Extract from: McDonald, M. and Dunbar, I. (2012). *Market Segmentation: How to do it, how to profit from it.*

Chapter 1

Market segmentation – the bedrock of successful marketing

Summary

This chapter contains a brief review of the state of marketing. It provides some key observations on why it has today lost much of its influence in the corporate world, in spite of all our best efforts. A model outlines what marketing should actually entail if it is to regain its rightful place at the heart of organizational strategy-making. At the core of this model of best practice is market segmentation.

It is the failure to get to grips with market segmentation that lies at the heart of much of marketing's current malaise. This emphasizes the pivotal importance of this book, since little of what is best in marketing theory and practice works without correct market segmentation.

Before starting any project, let alone one as strategically critical as market segmentation, it is important to know where you are heading and what the route map looks like. A clear cut case is presented for the particular methodology to adopt, along with an overview of the process this methodology requires you to follow. Details of the process form the main content of this book.

This chapter is organized as follows:

- A review of marketing
- A definition of 'marketing' and what it actually entails
- The central role of defining markets and segments, and understanding value
- A review of different approaches to market segmentation and why the customer's perspective defines the approach that delivers the best results
- A summary of the two phases and seven steps in the segmentation process
- The importance of setting marketing objectives for segments and implementing appropriate strategies
- A review of the chapter

Perception is everything

There are two principal determinants of whether or not market segmentation is acknowledged as the bedrock of successful marketing:

1. the perceived importance by senior management of marketing's contribution to corporate strategy;
2. the perceived importance by marketing of market segmentation's contribution to marketing strategy.

The first of these depends on the state of marketing in the organization, with the second dependent on marketing's approach to segmentation.

The state of marketing

In numerous companies around the world, dedicated, professional marketers are making major contributions to the financial success of their companies. They achieve this through their detailed understanding of the markets they are in, in-depth insights into the needs of their customers[1] and the development and delivery of carefully targeted value propositions. Yet, in spite of these shining stars, the future does not look good for the marketing discipline.

McDonald (2003) in a review of the record of marketing practitioners, consultants and academics over the preceding twenty years sadly concluded that marketing as an organizational function had been relegated from the position of a core strategy-making engine to a marginalized sales support department, in charge of T-shirts and promotion. To instigate a recovery in marketing and revitalize this key source of competitive power, McDonald went on to recommend that it was essential the marketing function re-established its central role in strategy-making.

Kotler (2003) was also of the same opinion and described marketing as having declined from responsibility for the four 'Ps', product, price, promotion and place (distribution), to responsibility for only one 'P', promotion. As for how marketers could regain influence and status in their organizations, Kotler, like McDonald, also suggested that marketing needed to be a driver of business strategy.

By 2008 it appeared that the final nail had been hammered into marketing's coffin following Deloitte's highly critical report on how the discipline was viewed by senior management. Although the findings of Deloitte's research[2] were largely negative, marketing being seen as less influential, less strategic and less involved in the overall direction of the business than it had ever been, their report also contained some life-lines of hope. For example, the report suggested that chief executives were, in the main, supporters of marketing with, most notably, 85 per cent agreeing, slightly or strongly, that marketing was crucial to the process of determining strategy. While this was certainly encouraging, the report also highlighted that, in reality, many chief executives had no real understanding of what marketing actually is.

From this, and many other papers on the state of marketing, it is not difficult to conclude that in the second decade of the twenty-first century, the discipline of marketing is destined to become increasingly less influential unless there is some kind of revolution, or at the very least a new beginning. Perhaps some paradigm shift will emerge, for little that is new has emerged from marketing for a good many years – and *please* do not say 'relationship marketing'!

So what can be done to recover from this sorry state the marketing community finds itself in?

---

[1] For the purposes of the current discussion we will subsume those who decide which product or service will be bought under the title of 'customer', though, quite clearly, for some companies they will be referred to as 'consumers'. We discuss the difference between 'customers' and 'consumers' in Chapter 4.
[2] The research consisted of in-depth interviews with 217 individuals in senior management positions in companies with a turnover of more than £200 million in five Western European countries.

First, we have to work hard to recapture the high ground – the strategy domain – and firmly establish it as a key, strategic function with a clearly defined purpose which can be measured, researched, developed, protected and examined. This, however, means reaching some kind of consensus about what marketing is.

Margin entry aligned to the beginning of the above paragraph

The marketing community will have to work hard to recapture the high ground – the strategy domain – and firmly establish it as a key, strategic function.

Resolving the confusion about marketing

One of the stumbling blocks to those of us in marketing is the cacophony of definitions of marketing that exist. A selection of twenty such definitions is to be found in McDonald and Wilson (2011), most of which involve *doing* things *to* customers.

What many of these definitions lack is any form of guidance on what should be included and excluded, with the result that they are difficult to use in practice. Just like finance, human resources, or information technology (IT), marketing is a function, a specific business activity that fulfils a fundamental business purpose. Therefore, let us be unequivocal about marketing and in its definition describe marketing in terms of what it actually entails. Marketing is a process for:

- defining markets;
- quantifying the needs of the customer groups (segments) within these markets;
- determining the value propositions to meet these needs;
- communicating these value propositions to all those people in the organization responsible for delivering them, and getting their buy-in to their role;
- playing an appropriate part in delivering these value propositions (usually only communications);
- monitoring the value actually delivered.

For this process to be effective, organizations need to be consumer/customer-driven, which is the main purpose of this book.

