

Market Segmentation

How to do it

How to profit from it

Malcolm McDonald

and

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Foreword

In 2004, Lord Marshall of Knightsbridge provided the foreword below, which we have retained without amendment, as it encapsulates the spirit and substance of this, our latest 2010 edition of Market Segmentation.

‘One of the abiding principles of sound business practice is: ‘Know your customer; know your market.’

The objective, of course, is to gain competitive advantage by building sustained customer loyalty, with products and services meeting, quite precisely, the demands of closely defined markets.

As markets have become more complex, so has this essentially basic process of market segmentation. It is the view of many that, in both the manufacturing and service sectors, the art of defining target markets rarely progresses beyond the assembly of somewhat dull demographics. The logical conclusion is that, if everybody is doing the same, differential advantage is difficult to attain.

Now, Professor Malcolm McDonald and Ian Dunbar have peeled away the layers of complexity and confusion to produce a step-by-step guide through the difficult terrain of market segmentation. The value of their book to business people everywhere, is that it offers the kind of practical applications needed in today’s intensely competitive marketplace.’

Lord Marshall of Knightsbridge
Chairman, British Airways

Preface and acknowledgements

This book has its origins in a painstaking process of research into the practical difficulties that organizations experience in segmenting their markets, research which we initiated in 1992. We discovered that most of the academic work in this domain is prescriptive, with virtually no pragmatic guidelines provided to enable managers to make sense of the confusing array of data and information available to them.

So we developed a process, which we worked through with some of the best known companies in the world, amending the process until it was sufficiently robust to share with a wider audience. The result was the first edition of this book which was launched in 1995.

Since its launch, the extensive adoption of our market segmentation process by companies ranging from world leaders in their fields to smaller domestic companies has continued to broaden our knowledge base substantially. These insights have enabled us to refine the process, improve the guidelines for its implementation, identify where more detailed explanation is required and, at the same time, develop a quick route through the process for readers looking for a summary of how to implement each step.

The third edition of this book published in 2004 not only built on the improvements introduced into the second edition (1998) with respect to the segmentation process, supporting examples, worked-through case study and worksheets, but also introduced new practical approaches to its implementation, exercises to help with learning and a 'Fast track' for each step in the process.

With further experience of working with companies around the world on their segmentation projects we have been able to identify a number of additional enhancements to our segmentation process. These advances to its practical implementation are all incorporated into this, the fourth edition of the book. This latest edition also contains essential updates and has brought together the 'Fast tracks' into a single chapter. This new chapter, 'Fast tracking through the segmentation process', provides a concise guide for new readers as to what the segmentation process entails, and provides those readers conversant with the approach we take to market segmentation with all the memory prompts required for a segmentation project.

Our presentation of the process in this book enables the segmentation practitioner to follow each step manually, utilizing data already held by, or readily accessible to, the company. An important point we would therefore like to stress

about this book is that it is most definitely a practical book which, if used properly, will result in actionable market segments. To achieve this result will require time and resources. It is not a book just for reading. It is for reading and doing, and is best used by a team, rather than an individual.

Finally, to name everyone who should appear in this acknowledgements section is impossible, because so many clients we have had the privilege of working with and the many colleagues who have been interested in our work have influenced our education, thinking and practical development of the process presented here over the years until it became 'watertight'. One particular colleague we would like to mention, however, is Professor Hugh Wilson, whose work in 'e-marketing' has enhanced our understanding of the issues to be addressed by market segmentation in this modern, electronic, fast-changing world.

We both wish you a happy and profitable segmentation.

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An important note to the reader from the authors



1

Successful segmentation is the product of a detailed understanding of your market and will therefore take time.

2

Segmentation is appropriate for those markets where it is essential to combine individual customers or consumers into larger buying 'units' to ensure your marketing activity is both cost-effective and manageable.

3

The process as presented in this book is aimed primarily at defining segments in terms of the particular marketing mix each requires. Segmentation at higher levels is, of course, possible and many of the principles contained in this book would apply, although in a less detailed form.



For those who need a quick route through the segmentation process, 'Fast tracks' have been put together for each of the steps in the process and can be found in Chapter 3. Be careful however:

A little learning is a dangerous thing.
Drink deep, or taste not the Pierian Spring.

Alexander Pope

Refer to the appropriate chapter whenever this is required to complete a particular step in the process successfully.

■ Deciding on which track you need

It is important that you complete the following questionnaire before you decide on which track you need.

Are you getting these essential deliverables from your market segmentation?

Score out of 10
0 = not at all
10 = totally

Market structure and segmentation

- | | | |
|----|--|-------|
| Q1 | Is there a clear and unambiguous definition of the market you are interested in serving, with the definition based on a specific purpose or intended use, not on a product or service? | [] |
| Q2 | Is the market clearly mapped, showing product/service flows, volumes/values in total, where decisions are made and the quantities they account for? | [] |
| Q3 | Are the segments clearly described and sized? These must be groups of customers with the same, or comparable, set of needs, not demographics or sectors. | [] |
| Q4 | Are the real needs of these segments properly quantified, with the relative importance of these needs clearly identified? | [] |
| Q5 | Are the segments clearly linked to a set of characteristics that identify the customers found within them? | [] |

Target segments

- | | | |
|----|---|-------|
| Q6 | Are all the segments classified according to their relative attractiveness to the company over the next three years based on clear, unambiguous criteria? | [] |
| Q7 | Is there a clear and quantified analysis of how well your company satisfies the needs of these segments compared to competitors, as perceived by the customers found within them? | [] |

Segment-based marketing

- | | | |
|-----|--|-------|
| Q8 | Are your marketing objectives set by segment and consistent with their position in the portfolio? | [] |
| Q9 | Are the strategies for these segments (including products, price, promotion, place and services) consistent with these objectives? | [] |
| Q10 | Is there a structure, information and decision-making system which enables you to serve these segments effectively? | [] |

Total score	[]
--------------------	-------

■ Interpretation

In our experience, not many readers are able to score above 5 on many of these questions. This is not the point, however. The purpose of the questionnaire is to focus your attention at the beginning of the book on what essential deliverables market segmentation should produce. You can then determine the extent to which you need to focus on the detailed contents of this book.

If you work carefully through this book and implement it in your organization, you will be able to give yourself high scores in all boxes. Then, you will be a truly market-focused organization!

Malcolm McDonald and Ian Dunbar

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