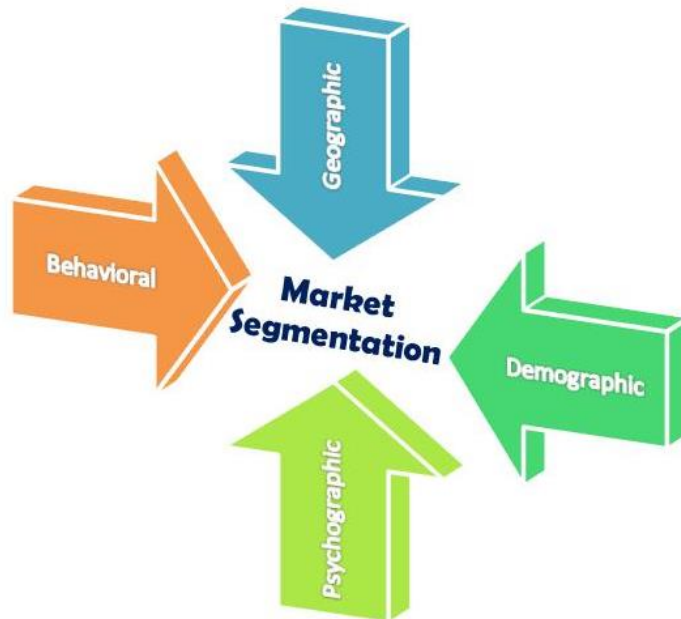ASSESSMENT ON

MARKET SEGMENTATION ANALYSIS

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Step 1: Deciding (not) to Segment

1.1) Implications of Committing to Market Segmentation

- Market segmentation is a powerful marketing strategy used by organizations, but it's important to consider its implications before investing time and resources in it.
- Implementing a market segmentation strategy requires a long-term commitment from the organization.
- It involves making significant changes and investments, such as conducting research, designing new products or modifying existing ones, adjusting pricing and distribution channels, and adapting communication messages.
- These changes can also impact the internal structure of the organization. To maximize the benefits of market segmentation, it's recommended to organize around market segments rather than products.
- This decision should be made at the highest executive level and effectively communicated and reinforced throughout the organization.
- In summary, market segmentation is a serious commitment that requires careful consideration and ongoing support from the entire organization.

1.2) Implementation Barriers

Implementing a market segmentation strategy can face various barriers that can hinder its success. These barriers can be grouped into several categories. The first category relates to senior management, where lack of leadership, commitment, and involvement in the segmentation process can undermine its implementation. Insufficient allocation of resources by senior management can also hinder the strategy's success.

The second category of barriers is related to organizational culture. Factors such as a lack of market orientation, resistance to change, poor communication, and short-term thinking can impede the successful implementation of market segmentation. Lack of training and understanding of segmentation principles among senior management and the segmentation team can also lead to failure. Additionally, the absence of a formal marketing function or qualified marketing experts can be a major obstacle.

Objective restrictions, such as limited financial resources or the inability to make necessary structural changes, can pose challenges for organizations. Process-related barriers include unclear objectives, inadequate planning, lack of structured processes, and time pressure, which can hinder the segmentation process.

At an operational level, the reluctance to use unfamiliar techniques or lack of understanding can be a barrier. To overcome this, market segmentation analysis should be

made easily understandable, and results should be presented in a way that managers can interpret.

Identifying these barriers early on is important, and efforts should be made to proactively remove or address them. If barriers cannot be overcome, it may be necessary to consider abandoning the pursuit of market segmentation as a future strategy. If proceeding with segmentation, a resolute sense of purpose, dedication, patience, and an understanding of the challenges involved are recommended.

