by location (e.g., country, region), useful for products with location-specific demand, often using government demographic data.

Socio-Demographic Segmentation: Uses traits like age, gender, and income for broadly applicable insights into population characteristics.

Psychographic Segmentation: Focuses on lifestyle, values, and personality, offering a psychological perspective on purchasing behavior.

Behavioral Segmentation: Examines buying frequency, loyalty, and usage patterns, utilizing CRM and sales data for actionable insights.

Data from various sources

Survey studies differ in influencing the outcome of segmentation because they are available from different sources and in market segmentation.. Design of the survey, options of response, and sample size are crucial factors in producing quality data.

Internal Sources: Sale records and customer information yield the exact behavioural insights, thereby allowing proper segmentation.

Experimental Studies: Controlled settings, such as A/B testing, are helpful in determining consumer responses to certain variables, revealing behaviors that are not normally observed.

All sources of data have strengths and weaknesses that affect the effectiveness as well as the accuracy of segmentation.

Summary of Step 9 of Market Segmentation

Step 9: Customising the Marketing Mix

Implications for Marketing Mix Decisions

Market segmentation is integral to the marketing mix and aligns closely with the Segmentation-Targeting-Positioning (STP) framework. This approach involves:

Segmentation: Identifying and profiling distinct market segments.

Targeting: Assessing and selecting specific segments to focus on.

Positioning: Ensuring products are distinct and meet segment needs.

The choice of target segments influences the customization of the 4Ps—Product, Price, Place, and Promotion:

Product: Key pricing decisions include setting product prices and offering discounts. Analysis of segment-specific expenditure can reveal willingness to pay, allowing for premium pricing or necessary discounts. For example, higher spenders may accept premium prices without needing discounts.

Price: Distribution strategies should match customer booking preferences, such as online or offline channels. Segment-specific booking data enables optimized channel selection. For instance, if segment members prefer online booking, a strong online distribution presence is essential.

Place: Effective promotion requires aligning advertising and information channels with segment preferences. For instance, understanding which information sources (e.g., tourist centers, specific TV channels) segments use helps target advertising, such as providing hard copies of product information at tourist centers or ads on preferred TV channels.

Promotion: Developing communication strategies that resonate with segment values and needs.

Checklist for Customizing the Marketing Mix:

- Assemble the segmentation team to review target segment profiles.
- Design product, pricing, placement, and promotion strategies tailored to the segment.
- Ensure each component of the marketing mix aligns with segment needs.
- If targeting multiple segments, repeat and refine these steps for compatibility across segments.
- Present the customized marketing mix for review and approval.

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