

# MARKET SEGMENTATION ANALYSIS

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## STEP – 1: DECIDING (NOT) TO SEGMENT

Market segmentation can be a useful marketing approach for businesses, but it requires a long-term commitment and financial investment. Organizations need to be willing to make significant changes, such as creating new products, modifying existing ones, adjusting pricing and distribution channels, and revising communication strategies, to fully benefit from market segmentation. To implement a successful market segmentation strategy, businesses need to structure themselves around customer segments instead of individual products. Before investing time and resources into market segmentation research, it is crucial to understand the implications of implementing such a strategy, which requires a long-term commitment to the segmentation plan. This commitment may necessitate changes to the organization's internal structure, including the production of new products, modification of existing ones, pricing and distribution channel changes, and all communication related to the market. The decision to pursue market segmentation as a strategy should be made by top-level executives and approved by the board of directors. Market segmentation can be a useful marketing approach for businesses, but it requires a long-term commitment and financial investment. Organizations need to be willing to make significant changes, such as creating new products, modifying existing ones,

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structure, including the production of new products, modification of existing ones, pricing and distribution channel changes, and all communication related to the market. The decision to pursue market segmentation as a strategy should be made by top-level executives and approved by the board of directors. Before pursuing market segmentation, organisations must consider many implementation difficulties. These barriers include a lack of senior management leadership, commitment, and involvement, a lack of resources, resistance to change, a lack of creative thinking, poor communication, a lack of training, a lack of a formal marketing function, a lack of a qualified data manager and analyst, objective constraints, a lack of planning, a lack of structured processes, a lack of responsibilities, and time constraints. To ensure the successful execution of a market segmentation plan, organisations must be aware of these potential roadblocks and solve them.

## **STEP – 2: SPECIFYING THE IDEAL TARGET SEGMENT**

The second phase of market segmentation analysis involves identifying two sets of criteria for evaluating market segments. The first set of criteria consists of non-negotiable attributes that an organization would consider when targeting segments. The second set, called attractiveness criteria, is used to assess the relative appeal of the remaining segments based on the knockout criteria. There are various segment evaluation criteria in the literature, including measurable, accessible, substantial, differentiable, profitable, and growing, among others. The organization must conceptualize

subsequent processes in the segmentation analysis, including data gathering and selecting one or more target segments. User feedback is crucial throughout the segmentation analysis process, not just at the beginning.

To implement step 2, the organization must first establish criteria for evaluating each segment's attractiveness based on specific characteristics such as size, growth potential, profitability, competition, and fit with the company's capabilities and resources. Then, knockout criteria should be determined that will eliminate a segment from consideration if not met, such as minimum size requirements or poor fit with the company's capabilities. After that, attractiveness criteria should be developed and weighted based on their relative importance to the company's strategy and goals. Finally, the structured process for segment evaluation should be implemented, which involves scoring each segment based on the established criteria and selecting the most attractive segments for further analysis and consideration.

Overall, the objective of step 2 is to identify the most attractive segments based on objective criteria and eliminate those that do not meet the company's strategic goals. This sets the stage for more detailed analysis of the remaining segments in subsequent steps.

## STEP – 3: COLLECTING DATA

Empirical data is utilised in market segmentation to discover or construct market categories, which are then extensively described. The variable in empirical data used in logical segmentation to divide the sample into market groups is referred to as a "segmentation variable" in this context. The segmentation variable is often a single attribute of the sample's customers, such as gender. By dividing the sample into a segment of women and a segment of men using the segmentation variable, market segments are generated.

The organisation must decide the segmentation criterion to apply before collecting data for segment extraction. When referring to the type of data used for market segmentation, the word "segmentation criterion" is used in a more general sense than the term "segmentation variable." Geographical, sociodemographic, psychographic, and behavioural characteristics are the most often used segmentation factors.

When the consumer's place of residence is the lone factor used to create market segments, geographic segmentation is frequently the best strategy. Age, gender, income, and education are socio-demographic segmentation characteristics that may be highly helpful in specific businesses.

Using psychological criteria like beliefs, interests, preferences, aspirations, or benefits sought when buying a product, psychographic segmentation divides people into groups. Finally, behavioural

segmentation looks for patterns in observed or reported behaviour and may be applied to a wide range of potential behaviours.

Step 3 of market segmentation involves collecting data from various sources such as surveys, internal data, and experimental studies. The goal of data collection is to identify relevant characteristics of potential market segments and develop a deep understanding of consumer behaviour.

To begin, a market segmentation team should convene to discuss potential segmentation variables and other characteristics that are required to develop a good understanding of market segments. The team should consider factors such as geographic location, demographics, psychographics, and behaviour when selecting segmentation variables.

Once segmentation variables are selected, the team should carefully design data collection methods to minimize biases and other sources of systematic error. Data can be collected through various methods such as surveys, focus groups, internal data analysis, and experimental studies.

Surveys are one of the most used methods for data collection in market segmentation analysis. Surveys involve asking a sample of

consumers a series of questions to collect data about their preferences, attitudes, behaviours, and demographics. Surveys can be conducted online, by phone, or in person.

The strength of internal data lies in its representation of actual consumer behaviour. Internal data can be collected from various sources such as sales data, customer service data, and website analytics. This data can provide valuable insights into consumer behaviour and preferences.

Experimental studies can also provide valuable information about consumer preferences and decision-making. Experimental studies involve manipulating one or more variables to observe their effect on consumer behaviour. These studies can be conducted in a laboratory or in the field.

Finally, a checklist is provided for Step 3 to ensure that all necessary tasks are completed. The checklist includes tasks such as defining the segmentation criteria, selecting data collection methods, identifying potential sources of bias, and selecting appropriate survey questions or experimental design. By following the checklist, the market segmentation team can ensure that the data collected is accurate and relevant to the development of market segments.