Step 2: Specifying the Ideal Target Segment

2.1) Segment Evaluation Criteria

In market segmentation analysis, the third layer heavily relies on user input, which is essential for producing useful results for an organization. User input should not be limited to the beginning and end of the process but should be involved in most stages of the analysis. After committing to exploring segmentation in Step 1, the organization plays a significant role in Step 2 by providing conceptual contributions. This contribution guides subsequent steps, particularly data collection (Step 3) and selecting target segments (Step 8). In Step 2, the organization determines two sets of segment evaluation criteria. The first set, known as knock-out criteria, includes non-negotiable features that segments must possess to be considered for targeting. The second set, called attractiveness criteria, is used to evaluate the relative attractiveness of the remaining segments that meet the knock-out criteria. The literature offers various segment evaluation criteria, which are presented in Table 4.1. These criteria can be categorized into knock-out criteria and attractiveness criteria. Knock-out criteria are essential and not open for negotiation, while attractiveness criteria serve as a "shopping list" for the segmentation team. The team selects the specific attractiveness criteria to assess the attractiveness of potential target segments and determines their relative importance to the organization. Knock-out criteria automatically eliminate some segments, while attractiveness criteria are negotiated and applied in Step 8 to determine the overall relative attractiveness of each market segment. Overall, user input plays a crucial role in shaping the evaluation criteria and assessing the attractiveness of potential target segments throughout the segmentation analysis process.

2.2) Knock-Out Criteria

Knock-out criteria are used to determine if market segments meet essential requirements for further assessment. Some suggested knock-out criteria include:

- ✓ Homogeneity: Members of the segment should be similar to each other.
- ✓ Distinctiveness: Members of the segment should be significantly different from members of other segments.
- ✓ Size: The segment should be large enough to justify customization efforts.

- ✓ Alignment with organizational strengths: The organization should have the ability to meet the needs of segment members.
- ✓ Identifiability: The segment should be identifiable within the marketplace.
- ✓ Reachability: There should be a means to connect with segment members and make customized marketing accessible to them.

Senior management, the segmentation team, and the advisory committee should understand these knock-out criteria. While most criteria are straightforward, specific details may need to be determined, such as the minimum viable size for a target segment. In summary, knock-out criteria help determine if market segments meet fundamental requirements, ensuring that only viable segments proceed to further evaluation and customization efforts.

2.3) Attractiveness Criteria

In addition to knock-out criteria, Table 4.1 provides a wide range of segment attractiveness criteria. Unlike knock-out criteria, attractiveness criteria are not binary. Market segments are not simply classified as compliant or non-compliant with these criteria. Instead, each segment is rated on its attractiveness relative to specific criteria. The overall attractiveness, considering all criteria, determines whether a segment is selected as a target in Step 8 of the market segmentation analysis.

2.4) Implementing a Structured Process

A structured approach is recommended for evaluating market segments, with a popular method being the use of a segment evaluation plot. This plot assesses segment attractiveness and organizational competitiveness. However, the specific criteria used for evaluation vary between organizations and need to be determined through negotiation and agreement. It is beneficial to involve representatives from different organizational units in the evaluation process. Their diverse perspectives and stakeholder status ensure a comprehensive analysis. The segment evaluation plot cannot be completed in Step 2 since no segments are available yet, but selecting attractiveness criteria early helps guide data collection (Step 3) and makes segment selection (Step 8) easier. The market segmentation team should finalize approximately six segment attractiveness criteria, assigning weights to indicate their relative importance. This is typically achieved through team members allocating points to the criteria and negotiating until agreement is reached. Seeking approval from the advisory committee, which represents various organizational units, enhances the comprehensive and diverse nature of the evaluation process.

Step 3: Collecting Data

3.1) Segmentation Variables

In market segmentation, empirical data is used to identify and describe market segments. Commonsense segmentation relies on a single characteristic (such as gender) as the segmentation variable to split the sample into segments. Other characteristics serve as descriptor variables, providing detailed information about the segments. Data-driven segmentation, on the other hand, uses multiple segmentation variables to identify naturally existing or artificially created market segments. These variables serve as the starting point for segment identification. Descriptor variables, including socio-demographics and behavioural information, are used to describe the segments. The quality of empirical data is crucial for developing valid segmentation solutions. It ensures accurate assignment of individuals to segments and enables effective customization of products, pricing strategies, distribution channels, and advertising. Empirical data for segmentation studies can come from various sources, such as surveys, observations (e.g., scanner data), and experimental studies. While surveys are common, they may not always accurately reflect behaviour, especially for socially desirable actions. Therefore, exploring different data sources that closely reflect actual consumer behaviours is important for reliable market segmentation analysis.

