Marketing Strategy: 7 Steps To Market Segmentation

By Otilia Otlacan

Market segmentation is widely defined as being a complex process consisting in two main phases:

− identification of broad, large markets

− segmentation of these markets in order to select the most appropriate target markets and develop Marketing mixes accordingly.

Everyone within the Marketing world knows and speaks of segmentation yet not many truly understand its underlying mechanics, thus failure is just around the corner. What causes this? It has been documented that most marketers fail the segmentation exam and start with a narrow mind and a bunch of misconceptions such as "all teenagers are rebels", "all elderly women buy the same cosmetics brands" and so on. There are many dimensions to be considered, and uncovering them is certainly an exercise of creativity.

The most widely employed model of market segmentation comprises 7 steps, each of them designed to encourage the marketer to come with a creative approach.

STEP 1: Identify and name the broad market

You have to have figured out by this moment what broad market your business aims at. If your company is already on a market, this can be a starting point; more options are available for a new business but resources would normally be a little limited.

The biggest challenge is to find the right balance for your business: use your experience, knowledge and common sense to estimate if the market you have just identified earlier is not too narrow or too broad for you.

STEP 2: Identify and make an inventory of potential customers' needs

This step pushes the creativity challenge even farther, since it can be compared to a brainstorming session.

What you have to figure out is what needs the consumers from the broad market identified earlier might have. The more possible needs you can come up with, the better.

Got yourself stuck in this stage of segmentation? Try to put yourself into the shoes of your potential customers: why would they buy your product, what could possibly trigger a buying decision? Answering these questions can help you list most needs of potential customers on a given product market.

STEP 3: Formulate narrower markets

McCarthy and Perreault suggest forming sub−markets around what you would call your "typical customer", then aggregate similar people into this segment, on the condition to be able to satisfy their needs using the same Marketing mix. Start building a column with dimensions of the major need you try to cover: this will make it easier for you to decide if a given person should be included in the first segment or you should form a new segment. Also create a list of people−related features, demographics included, for each narrow market you form - a further step will ask you to name them.

There is no exact formula on how to form narrow markets: use your best judgement and experience. Do not avoid asking opinions even from non−Marketing professionals, as different people can have different opinions and you can usually count on at least those items most people agree on.

STEP 4: Identify the determining dimensions

Carefully review the list resulted form the previous step. You should have by now a list of need dimensions for each market segment: try to identify those that carry a determining power.

Reviewing the needs and attitudes of those you included within each market segment can help you figure out the determining dimensions.

STEP 5: Name possible segment markets

You have identified the determining dimensions of your market segments, now review them one by one and give them an appropriate name.

A good way of naming these markets is to rely on the most important determining dimension.

STEP 6: Evaluate the behavior of market segments

Once you are done naming each market segment, allow time to consider what other aspects you know about them. It is important for a marketer to understand market behavior and what triggers it. You might notice that, while most segments have similar needs, they're still different needs: understanding the difference and acting upon it is the key to achieve success using competitive offerings.

STEP 7: Estimate the size of each market segment

Each segment identified, named and studied during the previous stages should finally be given an estimate size, even if, for lack of data, it is only a rough estimate.

Estimates of market segments will come in handy later, by offering a support for sales forecasts and help plan the Marketing mix: the more data we can gather at this moment, the easier further planning and strategy will be.

These were the steps to segment a market, briefly presented. If performed correctly and thoroughly, you should now be able to have a glimpse of how to build Marketing mixes for each market segment.

This 7 steps approach to market segmentation is very simple and practical and works for most marketers. However, if you are curious about other methods and want to experiment, you should take a look at computer−aided techniques, such as clustering and positioning.

Otilia is a certified professional with expertise in e−Marketing, currently working as independent

consultant and e−publisher. She developed and teaches Principles of e−Marketing at

http://class.universalclass.com/emarketing

and is also a volunteer Economics teacher. Contact Otilia

through her Marketing portal, at

http://www.TeaWithEdge.com

Slice and Dice

By Jay Nagdeman

Slice and Dice by Jay Nagdeman

Many financial services power−houses−−e.g., Fidelity, CitiBank, Merrill Lynch and MetLife, have adopted a marketing positioning strategy that portrays them as leaders in virtually all segments of the market. As a result, their financial sales and marketing campaigns focus on casting a very wide net in order to attract the largest possible market.

The practices of these industry "Goliaths" have spawned many financial services "Davids" who believe that financial marketing success lies in following the example of these behemoths. Unfortunately, these "me too" marketers are squandering a lot of their limited marketing resources since they can not effectively compete simply by mimicking the financial marketing practices used by the industry giants. For most financial services marketing organizations, trying to pursue every marketplace opportunity is futile. A much more pragmatic, cost−effective financial marketing approach is to maximize the impact of their limited marketing resources by focusing messages on only the most receptive markets. That focus is achieved through careful market segmentation.

Market segmentation is the process of partitioning the marketplace into customer/prospect groupings that have similar characteristics and are likely to exhibit similar behavior. As a key component of an effective strategic marketing plan, market segmentation can facilitate the insightful market analysis, the discovery of underserved niches, and the use of approaches that achieve competitive advantage. The basis of successful market segmentation is well conceived market research that provides insights into meaningful customer traits and guides prioritization of possible target markets and marketing techniques.

General Motors offers an early example of successful market segmentation. In the early 1920s GM redefined its marketing strategy by segmenting car buyers into price/quality brackets. They then differentiated their offerings by focusing products, as well as their advertising and marketing promotion, to meet the needs of each class of buyers. Thus began the renown family of GM products−−Chevrolet, Pontiac, Oldsmobile, Buick and Cadillac. Ford, which offered its standardized Model T in "any color as long as it's black," was caught flat−footed and was forced to close its main River Rouge plant for nearly a year to retool in an attempt to regain a competitive stance.

As the GM example illustrates, implementing an effective market segmentation strategy does not require that a firm alter its products or services. What it does require is that the company:

* Effectively match products and services to the identified needs and wants of customers within the target market segment(s), and
* Craft focused advertising and promotional campaigns that convincingly articulate the value proposition offered by these products/services in addressing the specific needs of the various target markets.

Market segmentation is definitely more an art than a science. Some of the more common segmentation screens utilize geographic, demographic, socio−economic, psychographic, usage and/or benefit considerations. There are, however, also a number of creative market segmentation research and analysis techniques that have proven to be quite effective. Market segmentation offers the uncanny ability to match products and target markets.

In doing market segmentation research for financial services products and services, we find that the inclusion of various "attitude differentiation" factors can be particularly relevant. By using appropriate segmentation screens, marketers can significantly increase the effectiveness of their marketing messages by:

* First, sub−segmenting prospects/clients based on their purchase dispositions as follows:
− Innovators: Those who seek out innovation.
− Early Adapters: Those comfortable with the new and/or different.
− Mainstream: Those who "go with the flow."
− Late Adapters: Those that need an extra nudge to "get with it."
* Then, crafting specific messages that appeal to prevailing attitudes within specific groups based both

on individual disposition and the stage of the particular product or service in its market cycle.

An effective market segmentation strategy can be an important tool in increasing the success of financial sales and marketing communications programs. While most financial services organizations acknowledge the importance of marketing segmentation, very few use this powerful tool to its full potential. Too many firms base their market segmentation strategies on cursory or intuitive analysis of their markets, rather than deliberate market research and target market analysis. With all the potential benefits, we strongly believe that every financial services marketing professional should take a hard look at how to maximize the benefits that market segmentation can offer.

For additional information, please visit us online at www.suasionresources.com.