


Market Segmentation

9

Determining the attractiveness of market segments

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 Published by Goodfellow Publishers Limited, Woodeaton, Oxford, OX3 9TJ
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Design and setting by P.K. McBride

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Determining the attractiveness of market segments

Summary

It is neither essential, nor always desirable, to serve every segment in the market. The financial and managerial resources of the company need to be focused into those segments that provide the greatest opportunities for the organization to achieve its objectives. This chapter looks at how a company determines segment attractiveness and is the sixth step in the segmentation process, as illustrated in Figure 9.1.

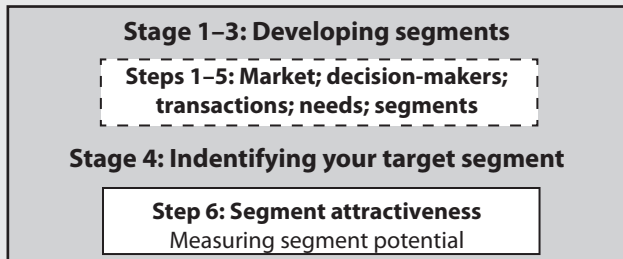


Figure 9.1: The segmentation process – Step 6

This step requires an objective assessment of segment attractiveness using data external to the organization. The criteria themselves will, of course, be determined by the organization carrying out the exercise, but it is important to remember that the criteria should be independent of the organization's position in its segments. As one of these criteria is likely to be the size of the segments, it is essential that you have access to all the current data available that can help you establish, or at least derive informed estimates of, their size by the end of the chosen time period, which is usually three years ahead. The reason for such a lengthy period is that you are interested in sustainable competitive advantage, not just the short-termism that comes with looking only one year ahead.

Segment attractiveness on its own as a basis for allocating scarce resources can, however, be misleading and needs to be balanced with the company's competitive position in each segment before any segment-specific strategies are developed. Assessing the company's competitiveness by segment is looked at in the next step.

This chapter is organized as follows:

- A discussion about portfolio analysis
- An introduction to 'segment attractiveness' and an overview of the steps it involves
- Defining the time period for segment attractiveness
- A brief review of the team for this phase of the project
- Factors to consider in segment attractiveness
- How to indicate the relative importance of each factor
- Defining the parameters for each factor so that segment potential can be gauged
- How to evaluate the attractiveness of segments
- Transferring the results on to a portfolio matrix
- A brief discussion as to why the results may not be as expected
- A review of this step in the segmentation process
- Examples
- Exercises further to help you with segment attractiveness.

■ Portfolio analysis

Portfolio analysis, for the purposes of this book, is simply a means of assessing a number of different segments, first of all according to the potential of each in terms of achieving an organization's objectives, and second according to the organization's ability to take advantage of the identified opportunities.

Definition: ■

A portfolio plots markets, segments or products using at least a two-dimensional matrix in order to balance growth, cash flow and risk.

The idea of a **portfolio** is for a company to meet its objectives by balancing sales growth, cash flow and risk. As individual segments grow or shrink, then the overall nature of the company's portfolio will change. It is, therefore, essential that the whole portfolio is reviewed regularly and that an active policy towards the move into new segments and the exiting of old segments is pursued.

Widely referred to as the 'Directional Policy Matrix' (DPM), portfolio analysis offers a detailed framework which can be used to classify possible competitive environments and their strategy requirements. It uses several indicators to measure the dimensions of 'segment attractiveness' on the one hand, and 'company competitiveness' on the other. These indicators can be altered by management to suit the operating conditions of particular markets.

The purpose of the matrix is to diagnose an organization's strategy options in relation to the two composite dimensions outlined above.

However, before describing in detail how to use the directional policy matrix, it is worth considering its antecedents.

Chapter extract

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