Market Segmentation Analysis

Step 1: Assessing the Viability of Market Segmentation

- 1.1 Implications of Committing to Market Segmentation

Embracing market segmentation as a strategic approach involves substantial investments and organizational adjustments. It necessitates a long-term dedication, closely tied to an organization's willingness and capacity to adapt. Segmentation is not cost-free; it demands financial resources for research, surveys, product adaptations, and the creation of various communication strategies. To justify these expenses, the anticipated increase in sales must outweigh the costs incurred. Furthermore, implementing market segmentation often requires alterations in product development, pricing strategies, distribution channels, and communication methods. These changes can even extend to the internal structure of the organization, which may require restructuring to effectively target diverse market segments. It is crucial for organizations to thoroughly evaluate these implications before committing to a market segmentation strategy.

- 1.2 Overcoming Implementation Challenges

While market segmentation holds the promise of significant benefits, its successful implementation is not without obstacles. These barriers can hinder the seamless execution of a market segmentation strategy. Firstly, the involvement of senior management is paramount. Lack of leadership, proactivity, commitment, and active engagement by senior leaders can severely undermine its success. Without the support and comprehension of executives, senior marketing professionals find it exceedingly challenging to implement segmentation findings effectively. Additionally, securing adequate resources from senior management, both for initial analysis and long-term efforts, is crucial. Short-term thinking, reluctance to make necessary changes, and internal office politics can further complicate matters. Another hurdle is the absence of adequate training. If senior management and the segmentation team do not possess a comprehensive understanding of market segmentation fundamentals or the potential risks associated with this strategy, their endeavours may falter. Moreover, the absence of a qualified data manager and analyst can pose significant obstacles during implementation.

- 1.3 Checklist

The initial checklist comprises not just tasks but also a set of inquiries that, if not positively addressed, function as disqualifying criteria. For instance, if an organization lacks a market-oriented approach, even the most exceptional market segmentation analyses would struggle to be effectively executed.

- Is the organization's culture market-oriented? (Yes/No)

- Is the organization genuinely willing to embrace change? (Yes/No)

- Does the organization take a long-term perspective? (Yes/No)

- Is the organization open to innovative ideas and approaches? (Yes/No)

- Is communication across organizational units effective? (Yes/No)

- Is the organization capable of making substantial structural changes if required? (Yes/No)

- Does the organization have sufficient financial resources to support segmentation? (Yes/No)

- Is there visible commitment from senior management to segmentation? (Yes/No)

- Is senior management actively involved in the analysis? (Yes/No)

- Has the necessary financial commitment been secured? (Yes/No)

- Is the concept of market segmentation fully understood across the organization? (Yes/No)

- Are the implications of pursuing segmentation well-understood? (Yes/No)

- Have responsibilities been assigned to the segmentation team? (Yes/No)

- Is there enough time for segmentation analysis without time pressure? (Yes/No)

Step 2: Identifying the Optimal Target Audience

During this phase of market segmentation analysis, the focus shifts towards pinpointing the most suitable target audience. User input becomes pivotal at this stage, emphasizing the need for ongoing participation and cooperation. Two sets of criteria are established: Knock-out criteria and attractiveness criteria, each serving distinct purposes.

Criteria for Segment Evaluation:

Knock-Out Criteria: These are essential criteria that a segment must meet without negotiation to be considered a potential target. Some of these include:

1) Homogeneity: Segment members must share significant similarities.

2) Distinctiveness: Segment members must stand out distinctly from members of other segments.

3) Size: The segment must be substantial enough to warrant customization efforts.

4) Compatibility: The segment should align with the organization's strengths.

5) Identifiability: Members of the segment must be easily identifiable.

6) Reachability: There must be a feasible way to access segment members.

Attractiveness Criteria: These criteria assess the relative appeal of potential target segments. The segmentation team selects from a diverse array of criteria, including market potential, competitiveness, profitability, and more.

Implementing a Structured Process:

• A structured approach involving a team is recommended for segment evaluation.

• The segment evaluation plot, a popular tool, aids in visualizing segment attractiveness and organizational competitiveness.

• The team selects approximately six attractiveness criteria and assigns weights to each, reflecting their importance.

Step 2 Checklist:

• Schedule a segmentation team meeting.

• Define and reach consensus on knock-out criteria: similarity, distinctiveness, size, compatibility, identifiability, and reachability.

• Present the knock-out criteria to the advisory committee for discussion and potential agreement.

• Examine and discuss potential segment attractiveness criteria with the segmentation team.

• Present the selected attractiveness criteria and their weights to the advisory committee for discussion and potential adjustments.

In Step 2, the foundation is laid for assessing and selecting the optimal target segment in the later stages of market segmentation analysis. It involves careful consideration of criteria, collaboration among team members, and alignment with organizational objectives.

Market Segmentation: Step 3 - Data Collection and Segmentation Criteria Selection

In the third step of the market segmentation process, data collection is pivotal for both intuitive and data-driven segmentation. Empirical data aids in identifying and describing market segments. The key term here is "segmentation variable," which is a characteristic used to divide a sample into market segments. For intuitive segmentation, a single characteristic is utilized, while data-driven segmentation involves multiple variables.

Descriptor variables, such as age and travel behavior, are employed to provide comprehensive descriptions of the segments. High-quality data is indispensable for accurate segmentation and effective marketing strategies. Data can be derived from surveys, observations, or experiments. However, it should accurately reflect actual consumer behavior, as surveys may not always be the most reliable source.

