

STEP 1

The provided information discusses the implications and barriers of committing to a market segmentation strategy. Market segmentation involves dividing a market into distinct groups based on similar characteristics to effectively target and cater to specific customer segments. However, pursuing market segmentation requires long-term commitment and substantial investments.

Implications of Committing to Market Segmentation:

1. Long-term commitment: Market segmentation is a long-term strategy that requires ongoing dedication and resources from the organization.
2. Costs: Implementing market segmentation involves expenses such as research, surveys, focus groups, designing multiple packages and advertisements, and communication messages.
3. Changes in products, pricing, distribution, and communication: Pursuing market segmentation may necessitate developing new products, modifying existing ones, adjusting pricing and distribution channels, and adapting communication strategies.
4. Organizational adjustments: Market segmentation can influence the internal structure of the organization, potentially requiring adjustments to align with the targeted market segments.
5. Organizing around market segments: To maximize the benefits, organizations are recommended to organize themselves around market segments rather than products, focusing on the changing needs of different segments.

Implementation Barriers:

1. Senior management: Lack of leadership, commitment, and involvement from senior management can undermine the success of market segmentation.
2. Insufficient resources: If senior management does not allocate enough resources for market segmentation analysis and implementation, the strategy may not succeed.
3. Organizational culture: Factors such as a lack of market or consumer orientation, resistance to change, poor communication, and unwillingness to make necessary changes can hinder successful implementation.
4. Lack of training and expertise: If the team responsible for segmentation lacks understanding or awareness of market segmentation principles and consequences, the strategy is likely to fail.
5. Lack of formal marketing function and qualified experts: Organizations benefit from a formal marketing function or qualified marketing experts to ensure effective implementation. The absence of a qualified data manager and analyst can also pose challenges.
6. Objective restrictions: Lack of financial resources or the inability to make required structural changes can limit the implementation of market segmentation.
7. Process-related barriers: Unclear objectives, inadequate planning, lack of structured processes, poor allocation of responsibilities, and time pressure can hinder the segmentation process.

8. Difficulty in understanding and accepting techniques: Management's lack of understanding or acceptance of market segmentation techniques can impede successful implementation.

In summary, committing to market segmentation involves long-term dedication, costs, organizational adjustments, and changes in products and communication. Implementation barriers can arise from senior management, organizational culture, lack of training and expertise, resource limitations, and process-related challenges. Overcoming these barriers requires a resolute sense of purpose, dedication, and proactive problem-solving.

STEP 2

In market segmentation analysis, the third layer involves user input, emphasizing the importance of user involvement throughout the process. In Step 2, the organization contributes to the analysis by determining two sets of segment evaluation criteria: knock-out criteria and attractiveness criteria.

Knock-out criteria are essential, non-negotiable features that segments must possess to be considered as potential targets. These include criteria such as segment homogeneity, distinctiveness, size, compatibility with the organization's strengths, identifiability, and reachability.

Attractiveness criteria, on the other hand, are used to evaluate the relative attractiveness of remaining segments that meet the knock-out criteria. Table 4.1 provides a range of proposed attractiveness criteria from the literature, which can vary depending on the organization's context. These criteria assess factors such as segment size, growth, profitability, competition, technological factors, socio-political factors, and fit with the company's objectives.

Implementing a structured process for segment evaluation is recommended. One popular approach is the use of a segment evaluation plot, with segment attractiveness plotted on one axis and organizational competitiveness on the other. The values for attractiveness and competitiveness are determined based on agreed-upon criteria. The core segmentation team, along with representatives from different organizational units, should be involved in this process to ensure diverse perspectives and stakeholder engagement.

Selecting approximately six segment attractiveness criteria with assigned weights indicating their importance to the organization is a crucial outcome of this step. These criteria and their weights provide guidance for data collection (Step 3) and facilitate the selection of a target segment in Step 8.

Overall, involving users, determining knock-out and attractiveness criteria, and implementing a structured process enhance the effectiveness of market segmentation analysis and the identification of viable target segments.

