**MARKET SEGMENTATION SUMMARY (STEP 1,2,3)**

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**STEP 1: Deciding (not) to Segment**

* **Implications of Committing to Market Segmentation:**

Committing to a market segmentation strategy requires a long-term commitment and substantial organizational changes and investments. Market segmentation involves significant costs for research, surveys, designing packages, advertisements, and communication messages. The strategy should only be pursued if the expected sales increase justifies the expenses. Necessary changes may include developing new products, modifying existing ones, altering pricing and distribution channels, and revamping communications, which may also necessitate internal structural adjustments. Organizations should be organized around market segments rather than products to maximize benefits. The decision to pursue market segmentation should be made at the highest executive level and consistently communicated and reinforced throughout the organization.

* **Implication Barriers:**

Several barriers can impede the successful implementation of a market segmentation strategy. These include:

1. Senior Management: Lack of leadership, commitment, and resource allocation from senior management can undermine segmentation efforts.

2. Organizational Culture: Resistance to change, lack of market orientation, poor communication, short-term thinking, and office politics can obstruct implementation.

3. Lack of Training and Expertise: Insufficient understanding of market segmentation among senior management and teams, and the absence of a formal marketing function or qualified data analysts, can hinder progress.

4. Objective Restrictions: Financial constraints and the inability to make necessary structural changes can limit segmentation efforts.

5. Process-Related Barriers: Poor planning, unclear objectives, lack of structured processes, insufficient allocation of responsibilities, and time pressure can negatively impact the segmentation process.

6. Operational Challenges: The complexity of management science and its techniques can deter usage if not presented in an understandable and interpretable manner.

Identifying and proactively removing these barriers is crucial. If removal is not possible, reconsidering the segmentation strategy might be necessary. Implementing segmentation requires a resolute sense of purpose, patience, and dedication to overcome inevitable challenges.

* **Step 1 Checklist**

The first checklist includes not only tasks, but also a series of questions which,

if not answered in the affirmative, serve as knock-out criteria. For example: if an

organisation is not market-oriented, even the finest of market segmentation analyses

cannot be successfully implemented.

**STEP 2: SPECIFYING THE IDEAL TARGET**

The text discusses the third layer of market segmentation analysis, emphasizing the crucial role of user input throughout the process to ensure useful results for an organization. This involvement goes beyond initial briefings or final marketing mix development and requires active participation in most stages.

* In Step 1, the organization commits to investigating the value of a segmentation strategy. In Step 2, the organization must conceptualize and guide many following steps, particularly Step 3 (data collection) and Step 8 (selecting target segments). Specifically, in Step 2, the organization must determine two sets of segment evaluation criteria:

1. Knock-Out Criteria: These are essential, non-negotiable features that any potential segment must meet for the organization to consider targeting it.

2. Attractiveness Criteria: These criteria evaluate the relative attractiveness of market segments that meet the knock-out criteria.

* While the literature typically does not distinguish between these two sets, it provides various possible evaluation criteria in detail.

**Proposed Criteria for Market Segment Evaluation**

The table contains criteria proposed by various authors over time, showing a wide range of considerations for evaluating market segments. The criteria are categorized by source and include aspects such as measurability, substantiality, accessibility, differentiation, profitability, and compatibility with the company.

* Criteria Overview by Source:

1. Day (1984):

Measurable

Substantial

- Accessible

- Sufficiently different

- At suitable life-cycle stage

2. Croft (1994):

- Large enough

- Growing

- Competitively advantageous

- Profitable

- Likely technological changes

- Sensitivity to price

- Barriers to entry

- Buyer or supplier bargaining power

- Socio-political considerations

- Cyclicality and seasonality

- Life-cycle position

3. Myers (1996):

- Large enough

- Distinguishable

- Accessible

- Compatible with company

4. Wedel and Kamakura (2000):

- Identifiable

- Substantial

- Accessible

- Responsive

- Stable

- Actionable

5. Perreault Jr and McCarthy (2002):

- Substantial

- Operational

- Heterogeneous between

- Homogeneous within

6. Lilien and Rangaswamy (2003):

- Large enough (market potential, current market penetration)

- Growing (past growth forecasts of technology change)

- Competitively advantageous (barriers to entry, barriers to exit, position of competitors)

- Segment saturation (gaps in marketing)

- Protectable (patentable products, barriers to entry)

- Environmentally risky (economic, political, and technological change)

- Fit (coherence with company’s strengths and image)

- Relationships with other segments (synergy, cost interactions, image transfers, cannibalization)

- Profitable (entry costs, margin levels, return on investment)

7. McDonald and Dunbar (2004):

- Segment factors (size, growth rate per year, sensitivity to price, service features, external factors, cyclicality, seasonality, bargaining power of upstream suppliers)

- Competition (types of competition, degree of concentration, changes in type and mix, entries and exits, changes in share, substitution by new technology, degrees and type of integration)

- Financial and economic factors (contribution margins, capacity utilization, leveraging factors such as experience and economies of scale, barriers to entry or exit)

- Technological factors (maturity and volatility, complexity, differentiation, patents and copyrights, manufacturing processes)

- Socio-political factors (social attitudes and trends, laws and government agency regulations, influence with pressure groups and government representatives, human factors such as unionization and community acceptance)

8. Dibb and Simkin (2008):

- Homogeneous

- Large enough

- Profitable

- Stable

- Accessible

- Compatible

- Actionable

9. Sternthal and Tybout (2001):

- Influence of company’s current position in the market on growth opportunities

- Competitor’s ability and motivation to retaliate

- Competence and resources

- Segments that will prefer the value created by the firm over current market offerings

- Consumer motivation and goals indicating gaps in marketplace offerings when launching a new company

10. West et al. (2010):

- Large enough

- Sufficient purchasing power

- Characteristics of the segment

- Reachable

- Able to serve segment effectively

- Distinct

- Targetable with marketing programs

11. Solomon et al. (2011):

- Differentiable

- Measurable

- Substantial

- Accessible

- Actionable

12. Winer and Dhar (2011):

- Parsimonious

- Large enough

- Growing

- Competitively advantageous

13. Jain (2012):

- Measurable

- Accessible

- Substantial

- Develops maximum differential in competitive strategy

- Preserves competitive advantage

- Valid even though imitated

14. Kotler and Keller (2012):

- Measurable

- Substantial

- Accessible

- Differentiable

- Actionable

- Segment rivalry (competition)

- Potential entrants

- Substitutes

- Power of buyers

- Power of suppliers

- Compatible with company

15. Pride et al. (2012):

- Sales estimates (potential sales for product item, product line, geographical area in the short, medium, or long term)

- Competitive assessment

- Cost estimates

- Long-term profit opportunities

- Financial resources

- Managerial skills

- Employee expertise

- Facilities to compete effectively

- Fit with corporate objectives

- Legal issues

- Conflicts with stakeholders

- Technological advances

16. Sharp (2013):

- Measurable

- Targetable

- Large enough

- Profitable

Key Points

1. Knock-Out Criteria: These are essential criteria that a segment must meet to be considered. They are non-negotiable and eliminate unsuitable segments automatically.

2. Attractiveness Criteria: These criteria are more flexible and are used to evaluate how attractive remaining segments are. They are selected and weighted by the segmentation team based on the organization's priorities.

This structured approach ensures that organizations can systematically evaluate and select the most promising market segments by balancing essential requirements with overall attractiveness.

**STEP3:**