DEFINING THE FOCAL MARKET: MARKET SEGMENTATION

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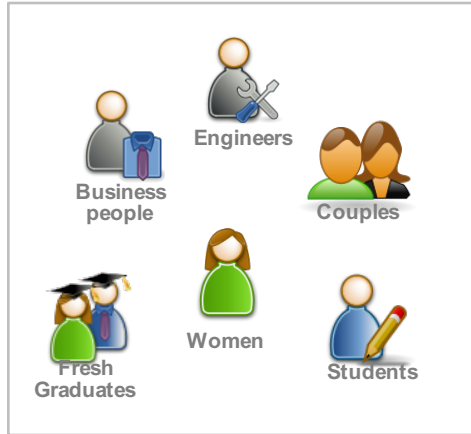
Wharton
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ONLINE

Market Segmentation

1 Why segment?

2 How to segment?

3 How to prioritize?

Business people

Engineers

Couples

Women

Fresh Graduates

Students

Source: Wikimedia Commons

?

Why do you want to segment the market?

- Segmenting helps because it enables you to make clear prioritization choices

- Segmenting helps you manage your limited resources

Your ultimate goal…

- …**to identify your 'focal market'** - that group of customers to whom you want to sell your product[1]

- …**to understand** and **to serve** your target market's needs and behaviors **better than your competition**
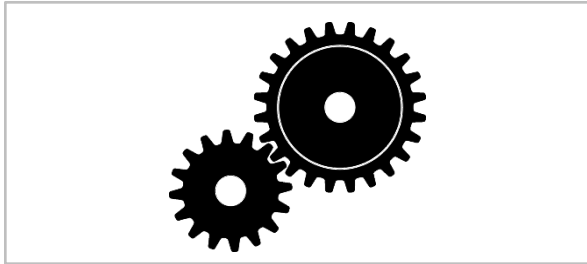
1) Product for this presentation means "product", "service", or "solution"

Before you segment, it is helpful to know your starting point…

1 Product

*"**find a market segment for an existing product / idea**"* → *e.g. find a market willing to pay for your product / idea*

Source: Wikimedia Commons

Clear Feature set, cost structure

Unclear **Unclear if market will pay** for product

2 Market

*"**find a product / idea for an identified market segment**"* → *e.g. find a product to sell to an identified market segment*

Source: Wikimedia Commons

Clear customer with pain points

Need to define value proposition to meet customer needs

Ultimately you need to be able to articulate these things about your focal segment…

- **Describe your segment** in terms of a 'typical' customer / buyer

- **Have a perspective** on Size, Value, & Growth
  - How big is the segment? How quickly is it changing? How profitable is the segment?

- **Activate** your focal segment
  - Ultimately you have to be able to deliver – i.e. provide products or services to your segment

Knowing your customer is tricky but absolutely critical

Focus on the 3 W's:

1 **Who buys:**

- What does the customer look like?
- What are their behaviors?
- What are their needs / pain points?

2 **What product do they buy today?**

- What is it that they buy today and why?

3 **Why do you think they would buy your product tomorrow?**

- Why would they switch?

Building a view on how to segment: you have a few options…

Some popular ways to segment…

Demographics

Based on demographic profiles

(gender, age, etc.)

Behaviors

Based on the how your customers act

(routines, usage patterns, etc.)

Needs

Based on what your customers need

(or alternatively their pain points)

Can use one or a combination of the above

How to compare segments

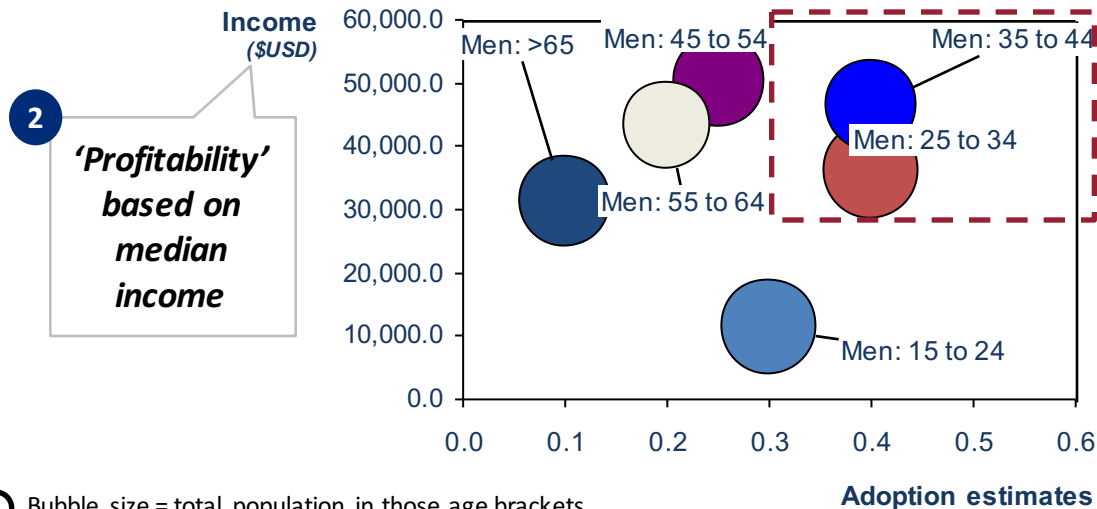## *How do you compare different segments? How do you choose between them?*

- Traditional way is to look at size, growth, profitability

An example…

Men's beard care innovation. What might segmentation tell you?

1

Situation: You have a beard trimming innovation, allows customers to professionally groom their facial hair…

Questions: How to define profitability? How to define "growth"? What might you find?

2

Income ($USD)

'Profitability' based on median income

Men: >65   Men: 45 to 54   Men: 35 to 44

Men: 25 to 34

Men: 55 to 64

Men: 15 to 24

Adoption estimates

Bubble size = total population in those age brackets

Overall example and data (US Census estimates) purely for concept clarification purposes

4

Interesting Takeaways:
- Segments look similar in population
- Income levels (mostly) in top half
- Growth rates vary

Possible Next Steps:
- 'Zoom' into top two segments and further sub-segment based on (for example) urban vs. rural, behavior, etc.

3

"Growth" based on perceived adoption rates of facial hair (probably need to estimate)

How actionable is your focal segment?

- Once you have segmented the market you need to decide / check that your ideal segments are actionable

- Actionable means that you can serve them – you know how to make and get to them something they want

Summary: Market Definition

Key points:

- Segment the overall market to enable you to make **prioritization choices and ultimately choose one (or more) focal segments**

- Once attractive focal segments have been defined, ensure that they are actionable

The purpose of segmenting is to identify your 'target market'

1 Your 'target market' is that group of customers to whom you want to sell your product[1]

2 Your target market can range from very broad to very specific…

Broad	Specific
All men…	All men..
…any age…	…over the age of 30…
…that live anywhere…	…that live in urban settings…
…that have or don't have facial hair…	…with beards…
…that work anywhere…	…that work in an office environment…

Let's stick with this example

1) Product for this presentation means "product", "service", or "solution"

How to Define the Market Landscape

- Regardless of your approach (customer first or product first) you must decide who are you targeting…