3.2) Segmentation Criteria

Before extracting segments and collecting data, organizations must decide on the segmentation criterion to use. The segmentation criterion refers to the type of information used for market segmentation. Common criteria include geographic, socio-demographic, psychographic, and behavioural factors. The decision of which criterion to use requires market knowledge and cannot be easily delegated to consultants or data analysts. While various segmentation criteria are available, it is generally recommended to choose the simplest approach that aligns with the marketing context. The goal is to find the most effective criterion that works for the product or service at the lowest cost. The key is to focus on what works for the specific product or service, whether it's demographic, geographic, or psychographic segmentation. It's not about choosing the most sophisticated criterion but rather the one that suits the product or service best.

3.2.1) Geographic Segmentation

Geographic segmentation is one of the original and simplest criteria used for market segmentation. It involves dividing consumers based on their location of residence. For example, neighbouring countries may be treated as different segments due to language differences or specific market needs. Geographic segmentation allows for targeted communication and selection of appropriate channels based on the geographic segments. However, the main disadvantage of geographic segmentation is that living in the same area

does not necessarily mean consumers share other relevant characteristics, such as their preferences or desired benefits from a product. Preferences can vary even within the same geographic location. For example, people residing in luxury suburbs may have different product preferences based on socio-demographic factors rather than their location alone. Despite its limitations, geographic segmentation has gained attention in international market segmentation studies aiming to extract segments across geographic boundaries. This approach poses challenges, as segmentation variables need to be meaningful across different regions and biases can arise from surveys completed by respondents from diverse cultural backgrounds. In summary, geographic segmentation offers advantages in targeting communication but should be complemented with additional criteria to capture diverse consumer preferences within a geographic segment.

3.2.2) Socio-Demographic Segmentation

Socio-demographic segmentation criteria, such as age, gender, income, and education, are commonly used in marketing. They can be valuable in industries like luxury goods, cosmetics, baby products, retirement villages, and tourism resorts. Socio-demographic criteria have the advantage of easily determining segment membership for consumers. However, socio-demographic factors may not always provide sufficient insight into consumers' product preferences. While certain preferences may be linked to socio-demographic characteristics (e.g., having children influencing vacation choices), in many cases, preferences are influenced by other factors. Studies suggest that demographics explain only a small portion of consumer behaviour, estimated to be around 5%. Instead, values, tastes, and preferences are often considered more influential in consumers' buying decisions. In summary, while socio-demographic segmentation can be useful in certain contexts, it is important to consider additional factors, such as values and preferences, to make optimal segmentation decisions.

3.2.3) Psychographic Segmentation

Psychographic segmentation involves grouping people based on their psychological criteria, such as beliefs, interests, preferences, aspirations, or benefits sought when making a purchase. Benefit segmentation and lifestyle segmentation are popular forms of psychographic segmentation. Psychographic criteria are more complex than geographic or socio-demographic criteria because they require multiple variables to capture the psychological dimension of interest, such as travel motives or perceived risks. The advantage of psychographic segmentation is that it provides deeper insights into the underlying reasons for consumer behaviour. For example, understanding the primary motivation of tourists to learn about other cultures can help create tailored cultural holiday experiences. However, determining segment membership based on psychographic criteria can be more challenging, and the effectiveness relies on reliable and valid measures to capture the psychological dimensions of interest. In summary, psychographic segmentation

offers valuable insights into consumer behaviour but requires careful consideration of multiple variables and the quality of the measures used.

3.2.4) Behavioural Segmentation

Behavioural segmentation involves grouping people based on their actual behaviours or reported behaviours, such as prior product experience, purchase frequency, amount spent, and information search behaviour. Using behavioural data as segmentation variables allows for direct identification of similarities in relevant behaviours. The advantage of behavioural segmentation is that it focuses on the behaviour of interest and groups individuals based on the behaviours that matter the most. It eliminates the need for developing measures for psychological constructs. Studies have shown that behavioural variables can be superior to geographic variables in segmentation analyses. However, obtaining behaviour data may not always be easy, especially when targeting potential customers who have not previously purchased the product. This approach is often used when studying existing customers rather than including new potential customers. In summary, behaviour segmentation offers the advantage of using actual behaviour as the basis for segment extraction, but the availability of behaviour data can be a limitation, particularly when targeting non-customers.

