Session 5: Market segmentation analysis

Part 3 implementing strategic marketing

ILOs: you should be able to understand:
- The concept of reference market
- The objectives of market segmentation
- The advantages and disadvantages of different segmentation methods
- The requirements for effective segmentation
Strategic segmentation steps

Segmentation analysis
- Identify customer needs
- Regroup by segment
- Describe each segment profile

Market targeting
- Assess segment attractiveness
- Evaluate our competitiveness
- Select target segment(s)

Market positioning
- Evaluate competitive positions
- Build differential advantage
- Develop a value proposition

Segmentation performed in two steps:
- Macro-segmentation
- Micro-segmentation

- Macro-segmentation
  - Identifying product markets

- Micro-segmentation
  - Discovering customer “segments” within each of those product markets
Micro-segmentation classifications

1. Descriptive segmentation – socio-demographic
2. Benefit segmentation – customer’s values
3. Lifestyle segmentation – socio-cultural characteristics
4. Behavioural segmentation – actual purchasing behaviours

Segmentation helps define the business and guides strategy

Macro-segmentation analysis

- Cannot satisfy all customers with single solution
  - Different buyers have different preferences
  - Suppliers are moving towards “target marketing”
- A reference market is defined in terms of solutions:
  - Needs or functions (what)
  - Customers (for whom?)
  - Technologies (how?)
- What need is being satisfied for whom and how?
  - Note link to strategy
Reference market as a solution

- 3 questions (must-do, could-do, must-not-do)
  - What businesses is the company in?
  - What businesses could/should the company be in?
  - What businesses should the company not be in?

- Business definition in “solution” terms
  - Must define reference market as generic need (not just a product)

Example of reference market
Market boundary definitions

- “needs, customers, technologies” framework distinguishes:
  - 1. Solution market e.g. “drill hole”
  - 2. Industry definition: e.g. “household appliances”

- 3. Product market definition:
  - Most market-oriented: defines:
    - Customers
    - Benefits
    - Competitors
    - Substitutes
    - Capabilities
    - Key stakeholders

- Boundary changes → PLC
Macro-segmentation grid example

- Example: trucks market
- Needs: transport of goods
- Technologies: air; rail, water; road
- Customers: segment by:
  - Activity – own account, transporting, leasing
  - Fleet size

3-D framework for trucks

- Functions or needs: 'What' is being satisfied
- Customer groups: 'Who' is being satisfied
- Technologies: 'How customers' needs are satisfied
## Truck macro-segmentation grid

<table>
<thead>
<tr>
<th>Fleet Size and Weight</th>
<th>Small (1-4)</th>
<th>Med (4-10)</th>
<th>Large(&gt;10)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities/functions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Own account transporters</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seg 1: 19.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>7.3%</td>
<td>4.5%</td>
<td>1.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Construction</td>
<td>0.1%</td>
<td>1.1%</td>
<td>0.9%</td>
<td>1.4%</td>
</tr>
<tr>
<td>National</td>
<td>4.7%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>3.8%</td>
</tr>
<tr>
<td>International</td>
<td>1.3%</td>
<td>0.9%</td>
<td>0.2%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>0.6%</td>
<td>0.3%</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>16.3%</td>
<td>27.6%</td>
<td>6.7%</td>
<td>19.4%</td>
</tr>
<tr>
<td>Professional transporters</td>
<td>Seg 3: 13.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seg 4: 26.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>1.1%</td>
<td>0.8%</td>
<td>0.9%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Construction</td>
<td>0.2%</td>
<td>1.6%</td>
<td>-</td>
<td>0.4%</td>
</tr>
<tr>
<td>National</td>
<td>1.4%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>3.0%</td>
</tr>
<tr>
<td>International</td>
<td>0.2%</td>
<td>0.7%</td>
<td>0.5%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>0.4%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>10.2%</td>
<td>10.5%</td>
<td>6.7%</td>
<td>22.4%</td>
</tr>
</tbody>
</table>

### The macro-segmentation grid

- As with the trucks, identify **segmentation variables** in terms of needs, technologies and customers
- Refine the analysis by ignoring modes (e.g. non-road)
- Remove non-significant segments and subdivide large ones
- Use **Relevance (Pertinence) Analysis** to develop a realistic segmentation grid by prioritising, collapsing, eliminating, regrouping etc
Macro → Micro segmentation (paint)

**Objective:**
- Analyse needs within each product market (macro-segment)
- Identify groups needing same product benefits → differentiation strategy → competitive advantage

**Descriptive/socio-demographic segmentation**
- Different buyer profiles have different expectations. Examples: {women, men} ↔ {shoes, jewellery etc}
- Low cost but large shifts in demographics, weakening predictive power

**Main demographic segmentation variables:**
- Sex; age; income; geography; education; occupation; family size; social class
- Frequently used in combination
Benefit segmentation

- Emphasis on consumers’ values, e.g. consumer may buy cheap fridge but expensive TV
- Example: watch market
  - Economy segment
  - Prestige and quality segment
  - Fashion segment
  - Symbolic segment
- Market data
  - Multi-attribute product concept is behavioural model
  - Need attributes/benefits list; relative importance; regrouping of similar consumers; estimate of size/profile of each segment
- Example: toothpaste?

