

Market Segmentation

2

Preparing for segmentation – additional guidelines for success

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Design and setting by P.K. McBride

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Preparing for segmentation – additional guidelines for success

Summary

In addition to knowing where you are heading with your segmentation project and what the route map looks like, both of which were addressed in the previous chapter, it is also important to know what you need to get there. The main purpose of this chapter is to provide you with this information. Other factors that also need to be considered in order to ensure your segmentation project is successful are also covered.

This chapter is organized as follows:

- A brief discussion about the objective of this book and the need to ensure that internal company structures relate to external market segments
- How companies vary on being customer driven and organizationally committed to segmentation
- Issues concerning organizational structure
- A brief review of the impact on companies of the 'postmodern' customer and where the three main issues this identifies are covered in this book
- A look at the bases for international market segmentation
- Views on who should be involved in the segmentation team
- A summary of the data required for segmentation
- The rules for segmentation
- A summary of the advantages of segmentation and the additional benefits of the approach detailed in this book
- Three short case histories illustrating the impact of market segmentation
- A review of the chapter.

■ Objective of this book

The objective of this book is to provide a logical process by which managers can explore whether there is any potential for new business opportunities as a result of re-examining the way in which they define their market segments. It then moves on to identifying the appropriate objectives and strategies for these segments and how segmentation fits into the marketing plan.

Segmentation is a creative and iterative process, the purpose of which is to satisfy customer needs more closely and, in doing so, deliver sustainable competitive advantage for the company. It is defined by the *customers'* needs, not the company's, and should be revisited periodically.

The process is as applicable to business-to-business markets as it is to business-to-consumer markets. Both these markets consist of customers looking for the proposition that best meets their needs at a price they perceive as providing superior value for money. The process is designed to uncover exactly what these needs are and, therefore, what value proposition each segment is looking for.

The process of segmentation also helps identify new opportunities, for products, services and markets.

The importance of segmentation to any business should not be underestimated: market segmentation is the basic building block for effective marketing planning, as discussed in the previous chapter and illustrated here in Figure 2.1, and should reflect a market/customer orientation rather than a product or service orientation.

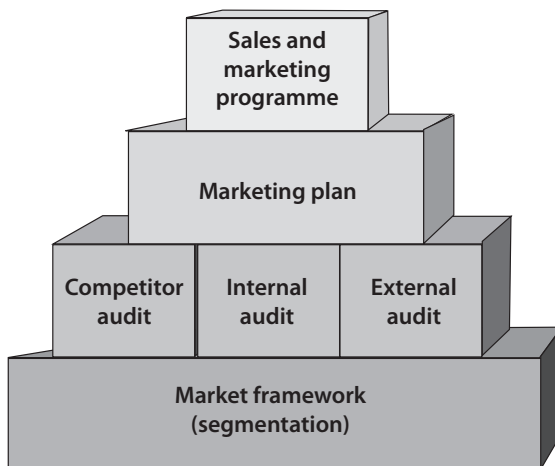


Figure 2.1: The building blocks of effective marketing planning

Most organizations will need to use more than one level of segmentation criteria to identify the customer types and to categorize their specific needs. Organizations are also likely to find that the process of segmentation has to be carried out at more than one stage in the overall distribution and value added chain, different stages having distinct customer types with their own specific needs. (The distribution and value added chain is looked at in Chapter 5.)

Market segments offering the greatest opportunities will be those that are growing and profitable, in which companies can effectively meet their customers' needs of today, or for which companies can develop their products or services to meet the needs of tomorrow.

Following the selection of market segments to be targeted, companies can then develop focused marketing strategies. This planned approach to meeting the needs of customers helps companies to be proactive instead of reactive, enabling them to take advantage of market opportunities and gain competitive advantage.

It should be noted, however, that, while the segmentation process itself is externally focused in its consideration of the market 'out there', companies looking to 'meet their customers' needs effectively', should also consider how the company's own departmental structure and staff relate to the chosen target segments. For example, when a customer from a particular segment contacts your company in the course of doing business with you, it could well negate the company's segmented approach in its external marketing activity if, in dealing with this customer's requirements, the applicable internal department subsumes the customer under one, all-embracing procedure, and fails to match up to the external activity.

No computer program, let alone a book, however advanced, could ever cover all possible market segmentation outcomes. This particular book does not claim to provide the definitive answer to any organization's segmentation problems. What it will do is provide a logical process for you to follow. Above all else, however, it requires you to be creative and flexible in your thinking and asks you not to be hidebound by your current market segmentation definitions.

■ Segmentation archetypes in companies

The 'internal' (company) and 'external' (market) matching required for effective segmentation provides a convenient framework for looking at how companies currently define and segment their markets.

Chapter extract

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