

## **Market segmentation**

It is the process of dividing a larger group of customers into smaller, more specific segments based on shared characteristics. This helps businesses tailor their products, services, and marketing strategies to better meet the unique needs and preferences of each segment. The goal is to improve customer satisfaction and increase the effectiveness of marketing efforts.

### **STEP1: Deciding (not) to Segment**

"Deciding to Segment" is the process of choosing whether to group customers based on shared traits through market segmentation. This decision involves weighing benefits, costs, and impacts on products, pricing, distribution, and communication strategies. Conversely, "Deciding not to Segment" means treating all customers as a single group without customization. Both choices affect marketing and hinge on a company's goals, resources, and customer understanding.

"Deciding (not) to Segment" involves:

#### **1.1. Implications of Committing to Market Segmentation**

Market segmentation is a significant marketing strategy used by many organizations, but it's not always the best choice. Before diving into it, understanding its implications is crucial. Committing to segmentation requires a long-term perspective, involving significant changes and investments. The costs of research, surveys, designing, and communication are essential considerations. Changes, like new products and pricing, can influence the company's internal structure. Organizing around customer segments rather than products maximizes benefits. To explore segmentation, top executives should decide, and communication across the organization is vital. In essence, market segmentation demands careful thought due to its long-lasting effects on a company's operations.

#### **1.2. Implementation Barriers**

Authors such as Dibb and Simkin (2008), Croft (1994), and McDonald and Dunbar (1995) mention potential barriers to effective market segmentation in their works. These obstacles include senior management's lack of commitment, which prevents top executives from participating. Insufficient allocation of resources for analysis and long-term strategy, combined with organisational culture difficulties such as resistance to change, limit success. Inadequate training, limited marketing knowledge, financial limits, and process-related issues complicate segmentation attempts even more. Overcoming these barriers early on is critical, and graphical communication can help with technique adoption. If obstacles persist, segmentation may need to be reconsidered. For those that proceed, dedication, perseverance, and a defined goal are recommended for successful implementation.

#### **1.3. Checklist**

The initial checklist for market segmentation involves tasks and questions that act as criteria for decision-making. It ensures alignment with a market-oriented culture, openness to change, long-term perspective, new ideas, good communication, and the capacity for significant changes. Adequate financial resources are also essential. Senior management's commitment and active involvement are secured, along with a thorough understanding of the segmentation concept and its implications. A capable team is assembled, including marketing, data, and

analysis experts, alongside an advisory committee. Clear objectives, a structured process, and responsibilities for the team are defined. Sufficient time is allotted to conduct the analysis without pressure. This checklist helps assess readiness for successful market segmentation implementation.

These aspects collectively help companies decide whether to pursue market segmentation or not.

## **STEP2: Specifying the Ideal Target Segment**

"Specifying the Ideal Target Segment" involves choosing the most suitable group of customers for a company's offerings based on specific criteria, ensuring effective marketing and resource allocation."

### **2.1 Segment Evaluation Criteria**

"Segment Evaluation Criteria" are the standards used to judge the attractiveness and suitability of different customer groups for targeting, helping businesses select the best segments for their marketing efforts.

The final stage of market segmentation analysis is primarily contingent on user input in order to be successful. Effective analysis requires regular user participation throughout the process. After committing to a segmentation plan, the organisation plays a critical role in developing segment evaluation criteria. These criteria include knock-out elements, which are fundamental features for viable segments, as well as attractiveness criteria, which are used to judge segment appeal. This organisational input directs later procedures, such as data collection and final segment selection.

- **Knock-Out Criteria:** In Step 2 of market segmentation analysis, knock-out criteria are set to determine which segments qualify for assessment. These non-negotiable criteria include homogeneity, distinctness, size, match, identifiability, and reachability. They automatically eliminate non-compliant segments, shaping target segment selection.
- **Attractiveness Criteria:**  
Additionally, a range of attractiveness criteria is considered for segment evaluation. These criteria, not binary in nature, assess segment allure based on factors like profitability, stability, compatibility, and accessibility. Segments are rated across these criteria.

**2.2 Implementing a Structured Process:** A structured process is recommended for segment evaluation. Utilizing segment attractiveness and organizational competitiveness values, a plot is often used to guide selection. This involves collaboration among organizational units, negotiating criteria and weight allocation. This approach ensures thorough evaluation and informed decisions.

### **2.3 Checklist for Step 2**

- Gather the team.
- Set the basic rules for segments.
- Tell others about these rules.
- Learn about different things that make segments attractive.

- Decide on a few important things that matter most.
- Divide points to show how important these things are.
- Talk to the team about these points.
- Share the chosen things and points with others for feedback.

