

Market Segmentation Analysis

Step 1: Deciding Not to Segment

1.1 Implication of Committing to Market Segmentation

- Before segmentation it is crucial to understand the after effects of segmentation, the long term goals of the organization and the willingness of the organization to accept change.
- If only the expected sales are justifiable, segmentation is recommended.

1.2 Implementation Barriers

There are several barriers that can put a block on market segmentation

1 Senior Management

- Senior leadership who lacks commitment, involvement and also lack leadership qualities reduce the success rate of segmentation.
- Management also prevents a successful segmentation by not providing enough resources in the initial and the long term implementation strategy.

2 Organisational Culture

- Many cultures present in the organization such as resistance to accept new ideas, lack of creativity, bad communication, office politics and many more can hinder the success of market segmentation.

3 Lack of Training

- When senior members of the team and other members don't understand the true meaning of market segmentation and its consequences, then they are most likely to fail.
- Lack of a qualified marketing expert can also be a factor for failure.

4 Objective Restrictions

- These include poor financial resources and the inability to change an organization's structure.
- Management does not accept strategies that they do not understand due to management science. To counteract this, it is essential to make it easy to understand and use visualization techniques.

In summary, there should be a resolute purpose, dedication and a bit of patience before ahead with market segmentation.

Step 2: Specifying the Ideal Target Segment

2.1 Segment Evaluation Criteria

- While analysis of market segmentation, user input throughout the entire process is important. It cannot be limited at the start or at the end the user should be involved in all the stages of analysis.

There are two sets of Segment evaluation criteria

- 1 Knock Out Criteria: These are important and non-negotiable features that the organization targets.
- 2 Attractiveness Criteria: Those features related to the knock out features are examined using the attractiveness criteria.

2.2 Knock-Out Criteria

- One of the important features used to select market segments from the resulting market segmentation analysis. Mostly includes criteria like substantiality, measurability, and accessibility.
 - All the members of the organization must understand the knock out criteria.
- 1 Additional list of criteria that have to be considered while analysis includes:
 - 2 Homogenous: Members must be similar to each other.
 - 3 Distinct: Members must be different from other segment members.
 - 4 Large enough: The segment must contain large number of members.
 - 5 Matching: Must match the organization's goal.
 - 6 Identifiable: Segment must be spottable.
 - 7 Reachable: The organization must be able to reach the members of the segment.

2.3 Attractiveness Criteria

- Attractive criteria are not binary in nature. In this the segments are assessed using rating, they can be less or more attractive regarding a criterion.
- If the attractiveness is higher the criteria is selected as a target segment.

2.4 Implementing a Structured Process

- Following a structured process while selecting market segments is always beneficial.

- One of the most popular structured approaches for evaluating a market segment is the use of a segment evaluation plot. It contains a segment attractiveness along one axis and organizational competitiveness on another axis which is determined by the team.
- For this visualization a large number of criteria has to be evaluated and these criteria should be in agreement with the organization's goal.
- This task should be completed by a team of different representatives of each organizational unit. As each unit has a different task and goal, the implementation of segmentation affects every unit differently.
- Selecting the attractiveness criteria in the early stage will help the organization to understand which market segments relate more to them.
- At the end of this step the segmentation team must have a list of attractiveness criteria with their weights attached to it. These weights can be allocated by asking all the team members to distribute 100 points across the criteria, which then can be negotiated.

Step 3: Collecting Data

3.1 Segmentation Variables

- Market data can be used to identify and create market segments. Based on this data, there is commonsense and data driven market segmentation.
- 1 Commonsense market segmentation: Here the segmentation variable contains one single characteristic of the consumer in the sample.
 - 2 Data driven market segmentation: It is based on multiple segmentation variables for identifying naturally existing, or artificially creating market segments useful for the organization.
- For both the segmentation the quality of the data is critical to correctly describe the segments.

3.2 Segmentation Criteria

- Before the data for segments are collected and before the segments are extracted, segmentation criteria must be chosen. Segmentation criteria relate to the nature of the information used for market segmentation.
- The most common segmentation criteria are geographic, sociodemographic, and behavioural.

3.2.1 Geographic Segmentation

- In geographic segmentation the location of the customer serves as the criterion to form market segments. This approach is often the most appropriate.
- The advantage of this segmentation is that the consumers can be easily assigned to a segment and it is easy to communicate with these segments.
- The disadvantage is that living in the same geographic area does not mean everyone shares the same ideology.

