

SUMMARY OF 1,2,3 STEPS OF MARKET SEGMENTATION

1: Deciding (not) to Segment

1.1 Implications of Committing to Market Segmentation

Committing to market segmentation requires a long-term dedication and significant investments in research, product development, pricing, distribution, and communication strategies.

It can necessitate structural changes within the organization to focus on different market segments.

Consequently, this decision should be made at the highest executive level and consistently communicated throughout the organization.

1.2 Implementation Barriers

Implementing market segmentation can be hindered by barriers such as lack of leadership and resources from senior management, resistance to change within the organizational culture, inadequate training, and absence of a formal marketing function.

Additionally, financial constraints and poorly defined objectives can impede progress. These challenges need to be proactively addressed or the organization should reconsider pursuing market segmentation.

2: Specifying the Ideal Target Segment

2.1 Segment Evaluation Criteria

Segment evaluation involves user input throughout the market segmentation process, not just at the beginning or end. In Step 2, organizations must define two sets of criteria: essential, non-negotiable knock-out criteria for eliminating unsuitable segments, and attractiveness criteria for assessing the remaining segments. These criteria, derived from various literature sources, guide data collection and target segment selection, ensuring the chosen segments align with organizational goals and resources.

2.2 Knock-Out Criteria

Knock-out criteria help determine if market segments qualify for further evaluation using attractiveness criteria.

Suggested by Kotler and others, these include substantiality, measurability, accessibility, homogeneity, distinctiveness, size, organizational capability, identifiability, and reachability.

These criteria ensure segments are viable and align with organizational strengths. Senior management and the segmentation team must understand these criteria, with some, like minimum viable segment size, requiring specific definitions.

2.3 Attractiveness Criteria

Attractiveness criteria are used to rate each market segment on a spectrum rather than assessing them as simply compliant or non-compliant. These criteria help determine how appealing each segment is, with the combined ratings guiding the selection of target segments in the market segmentation analysis. The segmentation team selects the most relevant criteria for their specific situation.

2.4 Implementing a Structured Process

In the world of market segmentation, experts agree that using a structured approach is beneficial. One common method involves plotting segment attractiveness against how well the organization can compete in that segment (like a graph you might see). The criteria for what make a segment attractive and how well the organization can compete need careful consideration and agreement by the team. It's recommended to focus on no more than six key factors to keep things clear. Bringing in a diverse group from different parts of the organization to discuss and agree on these factors is important for making good decisions about which segments to target later on.

3: Collecting Data

3.1 Segmentation Variables Segmentation Variables

Market segmentation relies on empirical data to define and describe distinct consumer groups. In "commonsense" segmentation, a single variable like gender splits a sample into segments (e.g., women and men), while other variables (e.g., age, vacation habits) describe these segments in detail.

In contrast, "data-driven" segmentation uses multiple variables (e.g., vacation benefits sought) to uncover segments that may not share obvious traits like gender. Quality empirical data is crucial in both approaches: it ensures accurate assignment of individuals to segments and precise descriptions of these segments. This accuracy enables tailored marketing strategies, including product customization, pricing, distribution, and advertising.

Various data sources such as surveys or purchase records contribute to segmentation studies, with preference given to data that best reflects actual consumer behaviour over socially desirable responses.

3.2 Segmentation Criteria

Before embarking on segment extraction and data collection, organizations face a critical decision: selecting the segmentation criterion. Unlike segmentation variables, which are specific measurements or observations, segmentation criteria encompass broader categories of information used in market segmentation, such as geographic, socio-demographic, psychographic, and behavioural factors. This decision requires market knowledge and cannot simply be delegated to consultants or data analysts.

The choice of segmentation criterion should ideally be guided by what works best for the product or service at minimal expense, emphasizing practicality over complexity.

3.3 Data from various sources

In market segmentation, data can be sourced from various methods, each impacting the segmentation process differently. Survey studies provide widespread data, but results may be biased, especially with socially desirable behaviours.

