

MARKET SEGMENTATION:

The excerpt discusses the importance of marketing planning, which involves both strategic and tactical components. Strategic marketing planning entails setting long-term goals and directions for the organization, focusing on understanding consumer needs, organizational strengths and weaknesses, and external opportunities and threats. Tactical marketing planning, on the other hand, involves translating the strategic plan into specific short-term actions related to product development, pricing, distribution, and promotion.

The analogy of a hiking expedition is used to illustrate the relationship between strategic and tactical marketing planning. Just as choosing the right mountain to climb is a strategic decision, determining the target market and organizational positioning are critical strategic choices. Tactical decisions, such as selecting appropriate gear for the hike, correspond to short-term marketing actions aimed at achieving strategic objectives.

Market segmentation is highlighted as a key aspect of strategic marketing planning. It involves dividing the market into smaller, homogeneous segments based on consumer characteristics and needs. This allows organizations to better understand and meet the needs of specific consumer groups, leading to competitive advantage. Differentiated, concentrated, or undifferentiated market strategies can be employed based on the segmentation approach chosen.

While market segmentation offers various benefits such as improved consumer understanding and better-targeted marketing efforts, it also requires a significant investment of resources. The success of segmentation depends on effective implementation and continuous monitoring to ensure it delivers the expected returns. A poorly executed segmentation strategy can result in wasted resources and missed opportunities for organizational growth.

In conclusion, successful marketing planning involves a careful balance between strategic vision and tactical execution. Strategic marketing sets the foundation for organizational success, while tactical marketing ensures efficient implementation of short-term actions. Market segmentation is a crucial element of strategic marketing, offering opportunities for organizations to better align their offerings with consumer needs and preferences. However, it requires careful planning and execution to realize its full potential.

Market Segmentation Analysis Step-by-Step:

The basic structure is the same for both commonsense and data-driven market segmentation: an organisation needs to weigh up the advantages and disadvantages of pursuing a segmentation strategy, and decide whether or not to go ahead (Step 1). Next, the organisation needs to specify characteristics of their ideal market segment (Step 2). Only after this preliminary and predominantly conceptual work is finalised, is empirical data collected or compiled from existing sources (Step 3). These data need to be explored (Step 4) before market segments are extracted (Step 5). The resulting market segments are profiled (Step 6), and

described (Step 7) in detail. Step 8 is the point of no return where the organisation carefully selects one or a small number of market segments to target. Based on this choice, a customised marketing mix is developed (Step 9). Upon completion of the market segmentation analysis, the success of implementing a market segmentation strategy needs to be evaluated, and segments need to be continuously monitored (Step 10) for possible changes in size or in characteristics. Such changes may require modifications to the market segmentation strategy.

STEP 1 – DECIDING(not) TO SEGMENT

summary:

Implementing a market segmentation strategy requires a long-term commitment from the organization, as it involves substantial changes and investments. Market segmentation is not a short-term solution but rather a long-term commitment akin to a marriage. This commitment includes investing in research, product development, pricing adjustments, distribution changes, and tailored communication strategies. Organizational structure may also need to be adjusted to align with segmented markets. The decision to pursue market segmentation should be made at the highest executive level and communicated consistently across all levels of the organization.

Several barriers can impede the successful implementation of a market segmentation strategy within organizations. These barriers encompass aspects related to senior management, organizational culture, lack of training, absence of a formal marketing function or qualified marketing experts, objective restrictions, and process-related challenges.

Senior management's lack of leadership, commitment, and resource allocation can hinder the segmentation process. Additionally, organizational culture factors such as resistance to change, lack of market orientation, and inadequate communication can pose obstacles. Lack of understanding and training in segmentation concepts among senior management and teams tasked with segmentation is also problematic.

Objective restrictions, like financial constraints or inability to make necessary structural changes, can limit segmentation efforts. Process-related challenges such as unclear objectives, lack of planning, and time pressure can further impede progress.

Addressing these barriers requires proactive identification and removal. If barriers persist, organizations should consider whether to continue pursuing segmentation. Successful implementation demands a resolute sense of purpose, dedication, patience, and a willingness to navigate challenges.

The checklist presented outlines tasks and questions to consider before proceeding with a market segmentation analysis. It serves as a guide to assess the organization's readiness and willingness to undertake segmentation. Key questions address the organization's market orientation, willingness to change, long-term perspective, openness to new ideas,

communication effectiveness, capacity for structural changes, and financial resources availability. Affirmative answers to these questions indicate readiness to proceed, while negative responses suggest potential barriers that may hinder successful implementation.