STEP 3

Market segmentation is the process of dividing a larger market into smaller, distinct groups of consumers who have similar characteristics, needs, or preferences. It allows businesses to tailor their marketing strategies and offerings to specific segments, increasing the chances of success.

There are two main approaches to market segmentation: common sense segmentation and data-driven segmentation.

1. **Common sense Segmentation:** This approach uses a single characteristic of consumers, known as the segmentation variable, to divide the sample into market segments. For example, gender can be used as the segmentation variable, resulting in segments of women and men. Other personal characteristics, referred to as descriptor variables, are used to describe the segments in more detail. These can include age, travel behaviour, benefits sought, and socio-demographics. common-sense segmentation relies on intuitive knowledge and assumptions about consumer behaviour.
2. **Data-driven Segmentation:** In this approach, multiple segmentation variables are used to identify or create market segments. These variables serve as the starting point for segment identification. For example, instead of using gender alone, data-driven segmentation may consider multiple variables such as travel behaviour, benefits sought, and socio-demographics simultaneously. This approach aims to discover naturally existing or artificially created segments that are useful to the organization. Descriptor variables are still used to provide detailed descriptions of the resulting segments.

The quality of empirical data is crucial for developing valid segmentation solutions in both common sense and data-driven segmentation. The data should accurately represent consumer behaviour and can be collected through various sources such as surveys, observations, or experiments. However, survey data is the most common source for market segmentation studies.

Different segmentation criteria can be used depending on the organization's goals and the specific context. The most common criteria include geographic, socio-demographic, psychographic, and behavioural segmentation.

- **Geographic Segmentation:** Dividing consumers based on their location of residence. This criterion is useful when language differences or regional preferences play a significant role in consumer behaviour.
- **Socio-demographic Segmentation:** Using variables such as age, gender, income, and education to group consumers. Socio-demographic criteria are widely used but may not capture the underlying reasons for consumer behaviour.
- **Psychographic Segmentation:** Grouping consumers based on psychological characteristics, beliefs, interests, or benefits sought. This approach provides insights into the underlying motivations and preferences that drive consumer behaviour.
- **Behavioural Segmentation:** Segmenting consumers based on their actual behaviour, such as prior experience, frequency of purchase, or information search behaviour. Behavioural segmentation directly focuses on observed behaviour and can provide valuable insights.

When using survey data for segmentation studies, it is essential to carefully select variables and response options. Including necessary variables while avoiding unnecessary ones is

crucial. Response options should ideally be binary or metric to facilitate distance measures and accurate segmentation analysis.

3. Survey Data: Survey data is a commonly used source for market segmentation analysis. It is collected through surveys conducted with respondents. Surveys can provide information about consumer characteristics, behaviors, preferences, and attitudes. However, survey data can be prone to biases, such as response styles and social desirability bias. Careful selection of variables and response options is important for ensuring data quality in surveys.

4. Internal Data: Organizations can leverage their internal data, such as scanner data, booking data, or online purchase data, for market segmentation analysis. Internal data provides valuable insights into actual consumer behavior and purchasing patterns. However, internal data may be biased towards existing customers and may not capture information about potential new customers.

5. Experimental Data: Experimental data can be obtained from field or laboratory experiments. These experiments can involve testing consumer responses to advertisements, conducting choice experiments, or conjoint analyses to understand consumer preferences. Experimental data can provide valuable information for segmentation analysis, particularly in understanding consumer responses to specific stimuli and the impact of different product attributes on choice.

The information also highlights important considerations for data quality in market segmentation analysis, including the need for appropriate variable selection, avoiding noisy variables, addressing response biases and response styles, and ensuring an adequate sample size. The choice of segmentation criteria, such as geographic, socio-demographic, psychographic, or behavioral, should be based on the specific market context and the goals of the segmentation analysis.

Overall, the quality of empirical data plays a crucial role in developing valid segmentation solutions. Good data quality enables accurate identification and description of market segments, which in turn supports effective marketing strategies and communication targeting.