Choosing variables—like demographics, behaviour, or preferences—is crucial, as they define segment characteristics. Response options in surveys influence data quality; open-ended questions yield richer insights compared to closed ones. Response styles, such as acquiescence or extreme responding, can skew survey outcomes. Sample size plays a vital role; larger samples improve statistical validity and representativeness.

Internal sources, like sales or customer records, offer precise behavioural data useful for segmentation. Experimental studies provide controlled environments to test hypotheses, offering insights into consumer behaviours not observed in natural settings. Each data source has strengths and limitations, influencing the segmentation strategy's accuracy and effectiveness.

6: Profiling Segments

6.1 Identifying Key Characteristics of Market Segments

In data-driven market segmentation, profiling is essential to understand the defining characteristics of the resulting segments. This process involves characterizing each segment individually and in comparison to other segments to identify their unique attributes. Profiling helps in interpreting the segments accurately, which is crucial for making informed strategic marketing decisions.

Profiling becomes necessary when segments are extracted based on consumer behaviours, preferences, or benefits sought, as the defining characteristics are not known until after data analysis. Unlike commonsense segmentation, where segments are predefined based on obvious criteria like age groups, data-driven segmentation requires thorough profiling to reveal the key characteristics of each segment.

6.2 Traditional Approaches to Profiling Market Segments

Traditional methods of presenting data-driven segmentation results often involve either overly simplified summaries or complex tables with detailed percentages for each variable. Simplified summaries can be misleading, while large tables are difficult to interpret and do not provide a quick overview of key insights.

When profiling segments using traditional tables, the mean values of segmentation variables for each segment are compared to the overall mean values. This process involves numerous comparisons, making it tedious and prone to errors.

Additionally, using statistical significance to differentiate segments is not valid because segment membership is directly derived from the segmentation variables, making standard statistical tests inappropriate.

6.3 Segment Profiling with Visualizations

Visualizations offer a more intuitive and efficient way to profile market segments. They provide a graphical representation of segment characteristics, making it easier to interpret and compare segments. Visualizations are especially useful in exploratory data analysis and for monitoring changes over time.

6.3.1 Identifying Defining Characteristics of Market Segments

A segment profile plot is an effective visualization tool for understanding the defining characteristics of each segment. This approach simplifies the interpretation process compared to traditional tables.

6.3.2 Assessing Segment Separation

Segment separation plots visualize the overlap and distinctiveness of segments across relevant dimensions of the data space.

Overall, good visualizations facilitate interpretation by managers, aiding in strategic decision-making based on segmentation results. Investing time in creating effective visualizations provides a significant return by enabling better understanding and utilization of market segmentation analysis.

Step 8: Selecting the Target Segment(s)

8.1 The Targeting Decision

In Step 8, the key decision is selecting which market segments to target. This strategic choice has a long-term impact on an organization's performance. After global segmentation is completed, segments are profiled and described in Steps 6 and 7. Here, one or more segments are chosen based on predefined criteria, ensuring they meet essential requirements. The attractiveness of these segments and the organization's competitiveness are then evaluated to determine the best fit.

8.2 Market Segment Evaluation

To select target segments, a decision matrix is often used to visualize and compare segment attractiveness and organizational competitiveness. This involves plotting segments based on their appeal to the organization and vice versa. Criteria from earlier steps are used to score and weigh segments, helping to identify the most promising targets. The resulting plot aids in making informed decisions about which segments to prioritize.

9: Marketing Evolution and Mix

Marketing has transitioned from a basic sales support tool to a strategic function defined by the 4Ps: Product, Price, Place, and Promotion.

Integration with Segmentation and Strategy

Effective market segmentation is intertwined with strategic decisions in positioning and competition, ensuring that the marketing mix is tailored to meet the needs of the selected target segments.

Customizing the Marketing Mix

The selection of target segments influences the customization of the marketing mix, which includes product modifications, pricing adjustments, distribution channel selection, and development of targeted promotional strategies.

