

# Steps of Market Segmentation Analysis

By

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Market segmentation is the process of dividing a broad consumer or business market, normally consisting of existing and potential customers, into sub-groups of consumers (known as segments) based on some type of shared characteristics. The goal is to identify segments that are likely to respond similarly to marketing strategies, allowing businesses to target these segments more effectively.

## Step 1: Deciding (not) to Segment

### I. Implications of Committing to Market Segmentation

- **Long-Term Commitment:** Market segmentation is a strategic decision requiring sustained investment and effort, not a short-term tactic.
- **Resource Implications:** Implementing segmentation involves costs for research, marketing changes, and potential organizational restructuring.

### II. Implementation Barriers

- **Lack of Leadership Support:** Without active involvement and commitment from senior management, segmentation efforts are unlikely to succeed.
- **Organizational Culture:** A company culture resistant to change or lacking market focus can impede segmentation implementation.
- **Internal Expertise:** The absence of marketing and data analysis expertise can make segmentation technically challenging.

### III. Step 1: Checklist

- This section outlines a decision-making tool to assess an organization's readiness for market segmentation.
- **Market Orientation Assessment:** Evaluates if the organization prioritizes understanding customer needs.
- **Change Readiness Assessment:** Gauges the organization's willingness to adapt and implement new strategies.
- **Long-Term Thinking Assessment:** Determines if the organization has a future-oriented perspective.

- **Communication and Openness Assessment:** Evaluates the flow of information and collaboration across departments.
- **Resource Availability Assessment:** Determines if the organization has the financial and personnel resources for segmentation.
- **Management Commitment Assessment:** Ensures senior leadership is visibly committed to segmentation and its long-term implications.

## Step 2: Specifying the Ideal Target Segment

### I. Segment Evaluation Criteria

- **Essential Qualifying Factors (Knock-Out Criteria):** These are non-negotiable characteristics that segments must possess to be viable targets. They act as a filter to eliminate unsuitable segments early in the process.
- **Comparative Analysis Criteria (Attractiveness Criteria):** These are factors used to assess and compare the remaining segments after the knock-out criteria have been applied. They help determine which segments are most desirable based on the organization's priorities.

### II. Knock-Out Criteria (What's the Bare Minimum)

- **Segment Homogeneity:** Members of the segment should share similar needs, wants, and behaviors.
- **Segment Distinctness:** Members of the segment should be clearly different from members of other segments.
- **Segment Size:** The segment should be large enough to be profitable after considering marketing and resource allocation costs.
- **Alignment with Organizational Strengths:** The organization must have the capabilities and resources to effectively serve the segment's needs.
- **Segment Identifiability:** The organization must be able to readily identify and distinguish members of the target segment.
- **Segment Reachability:** The organization must be able to communicate and deliver its marketing messages to the target segment through appropriate channels.

### III. Attractiveness Criteria (Choosing What's Most Important)

- **Diverse Range of Options:** The marketing literature offers a wide variety of potential criteria for evaluating segments. The table in the article provides examples such as growth potential, profitability, and competitive advantage.
- **Scale-Based Assessment:** Segments are not simply categorized as meeting or failing a criterion. Instead, they are rated on a scale based on how well they fulfill each attractiveness criterion.
- **Tailored Selection and Weighting:** The segmentation team chooses the attractiveness criteria that are most relevant to the organization's specific goals and assigns weights to each criterion based on its relative importance.

### IV. Implementing a Structure Process

- **Benefits of a Structured Process:** Following a systematic approach ensures a consistent and objective evaluation of potential target segments.
- **Segment Evaluation Plot:** This is a visual tool used in Step 8 to plot segments based on their attractiveness and the organization's competitiveness relative to those segments.
- **Early Criteria Selection:** Choosing the attractiveness criteria in Step 2 ensures data collection in Step 3 focuses on capturing relevant information to evaluate those criteria effectively.
- **Collaborative Input:** A core segmentation team takes the lead, but an advisory committee representing various departments provides a broader perspective and ensures buy-in from different stakeholders.