Tasks include securing visible commitment from senior management, ensuring their active involvement and financial commitment, providing necessary training on segmentation concepts and implications, assembling a qualified team with expertise in marketing and data analysis, setting up an advisory committee, clarifying objectives, establishing a structured process, assigning responsibilities, and ensuring adequate time for analysis without pressure.

By systematically addressing these tasks and questions, organizations can enhance their preparedness for effective market segmentation analysis and implementation.

STEP 2 – SPECIFYING THE IDEAL TARGET SEGMENT

summary:

The third layer of market segmentation analysis involves user input throughout the process, emphasizing the importance of organizational involvement from the outset. In Step 2, the organization contributes by determining two sets of segment evaluation criteria: knock-out criteria and attractiveness criteria.

Knock-out criteria are essential and non-negotiable features that segments must possess for consideration as target segments. Attractiveness criteria, on the other hand, are used to evaluate the relative attractiveness of remaining segments compliant with knock-out criteria.

A variety of criteria proposed in the literature serve as guidelines for segment evaluation, covering aspects such as size, growth, profitability, accessibility, compatibility, differentiation, and competitive advantage. These criteria help segmentation teams assess the suitability and attractiveness of potential target segments.

The segmentation team must select and prioritize from the diverse set of attractiveness criteria based on organizational objectives and needs. While knock-out criteria automatically eliminate certain segments, attractiveness criteria guide the assessment of remaining segments in Step 8 of the segmentation process.

Knock-out criteria are essential standards used to assess whether market segments resulting from segmentation analysis qualify for further evaluation using attractiveness criteria. These criteria, suggested by Kotler and expanded upon by other authors, include factors such as homogeneity, distinctiveness, size, alignment with organizational strengths, identifiability, and reachability.

These criteria serve as non-negotiable requirements that segments must meet to be considered for targeting. While some criteria, like size, are straightforward, others may require specification, such as determining the minimum viable segment size.

Attractiveness criteria, on the other hand, encompass a broader range of factors listed in Table 4.1, which segmentation teams consider when evaluating segments for suitability as target segments. Unlike knock-out criteria, attractiveness criteria are not binary; segments are rated based on their attractiveness across various criteria. The collective attractiveness across all criteria determines whether a segment is selected as a target in Step 8 of the segmentation analysis process.

Implementing a structured process for assessing market segments is widely recognized as beneficial in segmentation literature. One popular approach is using a segment evaluation plot, which plots segment attractiveness against organizational competitiveness. However, before such assessment can occur, the segmentation team must determine the criteria for evaluating segment attractiveness and organizational competitiveness.

This process involves investigating a wide range of criteria and negotiating which factors are most important for the organization. McDonald and Dunbar recommend using no more than six factors as the basis for these criteria. The task is ideally completed by a team, with input from representatives across organizational units to ensure diverse perspectives and stakeholder involvement.

While the segment evaluation plot cannot be completed at this stage, selecting attractiveness criteria early on ensures that relevant information is captured during data collection. Each criterion should be weighted based on its importance to the organization, with team members allocating 100 points across the criteria and negotiating until agreement is reached. Approval from the advisory committee, representing various organizational units, further validates the chosen criteria and weights.

The Step 2 checklist includes convening a segmentation team meeting, agreeing on knock-out criteria, presenting these criteria to the advisory committee, studying criteria for segment attractiveness assessment, agreeing on a subset of criteria, distributing points across selected criteria, negotiating weights, and presenting the final criteria and weights to the advisory committee for discussion and adjustment.

Step 3 – COLLECTING DATA

summary:

Market segmentation relies on empirical data to identify or create market segments and describe them in detail. In commonsense segmentation, a single characteristic, termed the segmentation variable, divides the sample into segments. Descriptor variables, such as socio-demographics or travel behavior, describe these segments in detail.

Data-driven market segmentation, however, employs multiple segmentation variables to identify relevant market segments. These variables serve as the basis for segment identification, with descriptor variables providing additional detail about each segment.

The quality of empirical data is crucial for both commonsense and data-driven segmentation. It ensures accurate assignment of individuals to segments and enables effective segment description, which in turn facilitates customized product development, pricing strategies, distribution channel selection, and advertising.

Empirical data for segmentation studies can be sourced from surveys, observations (e.g., scanner data), or experimental studies. While surveys are common, they may not always accurately reflect behavior, especially for socially desirable actions. Therefore, exploring multiple data sources to find the best reflection of consumer behavior is essential for effective market segmentation analysis.

Before extracting segments or collecting data, organizations must decide on the segmentation criterion, which refers to the nature of the information used for market segmentation. Common segmentation criteria include geographic, socio-demographic, psychographic, and behavioral factors.

