

Market Segmentation Analysis - Summary Note

Step 1: Deciding (not) to Segment

- Before committing to a market segmentation strategy, organizations must be willing to make substantial changes and investments, such as developing new products, modifying existing products, changing pricing and distribution channels, and adjusting communications with the market.
- The decision to pursue market segmentation must be made at the highest executive level and systematically communicated and reinforced across all levels and units of the organization.
- Barriers to the successful implementation of market segmentation include lack of leadership and resources from senior management, a culture resistant to change, lack of market orientation, lack of training and qualified marketing expertise, objective restrictions, and process-related barriers.

Step 2: Specifying the Ideal Target Segment

- User input is critical for a market segmentation analysis to be useful.
- The organization needs to determine knock-out criteria (essential, non-negotiable features) and attractiveness criteria (criteria used to evaluate the relative attractiveness of market segments).
- Knock-out criteria automatically eliminate some market segments, while attractiveness criteria are negotiated and applied to determine the overall relative attractiveness of each market segment.
- The most popular structured approach for evaluating market segments is the use of a segment evaluation plot showing segment attractiveness along one axis and organizational competitiveness on the other axis.

Step 3: Collecting Data

- Empirical data is essential for both common sense and data-driven market segmentation.
- Descriptor variables are used to describe the segments in detail, and they include socio-demographics and media behavior.
- Good empirical data is required for developing valid segmentation solutions and determining the most effective marketing mix for a segment.
- Survey data is a cheap and easy way to collect data for market segmentation analysis, but the variables included as segmentation variables must be carefully selected to ensure the quality of market segmentation solutions.
- Survey data may contain biases in the form of response styles, which can skew market segmentation results.
- Market segmentation analysis requires a sufficient sample size for accurate results.