Behavioural segmentation

- Behavioural/usage segmentation classifies on purchase behaviour
  - Product-user segmentation:
    - Users; non-users; first-time users; ex-users; potential users; occasional vs. regular users
- Volume segmentation
  - Pareto ratios: key accounts get special treatment
- Loyalty segmentation
  - Hard loyal; soft loyal; switchers, e.g. alcoholic drinks and toothpaste are “loyal”
- Behavioural segmentation used extensively in CRM
Lifestyle segmentation

- Socio-demographic criteria losing predictive value
  - Consumption patterns more personal
- Socio-cultural/lifestyle segmentation supplements s/d
  - Activities; attitude; interests etc
- Objective: relate consumer behaviour to personality variables
- Valette-Florence 3 levels:
  - Value system and personality
  - Activities and interests
  - Lifestyles via purchases

Micro-segmentation in B2B

- Descriptive segmentation
- Benefits segmentation
- Behavioural segmentation
- Benefit segmentation easier in industrial markets
  - Professional buyers
- In practice, several segmentation methods are used simultaneously
### B2B segmentation criteria

**Segmentation criteria**

- **Firmographic forces**
  - Industry sector
  - Number of employees
  - Sales volume
  - Geographic location
  - Financial situation

- **Business culture**
  - Business sophistication
  - Growth orientation
  - Innovativeness
  - Technology
  - Decision-making

- **Usage behaviours**
  - Type of application
  - Volume purchased
  - Time of purchase
  - Frequency of purchase
  - Users, non-users

**Polycolor Market Segmentation Grid**

<table>
<thead>
<tr>
<th>Market indicators</th>
<th>Seg #1 HH-Urban</th>
<th>Seg #2 HH-residential</th>
<th>Seg #3 Pro-Urban</th>
<th>Seg #4 Pro-residential</th>
<th>Total market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total market sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>55,000</td>
</tr>
<tr>
<td>PCL sales</td>
<td>700</td>
<td>1635</td>
<td>1635</td>
<td>700</td>
<td>4670</td>
</tr>
<tr>
<td>PCL market share</td>
<td>3%</td>
<td>8.30%</td>
<td>16.50%</td>
<td>31.80%</td>
<td>8.50%</td>
</tr>
<tr>
<td>Rate of growth</td>
<td>Flat</td>
<td>21%</td>
<td>Flat</td>
<td>21%</td>
<td>6%</td>
</tr>
<tr>
<td>Nr customers (popln)</td>
<td>3000000</td>
<td>3000000</td>
<td>6000000</td>
<td>6000000</td>
<td></td>
</tr>
<tr>
<td>Nr customers (painters)</td>
<td>300</td>
<td>100</td>
<td>400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average volume</td>
<td>Small vol every 4 years</td>
<td>Small vol every 4 years</td>
<td>Large vol; repeat purchase</td>
<td>Large vol; repeat purchase</td>
<td>-</td>
</tr>
<tr>
<td>Buyer behaviour</td>
<td>Comparative shopping</td>
<td>Few comparison opportunities</td>
<td>Knowledgeable buyers</td>
<td>Knowledgeable buyers</td>
<td>-</td>
</tr>
<tr>
<td>Price sensitivity</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>-</td>
</tr>
<tr>
<td>Service sensitivity</td>
<td>Low</td>
<td>Hi</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Quality sensitivity</td>
<td>-</td>
<td>- High</td>
<td>High</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Strength of competition</td>
<td>Strong</td>
<td>Moderate</td>
<td>Strong</td>
<td>Moderate</td>
<td>-</td>
</tr>
<tr>
<td>Distribution network</td>
<td>80/300 outlets</td>
<td>120/700 outlets</td>
<td>80/300 outlets</td>
<td>120/700 outlets</td>
<td>200/1000 outlets</td>
</tr>
<tr>
<td>Outlet share</td>
<td>Outlet share 27%</td>
<td>Outlet share 17%</td>
<td>Outlet share 27%</td>
<td>Outlet share 17%</td>
<td>Outlet share 20%</td>
</tr>
</tbody>
</table>