The decision of which segmentation criterion to use requires prior market knowledge and cannot be easily outsourced to consultants or data analysts. While various criteria are available, the recommendation is to use the simplest approach that works for the specific marketing context. For instance, if demographic segmentation suffices for the product or service, then it should be used. The key is to choose the criterion that works effectively and efficiently for the product or service being marketed, without unnecessary complexity.

Geographic Segmentation:

Geographic information is a traditional segmentation criterion used for market segmentation.

Consumers' location of residence is typically the sole criterion used in geographic segmentation.

Geographic segmentation is advantageous because it allows for easy targeting of communication messages and selection of communication channels.

However, it has limitations as residing in the same area does not necessarily mean sharing other relevant characteristics for marketers.

Despite its shortcomings, geographic segmentation has experienced a resurgence in international market segmentation studies.

International segmentation studies across geographic boundaries present challenges due to the need for meaningful segmentation variables across regions and potential biases from respondents of different cultural backgrounds.

Socio-Demographic Segmentation:

Socio-demographic criteria include age, gender, income, and education.

While useful in some industries, socio-demographic segments may not always explain specific product preferences.

Demographics typically explain a small percentage of consumer behavior variance.

Values, tastes, and preferences are often considered more influential than socio-demographics in consumer buying decisions.

Psychographic Segmentation:

Psychographic segmentation groups people based on psychological criteria like beliefs, interests, preferences, and benefits sought.

Benefit segmentation and lifestyle segmentation are popular approaches within psychographic segmentation.

Psychographic criteria are more complex than geographic or socio-demographic criteria, often requiring multiple variables for segmentation.

Despite complexity, psychographic segmentation reflects underlying reasons for differences in consumer behavior.

Behavioral Segmentation:

Behavioral segmentation groups consumers based on similarities in behavior or reported behavior.

Behaviors such as prior experience with the product, purchase frequency, and information search behavior can be used for segmentation.

Behavioral segmentation based on actual behavior avoids the need for developing valid measures for psychological constructs.

However, behavioral data may not always be readily available, especially for potential customers who haven't purchased the product.

Data Collection:

Most market segmentation analyses rely on survey data, which is cheap and easy to collect.

Careful selection of variables and response options is crucial to ensure data quality and minimize biases.

Sample size requirements vary based on the complexity of the segmentation problem and data characteristics, but larger samples generally improve segmentation accuracy.

Internal data from organizations can be valuable for segmentation but may be biased towards existing customers.

Experimental data from field or laboratory experiments can also inform segmentation analysis, providing insights into consumer preferences and behavior.

The Step 3 Checklist outlines tasks for convening a market segmentation team meeting, discussing potential segmentation variables, planning data collection, and ensuring data quality throughout the process.

Step 9: Customising the Marketing Mix

Implications for Marketing Mix Decisions:

The process of market segmentation, targeting, and positioning (STP) is essential in strategic marketing. Segmentation involves identifying distinct customer groups, targeting involves selecting specific segments to focus on, and positioning involves creating a unique perception of a product or service within those segments.

Customizing the marketing mix to the chosen target segment is crucial for maximizing the benefits of market segmentation. This customization involves adjusting the four elements of the marketing mix - Product, Price, Place, and Promotion - to better suit the needs and preferences of the target segment.

Organizations may choose to structure their segmentation analysis around one of the 4Ps, depending on their strategic objectives. For example, if the analysis is aimed at informing pricing decisions, variables like price sensitivity and deal proneness are considered. Similarly, different variables are relevant for informing decisions related to advertising and distribution.

Ultimately, insights gained from understanding the target segment guide the organization in developing or adjusting the marketing mix to effectively cater to the chosen segment. This iterative process may involve moving back and forth between segmentation and targeting before making a long-term commitment to specific segments.

Figure 11.1 emphasizes the importance of integrating the target segment decision with other strategic areas like competition and positioning when developing the marketing mix. While the traditional 4Ps model (Product, Price, Place, Promotion) serves as the basis for discussion, each aspect needs thorough review once target segments are selected.

Customizing the marketing mix to the target segment is crucial for maximizing the benefits of market segmentation. This customization may involve designing new products, modifying existing ones, adjusting prices or discount structures, selecting suitable distribution channels, and developing communication and promotion strategies that resonate with the target segment.

Organizations can structure their market segmentation analysis around one of the 4Ps, which influences the choice of segmentation variables. For instance, if the analysis is for pricing decisions, variables like price sensitivity and deal proneness are relevant. Similarly, different variables are considered for advertising and distribution decisions.

While market segmentation analysis isn't typically conducted with a specific 4P in mind, insights from understanding the target segment guide the organization in developing or adjusting the marketing mix to effectively cater to those segments.