Selecting a segmentation criterion is a critical decision that should align with market knowledge. Common criteria include geographic, socio-demographic, and behavioral factors. It is recommended to opt for the simplest approach that suits the product or service, as complexity does not necessarily equate to effectiveness.

Segmentation Criteria:

a) Geographic Segmentation

- Geographic information is a fundamental segmentation criterion.
- Consumer location often serves as the foundation for market segments.
- This approach is practical, especially when language or location-specific factors are significant.
- Advantages include the ease of targeting communication channels.

- Disadvantages include the potential oversight of other pertinent consumer characteristics.

b) Psychographic Segmentation

- Psychological criteria, such as beliefs, interests, and desired benefits, are employed.
- Often involves multiple segmentation variables to capture complexity.
- Provides insights into the underlying motivations for consumer behavior.
- Complexity arises in determining segment memberships and relies on reliable measures.

c) Socio-Demographic Segmentation:

- Criteria like age, gender, income, and education are commonly used.
- Particularly useful in industries such as luxury goods, cosmetics, and retirement communities.
- Offers a straightforward approach to segment determination but may not fully explain product preferences.
- Socio-demographics explain only a fraction of consumer behavior.

d) Behavioral Segmentation:

- Concentrates on similarities in consumer actions or reported conduct.
- Considers behaviors such as previous experiences, purchase frequency, and spending habits.
- Benefits include using the most pertinent behavior as the basis for segmentation.
- Challenges include acquiring behavioral data, especially for potential new customers.

Data Collection from Survey Studies:

Choice of Variables:

- The selection of appropriate variables for segmentation is pivotal.
- In data-driven segmentation, all relevant variables for the segmentation criterion should be included.
- Avoid incorporating unnecessary variables to prevent respondent fatigue and analysis complications.
- It's essential to steer clear of noisy or masking variables, as they can impede accurate segmentation.

Response Options:

- Survey response options exert an impact on subsequent analysis.
- Binary and metric data are optimal for segmentation.
- Nominal data can be converted into binary data.
- Ordinal data, while common, pose challenges due to undefined distances.
- Binary or metric options should be chosen whenever meaningful.

Response Styles:

- Survey data can capture biases and response styles.
- Response styles are systematic tendencies that lead to varied responses.
- Response styles can influence segmentation results.
- Minimizing the risk of capturing response styles is vital for accurate segmentation.
- Additional analyses or the removal of affected respondents may be necessary.

Sample Size for Market Segmentation Analysis:

- Sample size is a critical factor in market segmentation analysis.
- Small sample sizes can yield unreliable segmentation results.
- Increasing the sample size enhances the accuracy of segmentation results, with the effect varying based on market and data characteristics.
- Sample size recommendations depend on factors like the number of segmentation variables, market characteristics (e.g., segment size, overlap), and data quality.

Sample Size Recommendations:

- Viennese psychologist Formann suggests a sample size of at least 2p (preferably five times 2p), where p represents the number of segmentation variables.
- Qiu and Joe recommend a sample size of at least ten times the number of segmentation variables multiplied by the number of segments in the data.
- Dolnicar et al. propose a sample size of at least $60 \cdot p$ or $70 \cdot p$ for more complex scenarios.

Data Quality Recommendations:

- To ensure reliable segmentation, data should include all necessary items, exclude unnecessary ones, and avoid correlated items.
- High-quality responses, binary or metric measurements, and the absence of response styles are crucial.

- A suitable sample size, typically 100 times the number of segmentation variables, should be ensured.

Data from Internal Sources:

- Organizations often possess extensive internal data that can be applied to market segmentation.
- Examples encompass scanner data in grocery stores, booking data from airline loyalty programs, and online purchase data.
- Advantages of internal data include its representation of actual consumer behavior and its independence from self-reported data, which can be subject to memory and response biases.
- Internal data may exhibit bias toward existing customers, potentially overlooking information about potential future customers with distinct consumption patterns.

Data from Experimental Studies:

- Experimental data can be gathered through field or laboratory experiments.
- Experiments may involve testing consumer responses to advertisements, conducting choice experiments, or performing conjoint analyses.
- Experimental data can provide insights into consumer preferences and the influence of specific product attributes on choice, serving as segmentation criteria.

Step 3 Checklist for Data Collection:

- Arrange a market segmentation team meeting.
- Choose segmentation and descriptor variables.
- Plan data collection to minimize biases and errors.
- Collect the requisite data.

In summary, the market segmentation process comprises a sequence of strategic steps aimed at identifying and targeting specific customer segments for more effective marketing efforts. This process commences with the decision to segment, considering organizational commitment and potential obstacles. It then progresses to specifying the ideal target segment, defining criteria, and assessing segment attractiveness. Data collection and the selection of segmentation criteria hold paramount importance in this phase. Different data sources, including surveys, internal data, and experimental studies, can offer valuable insights.

This summary report provides comprehensive checklists for each step, addressing critical considerations such as organizational culture, leadership commitment, resource allocation,

and data quality. It underscores the significance of a structured approach, teamwork, and the careful selection of segmentation variables. Furthermore, it highlights the importance of high-quality data, sample size, and the alignment of segmentation criteria with market and product particulars.