### V. Step 2: Checklist

- **Knock-Out Criteria Agreement:** The segmentation team and advisory committee come to a consensus on the essential characteristics required for target segments.
- **Attractiveness Criteria Selection:** The segmentation team narrows down the list of potential attractiveness criteria to a manageable number that best reflects the organization's priorities.
- **Weighting Attractiveness Criteria:** The team assigns a weight to each chosen attractiveness criterion, indicating its relative importance in the overall evaluation process.

- **Committee Review and Approval:** The advisory committee reviews the chosen attractiveness criteria and weightings, potentially suggesting adjustments to ensure alignment with organizational goals.

## Step 3: Collecting Data

### I. Understanding Data Sources:

- **Survey Studies:** The go-to method for many, but be aware of potential biases in responses.
- **Internal Data Sources:** Leverage existing customer data like purchase history or loyalty program info (represents actual behavior).
- **Experimental Studies:** Controlled studies on consumer behavior through techniques like conjoint analysis (reveals attribute preferences).

### II. Ensuring High-Quality Data:

- **Relevance:** Only include variables crucial for segmentation and avoid unnecessary ones.
- **Reliability:** Capture true consumer beliefs and behaviors, not influenced by response styles or biases.
- **Measurability:** Use clear and measurable scales like binary (yes/no), metric (numbers), or visual analogue scales.
- **Sample Size:** A larger sample provides clearer segmentation results. Aim for roughly 100 times the number of segmentation variables.

### III. Step 3: Checklist

- **Convene a Market Segmentation Team Meeting:** Discuss potential segmentation variables and the additional variables needed to describe the segments in detail.
- **Determine Data Collection Methods:** Choose the most suitable method(s) to capture both segmentation variables and descriptor variables effectively.
- **Design Data Collection with Minimized Bias:** Minimize contamination of data through biases and other sources of error.
- **Collect Data:** Implement your chosen data collection methods to gather the necessary information.

## Step 6: Profiling Segments:

### I. What is Segment Profiling?

- **Goal:** Identify the defining characteristics of each market segment derived in Step 5.
- **Process:** Compares each segment to the overall sample and to other segments across various variables used for segmentation.
- **Benefits:** Helps understand what makes each segment unique in terms of their needs, wants, and behaviors.

### II. Why is Segment Profiling Important?

- **Challenges of Traditional Methods (Tables):**
  - Large tables with percentages for each variable can be overwhelming and difficult to interpret.
  - Identifying key differences between segments requires extensive comparisons across numerous data points.
- **Advantages of Visualizations (Charts and Graphs):**
  - Segment profile plots and segment separation plots present the information visually, making it easier to grasp key characteristics and identify differences between segments.
  - Colors, shapes, and positions on the chart can effectively highlight defining features of each segment.

### III. How to do Segment Profiling with Visualizations?

- **A. Segment Profile Plot:**
  - Shows how each segment differs from the overall sample on all segmentation variables.
  - Each segment is represented by a line or bar on the chart, with the position on the y-axis indicating the percentage of that segment that agrees with a particular variable.
  - A horizontal line typically represents the average for the entire sample across all variables.

- Variables with significant deviations from the average for a particular segment are highlighted as "marker variables" and might be visually distinguished with color or other design elements.
- **B. Segment Separation Plot:**
  - Helps assess the distinctiveness of different segments.
  - If segments significantly overlap in the plot, it suggests they might not be very distinct and could potentially be combined.
  - Two common approaches:
    - Scatter plot: Segments are represented by clusters of points, with colors or shapes indicating segment membership.
    - Overlaid ellipses: Each segment is represented by an ellipse that captures the spread of data points within that segment. The amount of overlap between the ellipses indicates the degree of separation between segments.

#### **IV. Challenges of Segment Profiling**

- **Data with No Clear Natural Segments:**
  - In some cases, the data might not reveal clear and distinct customer groups.
  - This can make interpreting the visualizations and identifying defining characteristics of segments more challenging.
  - It might be necessary to explore different segmentation techniques or refine the segmentation variables used.

