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Task 1

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Market Segmentation - Study Task

Steps 1 , 2 and 3

Step 1:

Market segmentation is a key marketing strategy applied in many organizations, but it is not always the best decision to pursue it. The key implication is that the organisation needs to commit to the segmentation strategy on the long term, as it involves substantial changes and investments. This commitment goes hand in hand with the willingness and ability of the organization to make substantial changes.

Potentially required changes include the development of new products, the modification of existing products, changes in pricing and distribution channels used to sell the product, as well as all communications with the market. To maximize the benefits of market segmentation, organisations need to organise around market segments, rather than organising around products.

Implementation barriers can impede the successful roll-out of a market segmentation strategy. Senior management, organisational culture, lack of market orientation, resistance to change, creative thinking, bad communication, short-term thinking, unwillingness to make changes, and office politics can all hinder the successful implementation of market segmentation.

Closely linked to these barriers is the lack of a formal marketing function or at least a qualified marketing expert in the organization. Higher market diversity and larger organizations require a high degree of formalization, and the lack of a qualified data manager and analyst can also represent major stumbling blocks.

Other obstacles may be objective restrictions faced by the organization, such as lack of financial resources or the inability to make structural changes required. Process-related barriers include not having clarified the objectives of the market segmentation exercise, lack of planning or bad planning, a lack of structured processes, a lack of allocation of responsibilities, and time pressure that stands in the way of trying to find the best possible segmentation outcome.

Step 2:

In market segmentation analysis, user input is crucial for producing useful results. The organization must contribute to market segmentation analysis in Step 2, which involves determining two sets of segment evaluation criteria: knock-out criteria and attractiveness criteria. Knock-out criteria are essential, non-negotiable features of segments that the organization would consider targeting, while attractiveness criteria evaluate the relative attractiveness of remaining market segments.

Knock-out criteria include substantiality, measurability, and accessibility. Attractiveness criteria are not binary, but each market segment is rated based on its attractiveness across all criteria. The attractiveness across all criteria determines whether a market segment is selected as a target segment in Step 8.

A structured process is recommended for assessing market segments, with the most popular being the use of a segment evaluation plot showing segment attractiveness along one axis and organisational competitiveness on the other axis. Factors forming both segment attractiveness and organisational competitiveness need to be negotiated and agreed upon, with McDonald and Dunbar (2012) recommending no more than six factors as the basis for calculating these criteria.

A team of people should complete this task, including representatives from various organizational units, as each unit has different perspectives on the organization's business and will affect every unit of the organization. Selecting attractiveness criteria at this early stage ensures that all information is captured when collecting data and makes selecting a target segment easier.

At the end of this step, the market segmentation team should have a list of approximately six segment attractiveness criteria, each with a weight attached to it to indicate how important it is to the organization compared to other criteria. Approval by the advisory committee is sought, as it contains representatives from multiple organizational units bringing a range of different perspectives to the challenge of specifying segment attractiveness criteria.

Step 3:

- Segmentation Variables Empirical data forms the basis of both commonsense and data-driven market segmentation.

- Empirical data is used to identify or create market segments and much later in the process it describes these segments in detail.
- Throughout this book we use the term segmentation variable to refer to the variable in the empirical data used in commonsense segmentation to split the sample into market segments.
- In commonsense segmentation, the segmentation variable is typically one single characteristic of the consumers in the sample.
- An entry of 1 in the data set indicates that the consumer has that characteristic and 0 the opposite of it.
- All the other personal characteristics available in the data – in the case given in the form: age, the number of vacations taken, and information about five benefits people seek or do not seek when they go on vacation – serve as so-called descriptor variables.
- Typical descriptor variables include socio-demographics, but also information about media behaviour, allowing marketers to reach their target segment with communication messages.
- The difference between commonsense and data-driven market segmentation is that data-driven market segmentation is based not on one, but on multiple segmentation variables.
- These segmentation variables serve as the starting point for identifying naturally existing, or artificially creating market segments useful to the organisation.
- In the data-driven case we may, for example, want to extract market segments of tourists who do not necessarily have gender in common, but rather share a common set of benefits they seek when going on vacation.
- In this case, the benefits sought represent the segmentation variables.
- These two simple examples illustrate how critical the quality of empirical data is for developing a valid segmentation solution.
- When commonsense segments are extracted – even if the nature of the segments is known in advance – data quality is critical to both
  (1) assigning each person in the sample to the correct market segment, and
  (2) being able to correctly describe the segments.
- Good market segmentation analysis requires good empirical data.
- Empirical data for segmentation studies can come from a range of sources: from survey studies; from observations such as scanner data where purchases are recorded and, frequently, are linked to an individual customer`s long-term purchase history via loyalty programs; or from experimental studies.
- Optimally, data used in segmentation studies should reflect consumer behaviour.
- Survey data – although it arguably represents the most common source of data for market segmentation studies – can be unreliable in reflecting behaviour, especially when the behaviour of interest is socially desirable, such as donating money to a charity or behaving in an environmentally friendly way (Karlsson and Dolnicar 2016).
- Surveys should therefore not be seen as the default source of data for market segmentation studies.
- The source that delivers data most closely reflecting actual consumer behaviour is preferable.
- **5. 2 Segmentation Criteria** Long before segments are extracted, and long before data for segment extraction is collected, the organisation must make an important decision: it must choose which segmentation criterion to use (Tynan and Drayton 1987).
- The term segmentation variable refers to one measured value, for example, one item in a survey, or one observed expenditure category.
- The term segmentation criterion relates to the nature of the information used for market segmentation.
  Geographic segmentation is the original purpose of market segmentation, where the consumer's location of residence serves as the only criterion to form market segments.

Geographic segmentation allows for easy assignment of consumers to a geographic unit, making it easy to target communication messages to selected geographic segments. However, living in the same country or area does not necessarily mean that people share other characteristics relevant to marketers.
Sociological segmentation criteria include age, gender, income, and education, which can be useful in determining segment membership for every consumer. Socio-demographic criteria may also offer an explanation for specific product preferences, such as luxury goods, cosmetics, baby products, retirement villages, and tourism resort products. Location is rarely the reason for differences in product preference, even in the case of luxury suburbs. Despite the potential shortcomings of using geographic information as the segmentation variable, the location aspect has experienced a revival in international studies aiming to extract market segments across geographic boundaries.

Survey data is cheap and easy to collect, but it can be contaminated by biases. Carefully selecting variables is critical to the quality of market segmentation solutions. Including unnecessary variables can make questionnaires long and tedious for respondents, causing respondent fatigue. The answer options provided to respondents in surveys determine the scale of the data available for subsequent analyses.