Steps of Market Segmentation Analysis

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The first 3 steps detail the initial steps of market segmentation analysis, emphasizing the importance of commitment and strategic changes, identifying potential barriers to implementation, and outlining criteria for evaluating and selecting market segments. The focus is on ensuring that organizations understand the long-term implications and resource commitments required for successful market segmentation.

Step 1: Deciding (Not) to Segment

3.1 Implications of Committing to Market Segmentation

- **Strategic Commitment**: Committing to market segmentation requires a significant long-term strategic commitment from the organization. It involves more than just an initial analysis; it encompasses ongoing adjustments to marketing strategies, product development, and communication tactics.
- **Resource Allocation**: Successful segmentation demands substantial financial and human resources. Costs include market research, segmentation analysis, and the development of tailored marketing programs.
- **Organizational Alignment**: There must be alignment across the organization, from senior management to operational teams. This includes understanding the rationale behind segmentation and its implications for different departments.
- **Long-Term Focus**: Market segmentation is not a short-term fix but a long-term strategy that requires continuous refinement and adjustment based on market changes and evolving customer needs.

3.2 Implementation Barriers

- **Senior Management Support**: Lack of support from senior management can derail segmentation efforts. Successful implementation requires visible and consistent commitment from top executives.
- **Organizational Culture**: Resistance to change, poor communication, and lack of a market-oriented culture can impede segmentation efforts. An organization must be willing to embrace market-oriented thinking and foster a culture that supports change.
- **Structural Issues**: Implementing segmentation may require changes in the organizational structure, such as establishing a dedicated marketing function or hiring specialized personnel. Financial constraints and reluctance to make necessary changes can be significant barriers.

3.3 Step 1 Checklist

- **Financial Resources**: Verify the availability of sufficient financial resources to support segmentation activities.
- **Management Commitment**: Ensure visible and active commitment from senior management.
- **Understanding and Training**: Provide comprehensive training on market segmentation concepts and implications for all relevant stakeholders.
- **Team Formation**: Assemble a dedicated team, including marketing and data experts, to conduct the segmentation analysis.

Step 2: Specifying the Ideal Target Segment

4.1 Segment Evaluation Criteria

- **Homogeneity**: Segments should be internally homogeneous, meaning members within each segment should exhibit similar needs and responses to marketing efforts.
- **Distinction**: Segments should be clearly distinguishable from one another, with distinct characteristics and behaviors.
- **Size and Potential**: Assess the size and growth potential of each segment to ensure they are substantial enough to justify targeted marketing efforts.
- **Match with Strengths**: Evaluate how well each segment aligns with the organization's strengths and capabilities.
- **Identifiability**: Segments must be easily identifiable and measurable using available data.
- **Reachability**: Determine the feasibility of reaching and effectively communicating with each segment.

4.2 Knock-Out Criteria

- **Substantiality**: Ensure that segments are large enough to be profitable and justify dedicated marketing efforts.
- **Measurability**: Verify that segments can be measured and identified using available data and research methods.
- **Accessibility**: Assess the ability to reach and serve each segment efficiently with existing marketing channels and resources.

4.3 Attractiveness Criteria

- **Profitability**: Evaluate the potential profitability of each segment based on factors such as willingness to pay, price sensitivity, and cost to serve.
- **Growth Prospects**: Consider the growth potential of each segment, including trends and future market opportunities.
- **Strategic Fit**: Assess how well each segment aligns with the organization's strategic objectives and long-term goals.

4.4 Implementing a Structured Process

- **Consistency and Clarity**: Implement a structured and systematic approach to specifying target segments to ensure consistency and clarity in the segmentation process.
- **Documenting Criteria**: Clearly document the criteria and processes used for evaluating and selecting target segments to facilitate transparency and repeatability.

4.5 Step 2 Checklist

- **Criteria Definition**: Define and document the criteria for segment evaluation and selection.

- **Data Collection**: Collect necessary data to evaluate segments based on the defined criteria.
- **Evaluation Process**: Implement a structured process for evaluating and selecting target segments.
- **Documentation**: Maintain comprehensive documentation of the criteria, processes, and decisions made during the evaluation and selection process.

Step 3: Collecting Data

- **Segmentation Variables**: Identify and collect data on segmentation variables, which are used to divide the market into distinct segments. These variables can include demographic, geographic, psychographic, and behavioural factors.
- **Descriptor Variables**: Collect data on descriptor variables, which provide detailed profiles of each segment. These variables help in understanding the characteristics, preferences, and behaviours of segment members.
- **Reliable Data Sources**: Use reliable and valid data sources to ensure the accuracy and relevance of the collected data. This may include primary data from surveys and interviews, as well as secondary data from market reports and databases.
- **Data Collection Methods**: Employ appropriate data collection methods, such as surveys, focus groups, and observational studies, to gather comprehensive and accurate information on segmentation and descriptor variables.