PRODUCT:

When considering the product dimension of the marketing mix, organizations must align their offerings with customer needs. This may involve modifying existing products rather than creating entirely new ones. Key decisions include naming the product, packaging, warranties, and after-sales support services.

Using the market segments identified in the Australian vacation activities dataset as an example, targeting a specific segment such as segment 3, which has a high interest in cultural activities like visiting museums and monuments, presents an opportunity for product design or modification. For instance, creating a tailored product like "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" accompanied by an activities pass could cater to their interests. Additionally, highlighting destination gardens as attractions could further appeal to this segment.

In essence, understanding the unique preferences and behaviors of target segments informs product development or modification to better meet their needs and desires, ultimately enhancing customer satisfaction and market competitiveness.

PRICE:

In developing the price dimension of the marketing mix, organizations typically focus on setting prices for products and determining discount strategies.

Using the example of targeting segment 3 from the Australian vacation activities dataset, analysis of expenditure patterns reveals that segment 3 members spend more per person per day compared to other tourists. This suggests that premium pricing strategies could be applied to products tailored to this segment, such as the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" offering.

For the place dimension of the marketing mix, the primary decision revolves around product distribution to customers. Understanding the booking preferences of segment 3 members, such as their propensity for online bookings, informs distribution strategies. For example, ensuring that

products and services, like the aforementioned offering, are easily bookable online aligns with segment preferences and enhances accessibility.

Insights from segment-specific analysis, such as expenditure patterns and booking behavior, guide strategic decisions in pricing and distribution, ultimately optimizing the marketing mix to effectively target and serve specific customer segments.

PLACE:

The place dimension of the marketing mix concerns how products are distributed to customers, encompassing decisions on online vs. offline availability, direct sales vs. intermediaries, and the choice of distribution channels.

In the example of segment 3 and the destination with a rich cultural heritage, insights from a survey on accommodation booking preferences provide valuable information for distribution strategy. By understanding that segment 3 members prefer booking hotels online more frequently than the average tourist, the destination can ensure the availability of online booking options for its offerings, such as the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product.

Visualizing booking behaviors using tools like propBarchart allows for a clearer understanding of segment-specific preferences. For segment 3, it's evident that online booking is prevalent, suggesting that online distribution channels should be prioritized. Collecting further data on booking behaviors for other products, services, and activities can provide additional insights into segment preferences and inform distribution strategies accordingly.

Ultimately, aligning distribution methods with the preferences of target segments enhances accessibility and improves the overall effectiveness of the marketing mix in reaching and satisfying customers.

PROMOTION:

In the promotion dimension of the marketing mix, key decisions involve crafting advertising messages and selecting effective communication channels to reach the target market. Other promotional tools include public relations, personal selling, and sponsorship.

For segment 3, understanding the preferred information sources and TV channels is crucial for designing effective promotional strategies. Analysis reveals that segment 3 members rely heavily on tourist centers for vacation information, indicating a distinct preference. This insight suggests the promotion mix should include tailored information packs available both physically and online through tourist centers.

Moreover, segment 3 exhibits a preference for Channel 7, indicating a distinct TV channel preference compared to other tourists. Leveraging this information, the destination can develop a media plan that maximizes exposure to segment 3 through targeted communication of products like the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" offering.

By aligning promotional efforts with the preferences of segment 3, marketers can effectively communicate product offerings and enhance engagement with the target market.

Summary of Step 9: Customising the Marketing Mix:

Convene a segmentation team meeting: Bring together relevant stakeholders to discuss and analyze the target segment.

Study the profile and detailed description of the target segment: Review the characteristics, preferences, and behaviors of the target segment to understand their needs.

Determine product-related modifications: Identify how products or services should be designed or adapted to meet the specific needs of the target segment.

Determine price-related modifications: Decide on pricing strategies and adjustments tailored to the target segment's preferences and willingness to pay.

Determine place-related modifications: Evaluate distribution channels and methods to ensure products or services are easily accessible to the target segment.

Determine promotion-related modifications: Develop tailored promotional strategies, including advertising messages and communication channels, to effectively reach and engage the target segment.

Review the marketing mix holistically: Assess how all elements of the marketing mix (product, price, place, promotion) work together to meet the needs of the target segment.

Repeat for multiple target segments (if applicable): If targeting multiple segments, repeat the above steps for each segment while ensuring compatibility between segments.

Present proposed marketing mix to advisory committee: Share an outline of the customized marketing mix with stakeholders for discussion and potential modifications.

This checklist ensures thorough customization of the marketing mix to effectively cater to the identified target segment(s) and maximize marketing effectiveness.