Market Segmentation Summary

✓ Step 1: Set the Segmentation Strategy

Market segmentation requires a long-term commitment and strategic alignment. It is not a short-term tactic.

- Segmentation involves significant costs, including research, surveys, advertising, and product adjustments.
- The company should proceed only if expected benefits exceed these costs.
- It may require developing new products or modifying existing ones to meet segment needs.
- Internal organizational changes might be necessary to focus on segments rather than products.
- The decision to segment must be made and supported by top management.
- Lack of executive support and insufficient resources often cause segmentation failures.
- Company culture must be open to customer-focused strategies for segmentation to succeed.

✓ Step 2: Design the Segmentation Study

Designing the study involves selecting criteria and planning data collection to identify meaningful segments.

- User input is essential throughout the segmentation process.
- Define **knock-out criteria** (must-have features) to exclude unsuitable segments early.
- Define **attractiveness criteria** (nice-to-have features) to evaluate remaining segments.
- Knock-out criteria examples: measurability, accessibility, size, fit with company strengths.

- Attractiveness criteria vary by company and include profit potential, growth, and competitive position.
- Keep knock-out and attractiveness criteria separate to improve decision-making.
- Select about six attractiveness criteria and assign weights to prioritize them.
- Criteria selection should involve cross-departmental teams and advisory committees.
- Early criteria definition guides proper data collection and simplifies later decisions.

✓ Step 3: Collect the Data

Data collection gathers empirical information to divide the market into meaningful consumer groups.

- **Segmentation variables** split consumers into groups (e.g., age, gender, behavior).
- **Descriptor variables** provide detailed profiles of each segment (e.g., vacation habits).
- Data-driven segmentation uses multiple variables to find natural or strategic groups.
- High-quality data improves accuracy of segmentation and subsequent marketing strategies.
- Common data sources: surveys, behavioral observations (e.g., loyalty cards), experiments.
- Surveys may suffer from social desirability bias, especially on sensitive topics.
- Types of segmentation:
  - **Geographic:** divides markets by location; easy to implement.
  - **Socio-demographic:** age, gender, income, education; easy to collect but explains little behavior.
  - **Psychographic:** values, attitudes, lifestyles; harder to measure but explains motivations.
  - **Behavioral:** past purchases, brand loyalty; strongest predictor of actual behavior.