

# Market Segmentation

# 8

## Forming market segments out of like-minded decision-makers

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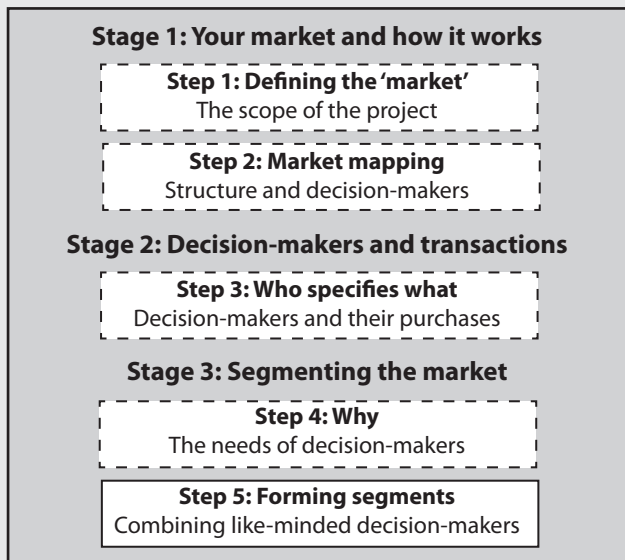


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### Summary

The segmentation process has now reached the point where all the details required for segmenting the market are in place. This, the fifth and final step in the development of segments, as illustrated in Figure 8.1, constructs these segments based on the decisive buying criteria identified in the last chapter.



**Figure 8.1:** The segmentation process – Step 5

Once the segments have been formed, the picture is completed by consolidating for each segment the profiling attributes and estimates of size put together in Step 3 for the customers they now represent.

With a manageable number of micro-segments, internally resourced segmentation projects can conduct this step manually, and this chapter provides the guidelines you require to form

your segments this way. Most internally resourced projects should, therefore, be able to construct their own segments along these lines. The alternative is to use a computer package specifically designed for the purpose, the assistance of which will certainly be required for the quantitative stage of any market research you commission.

This chapter is organized as follows:

- An introduction to 'market segments' and an overview of their key components
- A discussion about the size of segments and economic viability
- Balancing market segments with the number of different marketing strategies a company can handle
- The order of events for developing market segments (clustering) and the clustering routines to consider
- How to carry out visual clustering (pattern matching)
- How to progress through mathematical clustering
- The mechanics for isolating the most important buying criteria
- A brief discussion about 'acceptable differences' between customers
- Working through clustering outcomes that may not have been expected
- Some brief comments about computer-assisted clustering techniques and working with external agencies conducting this analysis
- The rites of passage for a cluster to become a segment, along with some further comments on customer profiling
- A review of this step in the segmentation process
- The concluding segments for the case study and some further examples
- Exercises further to help you with this step.

## ■ The components of a market segment

Definition: ■  
A market segment consists of a group of customers within a market who share a similar level of interest in the same, or comparable, set of needs.

When this book refers to 'segments' in the text it is referring to 'market segments'.

The whole purpose of this first phase of the segmentation process has been to develop segments within the market being covered by your project (**market segments**), each of them populated by decision-makers who share a similar level of interest in the same, or comparable, set of needs. This can then be used to develop the most appropriate offer for each of the segments the company chooses to target.

The first component of a market segment is, therefore, the list of needs that the individuals in that segment regard as important to them when selecting which competing offer to buy.

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