## **STEP3: Collecting Data**

### **3.1 Segmentation Variables**

Empirical data is vital for both commonsense and data-driven market segmentation. In commonsense segmentation, a single characteristic like gender is used to split samples into segments, while other traits describe them. Data-driven segmentation uses multiple variables to create segments, improving targeting and understanding. For instance, shared benefit preferences can form distinct segments. Quality data ensures accurate segment assignment and description, essential for tailored strategies. Surveys, observations, or experiments can provide data, with data quality affecting segmentation success. Exploring diverse sources is advised due to potential survey biases.

### **3.2 Segmentation Criteria**

Before extracting segments or collecting data, organizations must choose a segmentation criterion, which encompasses the nature of information used for market segmentation, like geographic, demographic, psychographic, or behavioural factors. This decision relies on prior market knowledge and can't be easily outsourced. Different criteria, such as profitability, preferences, and barriers, can be relevant for segmentation. While various options exist, the suggestion is to opt for the simplest approach that suits the product or service while keeping costs minimal. In essence, the most effective segmentation strategy is the one that suits the specific context and objectives.

- **Geographic Segmentation**

Geographic segmentation makes marketing easier by focusing on where consumers live. This works well for nearby visitors who speak different languages. But just living close doesn't mean they like the same things. Doing this internationally, like Haverila's mobile phone study, is hard because finding things that work everywhere and dealing with cultural differences can be tricky.

- **Socio-demographic segmentation**

This segmentation looks at things like age, gender, income, and education. It's good for things like fancy items, makeup, and baby stuff. It's easy to figure out which group someone belongs to, but it doesn't always tell us why they like certain products. Sometimes, what a person values or likes is more important for deciding how to group them. Yankelovich and Meer (2006) say that values and preferences matter more than just age or gender.

- **Psychographic segmentation**

Psychographic segmentation categorises people based on psychological characteristics such as beliefs, interests, and desired advantages. It is complicated due to its multidimensional nature, which frequently employs multiple variables such as travel motives. This method shows fundamental behavioural factors, but it requires trustworthy measures and has difficulties defining segment memberships.

- **Behavioural segmentation**

It involves grouping individuals based on similar observed or reported behaviours, such as prior product experience, purchase frequency, spending habits, and information seeking. This real-world behaviour-focused approach captures essential similarities, like tourists' reported behaviours being more effective than geographical factors. Utilizing actual behaviours as a foundation, like using customer expenses or purchase data, avoids the need for psychological measures. However, behavioural data availability can vary, especially when targeting non-customers.

### **3.3 Choice of variables from Survey Studies Data:**

Survey data is often used for market segmentation, but it can have biases that affect the quality of the results. When choosing variables for segmentation, it's important to include relevant ones and avoid unnecessary ones. Unnecessary variables can confuse the analysis and make it harder to find the right segments. Noisy variables, which don't provide useful information, can also be a problem. Survey questions should be developed carefully to avoid these issues.

Response options in surveys determine the data scale for analysis. Options like binary (yes/no) or numbers (like age) work well, while options with ordered categories can be trickier. Some biases, called response styles, can affect survey results. People might always choose the extreme options or always agree with statements. This can impact segment identification. To minimize this, it's best to use clear response options. If response styles show up, they need to be dealt with or the affected respondents should be removed from the analysis.

### **3.4 Sample Size**

When it comes to market segmentation analysis, having enough data is crucial. If the sample size is too small, segmentation algorithms struggle to identify the right segments. Experts recommend having a sample size of at least  $2^p$  or even five times  $2^p$ , where  $p$  is the number of segmentation variables. Using larger sample sizes improves the accuracy of segment identification, especially for small samples. For instance, a sample size of at least  $60 \cdot p$  is suggested for more accurate results. Different factors like market characteristics and data quality affect the necessary sample size. Having enough respondents for each segmentation variable is essential, and the data should be unbiased, with no unnecessary or correlated items. It's also important for responses to be of high quality, in binary or metric form, and free from response biases. Ultimately, collecting good-quality data with the right sample size is vital for effective market segmentation analysis.

### **3.5 Data from Internal and external sources**

Organizations can use internal data sources like scanner data, loyalty program records, and online purchase data for market segmentation analysis. These datasets offer insights into actual consumer behaviour rather than biased opinions. Despite their benefits, internal data might mainly represent current customers, missing information about potential new customers. Experimental data, collected through field or lab experiments, is another option. This data helps in understanding consumer responses to factors like advertisements. It can also come from choice experiments or conjoint analyses, providing insights into attribute impacts on consumer choices, valuable for segmentation purposes.

**3.6 Step 3 Checklist:** For Market Segmentation, it involves convening a team meeting to discuss potential segmentation variables and necessary consumer characteristics. Plan how to collect data accurately, minimizing biases. Then, gather the data as per the plan.