3.3) Data from Survey Studies

Using survey data for market segmentation is common due to its affordability and convenience. However, it has limitations. Biases can affect the data, such as respondents providing socially desirable answers or inaccurate recollections. The sample should be representative, and survey questions must accurately measure the intended constructs. Self-reported data may not always reflect actual behavior, and non-response bias can skew results. Awareness of these issues and careful survey design are crucial for reliable and valid segmentation analysis.

3.3.1) Choice of Variables
 The choice of variables in market segmentation is crucial for the quality of the results. In data-driven segmentation, all relevant variables should be included, while unnecessary ones should be avoided to prevent respondent fatigue and information overload. Unnecessary variables, known as noisy or masking variables, can hinder the identification of accurate market segments. Careful survey design, including only necessary and unique questions, is important to avoid noisy variables. Redundant questions and items should be minimized to ensure accurate segment extraction. Exploratory research helps in developing a good questionnaire, combining qualitative and quantitative approaches to capture all critical variables.

3.3.2) Response Options
The options provided to respondents in surveys determine the type of data obtained, which affects the suitability for segmentation analysis. Binary options generate binary data, while unordered categories correspond to nominal variables. Numeric responses, like age,

produce metric data suitable for analysis. The most common response format is a limited number of ordered options, generating ordinal data. Binary or metric options are preferred for segmentation analysis to avoid complications with distance measures. Visual analogue scales can capture fine nuances and provide metric data. Binary options often outperform ordinal options in terms of accuracy.

3.3.3) Response Styles

Survey data can be influenced by biases and response styles, leading to inaccurate segmentation results. Response biases are systematic tendencies to respond in a particular way, independent of the item content. Response styles, such as extreme or midpoint preferences, can impact the data. Common segmentation algorithms cannot distinguish between true beliefs and response styles, potentially distorting segment characteristics. It is crucial to minimize the capture of response styles in survey data for accurate market segmentation. Additional analyses or the exclusion of respondents displaying response styles may be necessary to ensure reliable segmentation outcomes.

3.3.4) Sample Size

The sample size in market segmentation analysis plays a crucial role in determining the accuracy of the segmentation results. Insufficient sample sizes can make it difficult to determine the correct number and nature of market segments. Recommendations for sample sizes vary depending on the number of segmentation variables and the complexity of the data. Generally, a sample size of at least 60 to 70 times the number of segmentation variables is recommended. Factors such as unequal segment sizes, segment overlap, and correlations between variables can affect the accuracy of segment extraction. Increasing the sample size can improve segment recovery, but the extent of improvement depends on the specific market and data characteristics. Correlated variables are particularly challenging, and increasing the sample size may not compensate for their impact. To ensure reliable segmentation results, it is important to have high-quality data with all necessary items and no unnecessary or correlated items. The data should also be free from response biases and styles. Binary or metric response options are preferable for accurate analysis. A sample size of at least 100 respondents per segmentation variable is recommended to achieve reliable results. In summary, conducting market segmentation analysis requires careful consideration of data quality and sample size to obtain meaningful and accurate segmentation results.

3.4) Data from Internal Sources

Organizations now have access to large amounts of internal data that can be used for market segmentation analysis. This data, such as scanner data from grocery stores or booking data from airline loyalty programs, reflects actual consumer behavior rather than self-reported information. This provides more reliable insights into consumer preferences and purchasing patterns. The advantage of using internal data is that it is readily available and does not require additional data collection efforts. However, a potential drawback is that the data may be biased towards existing customers, overlooking potential target

segments that differ from current customers in their consumption patterns. Therefore, while internal data can provide valuable insights, organizations should be cautious and consider supplementing it with external data sources to ensure a comprehensive understanding of the market and potential customer segments.

3.5) Data from Experimental Studies

Experimental data, whether obtained through field or laboratory experiments, can serve as another valuable source for market segmentation analysis. These data can be generated by testing people's responses to various advertisements or by conducting choice experiments and conjoint analyses. In these studies, consumers are presented with different product attributes and asked to indicate their preferences. The information obtained from these experiments can be used as segmentation criteria to understand how different attributes and attribute levels influence consumer choices.