#### **V. Key Takeaways**

- Segment profiling is essential for extracting meaningful insights from the segmentation process.
- By understanding the unique characteristics of each segment, marketers can develop targeted strategies to better serve their customer base.
- Visualizations are a powerful tool for presenting and interpreting segment profiles, making the process more efficient and effective.

#### **VI. Checklist for Step 6**

1. **Utilize Chosen Segments:** Begin with the market segments identified in Step 5.

2. **Visualize Segment Profiles:** Create segment profile plots and/or segment separation plots to understand the defining characteristics of each segment.
3. **Apply Knock-out Criteria:** Assess if any segments violate pre-defined criteria (e.g., minimum size, feasibility to target) and eliminate them if necessary.
4. **Proceed to Step 7:** Transfer the remaining, well-defined segments to Step 7 for further description and development of marketing strategies.

## Step 9: Customizing the Marketing Mix

### I. Implications for Marketing Mix Decisions

- **Traditional Marketing Mix:** Viewed as a toolbox with various elements to achieve optimal sales results.
  - Borden (1964) proposed 12 elements like product planning, packaging, pricing, etc.
  - McCarthy (1960) simplified it to the popular 4Ps - Product, Price, Place, and Promotion.
- **Market Segmentation and STP:** Market segmentation is not an isolated strategy. It integrates with:
  - **Targeting:** Selecting a specific segment from the identified groups.
  - **Positioning:** Creating a distinctive perception of your product compared to competitors.
  - Together, these form the **STP (Segmentation-Targeting-Positioning)** approach.
- **Segmentation as the First Step:** The article emphasizes viewing segmentation as the initial step in STP. This ensures it's not done independently of other strategic marketing decisions.
- **Iterative Process:** While segmentation is the first step, it might be necessary to revisit and refine segment selection before committing to a target segment.

### II. Product

- **Key Decision:** Specifying the product based on customer needs. This might involve:
  - **Product Design:** Developing entirely new products or modifying existing ones to cater to the target segment.
  - **Other Product Mix Decisions:** Naming, packaging, warranty options, and after-sales support services.

### III. Price

- **Typical Price Decisions:** Setting product prices and determining discounts for the target segment.

#### IV. Place

- **Key Decision:** Determining how to distribute the product to the target segment. This involves:
  - **Online vs. Offline Sales:** Should the product be available online, offline, or both?
  - **Distribution Channels:** Direct sales, wholesalers, retailers, etc.

#### V. Promotion

- **Typical Promotion Decisions:** Developing a targeted advertising message and identifying effective communication channels. Other tools include public relations, personal selling, and sponsorships.

#### VI. Step 9 Checklist

- **Convene Segmentation Team Meeting** (Who: Marketing Team)
- **Review Target Segment Profile** (Who: Marketing Team) - This emphasizes the importance of thoroughly understanding the target segment before customizing the mix.
- **Product Customization for Target Segment** (Who: Marketing Team) - This step involves determining how to design or modify the product to best cater to the segment's needs.
- **Price Customization for Target Segment** (Who: Marketing Team) - This step focuses on setting prices or discounts considering the segment's price sensitivity.
- **Place Customization for Target Segment** (Who: Marketing Team) - This step involves determining suitable distribution channels frequented by the target segment.
- **Promotion Customization for Target Segment** (Who: Marketing Team) - This step focuses on developing communication messages and selecting media channels that resonate with the segment.
- **Review the Marketing Mix** (Who: Marketing Team) - This step involves evaluating the overall marketing mix for consistency and effectiveness.
- **Targeting Multiple Segments** (Who: Marketing Team) - If targeting more than one segment, repeat steps for each segment. Ensure compatibility between the segments to avoid conflicts in your marketing approach.
- **Present Marketing Mix Proposal** (Who: Marketing Team) - Prepare an outline of the proposed marketing mix for presentation and discussion with an advisory committee. This might involve seeking modifications or approval before implementation.