3.2.2 Socio Demographic Segmentation

- Socio demographic segments are useful for some industries for example luxury goods and they include age, gender, income and education.
- The advantage of this segment is that it can be easily determined for each customer.

3.2.3 Psychographic Segmentation

- In Psychographic segmentation, people are grouped according to their activities, opinions and interests. It is more complex than other segmentation because it is difficult to find such characteristics of the people.
- This segment is more reflective of the reasons for differences in customer behaviour. However, due to the increased complexity, the reliability and validity of the data is crucial.

3.2.4 Behavioural Segmentation

- Another approach for segmentation is to search for similarities in customer behaviour. Frequency of buying, past experiences, and the average amount spent while shopping are a wide range of information for segmentation.
- The advantage of this approach is that it contains actual data of the customer and not stated data. But Behavioural data is not easily available in huge amounts.

3.3 Data from Survey Studies

3.3.1 Choice of Variables

- Noisy variables do not contribute to any information and including them increases the dimensionality of the data making the task of extracting the segments difficult. Carefully selecting the variable for both types of segmentation is a crucial step.

3.3.2 Response Options

- Response options given to customers in surveys determine the amount of data available for analysis of segmentation. The amount and quality of response affect the analysis of market segmentation. The types of options available for customers are generally binary, nominal, and metric data and the most commonly used response option is the ordinal option.

3.3.3 Response Styles

- Bias on the response options affects the reliability of the data and if a response bias is displayed consistently over time the majority of the data represents the response style.
- A market segment containing yes to all those responses would reflect a response style but it is critical to minimise this for the purpose of market segmentation.

3.3.4 Sample Size

- Sample size is important because any segmentation algorithm faces problems if the sample size is insufficient. It is not possible to determine the correct numbers of market segments when the sample size is too small.
- Increasing the sample size with small samples improves the correctness of the extracted segments but as the sample size increases the benefit of it also becomes marginal.

3.4 Data from Internal Sources

- Internal data can be used for the purpose of segmentation analysis and these data represent actual behaviour of customers rather than just statements.
- The only disadvantage of this data is that they are biased toward their existing customers and have missing information about other customers.

3.5 Data from Experimental Studies

- Experimental data can be collected from lab experiments. They are results from the test taken by customer's responses to certain surveys.

Step 8: Selecting the Target Segments

8.1 The Targeting Decision

- The selection of segments affects the future performance of the organization and is a vital strategic tool.
- The first task of this step is to select the market segments for targeting and to make sure all the market segments that are still under consideration have passed the knock out criteria test.

8.2 Market Segment Evaluation

- There is no best measure of segment attractiveness or relative organizational competitiveness, therefore users must set their specifications on what an ideal target segment looks like for them.
- The actual values of each market segment are crucial for market segment selection. To determine this value, the segmentation team must group, profile, and describe each market segment, and then assign a value for each attractiveness criterion to each segment. This information is critical for selecting a target segment.

Step 9: Customising the Marketing Mix

9.1 Implications for Marketing Mix Decisions

- Marketing was originally known as a toolbox for assisting in selling products and achieving the best possible sales results. The most common marketing mix consists of the 4Ps: Product, Price, Promotion and Place.
- Marketing segmentation works together with other marketing strategies, especially positioning and competition and is also referred to as segmentation targeting positioning.
- The process starts with extracting and profiling the segments followed by the assessment and selection of the segments. Then evaluate their product to check if it lines with the customer demand.
- To ensure maximum benefits of a market segmentation strategy, the selection of target segments may require the design of new or modification of existing products (Product). The changes to price or discount offer (Price). The selection of suitable distribution

channels (Place). And the development of new promotion strategies that are attractive to the target customer.

9.2 Product

- One of the important decisions to make when developing a product is to make sure the product satisfies the customer's needs. This does not mean designing an entirely new product but modifying the existing product keeping in mind the customer's choices.
- Decisions include: naming the product, packaging, sales support and offers on them.

9.3 Price

- The most basic decision of an organization while developing a product is the price. Setting the price of the product and deciding whether or not to offer discounts to the target consumer.

9.4 Place

- The crucial decision on the place dimension is how to distribute the product to the customers.
- Important answers to the questions should be considered such as: should the product be sold offline or online or both, should the manufacturer sell the product directly to the customers.

9.5 Promotion

- Promotional decisions when designing the marketing mix include the development of an advertisement message that matches the target audience.
- Other promotion ideas include public relations, personal selling and sponsorship.