Margin entry aligned to 'Marketing'

- Definition: Marketing is a process for:
  - defining markets;
  - quantifying the needs of the customer groups (segments) within these markets;
  - determining the value propositions to meet these needs;
  - communicating these value propositions to all those people in the organisation responsible for delivering them, and getting their buy-in to their role;
  - playing an appropriate part in delivering these value propositions (usually only communications);
  - monitoring the value actually delivered.

  For this process to be effective, organisations need to be consumer/customer driven.

This process is shown diagrammatically in Figure 1.1.

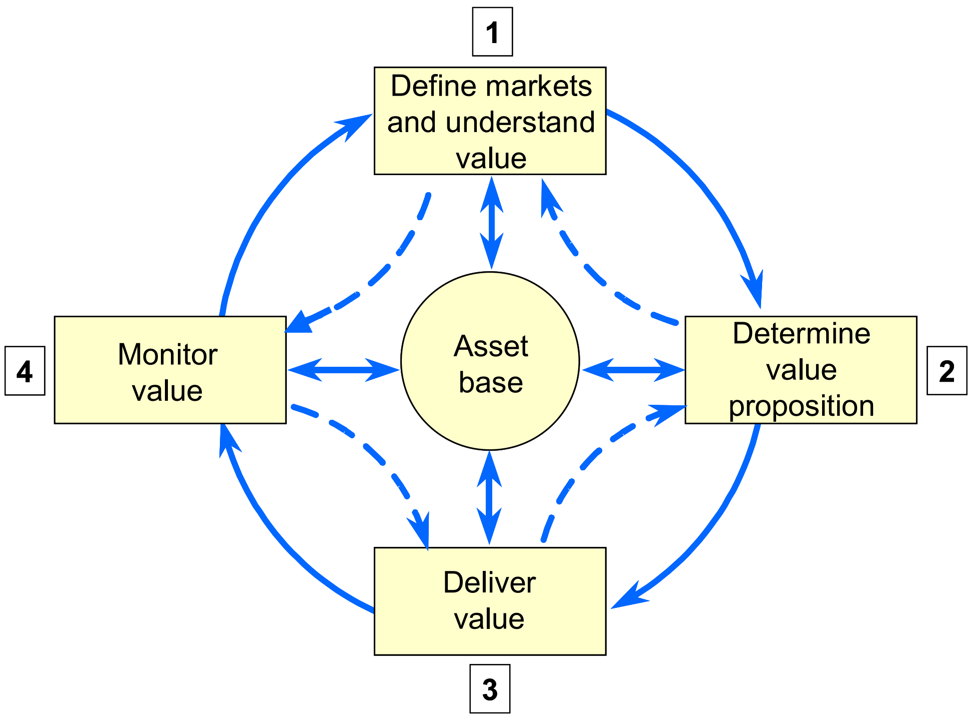

Figure 1.1 The marketing domain

Source: McDonald, M. and Wilson, H. (2011). *Marketing Plans: How to Prepare Them, How to Use Them*. Chichester: Wiley.

Before expanding on each box, it will be clear that boxes 1 and 2 are about strategy determination, while boxes 3 and 4 are about tactical implementation and measurement. It is these latter two that have come to represent marketing as a function as this is where the sales support and promotional activities occur.

> There is a new housing estate not far from one of the authors, where a large, illuminated sign above the front door of the show house 'shouts' out the following words: *'The Marketing Suite'*, loosely translated as: *'This is where you come to get sold to'*. And when government bodies, charities and the like say *'we need marketing'*, what they mostly mean is *'we need some promotion'*.

Looking in a little more detail at each of the boxes in Figure 1.1, it is the very first box, 'Define markets and understand value', that drives and determines all subsequent activities. It is here that markets are defined and where the needs of the customers in the segments comprising the market are understood as a precursor to moving onto the second stage of the process, 'Determine value proposition'.

We have used the term 'Determine value proposition', to make plain that we are here referring to the decision-making process of deciding what the offering to the customer is to be – what value the customer will receive, and what value (typically the purchase price and on-going revenues) the organization will receive in return. The process of delivering this value proposition, such as by making and delivering a physical product or by delivering a service, is covered by 'Deliver value'.

It is well known that not all of the value proposition delivering processes will be under the control of the marketing department, whose role varies considerably between organizations. The marketing department should be responsible for and central to the first two processes, ‘Define markets and understand value’ and ‘Determine value proposition’, although even these need to involve numerous functions, albeit co-ordinated by specialist marketing personnel. The ‘Deliver value’ process is the role of the whole company, including, for example, product development, manufacturing, purchasing, sales promotion, direct mail, distribution, sales and customer service.

The marketing process is clearly cyclical, in that monitoring the value delivered will update the organization's understanding of the value that is required by its customers. The cycle may be predominantly an annual one, with a marketing plan documenting the output from the ‘Define markets and understand value’ and ‘Determine value proposition’ processes, but equally changes throughout the year may involve fast iterations around the cycle to respond to particular opportunities or problems.

Thus, it can be seen that the first two boxes are concerned with strategic planning processes (in other words, developing market strategies), while the third and fourth boxes are concerned with the actual delivery in the market of what was planned and then measuring the effect. Throughout, we use the word ‘proposition’ to indicate the nature of the offer from the organization to the market, including the channels it uses.

Margin entry aligned to the last sentence of the above paragraph

We use the word ‘proposition’ to indicate the nature of the offer from the organization to the market, including the channels it uses.

Further details on what each of the four boxes entail can be found in McDonald and Wilson (2011). A consolidated summary of these details appears in Figure 1.2.

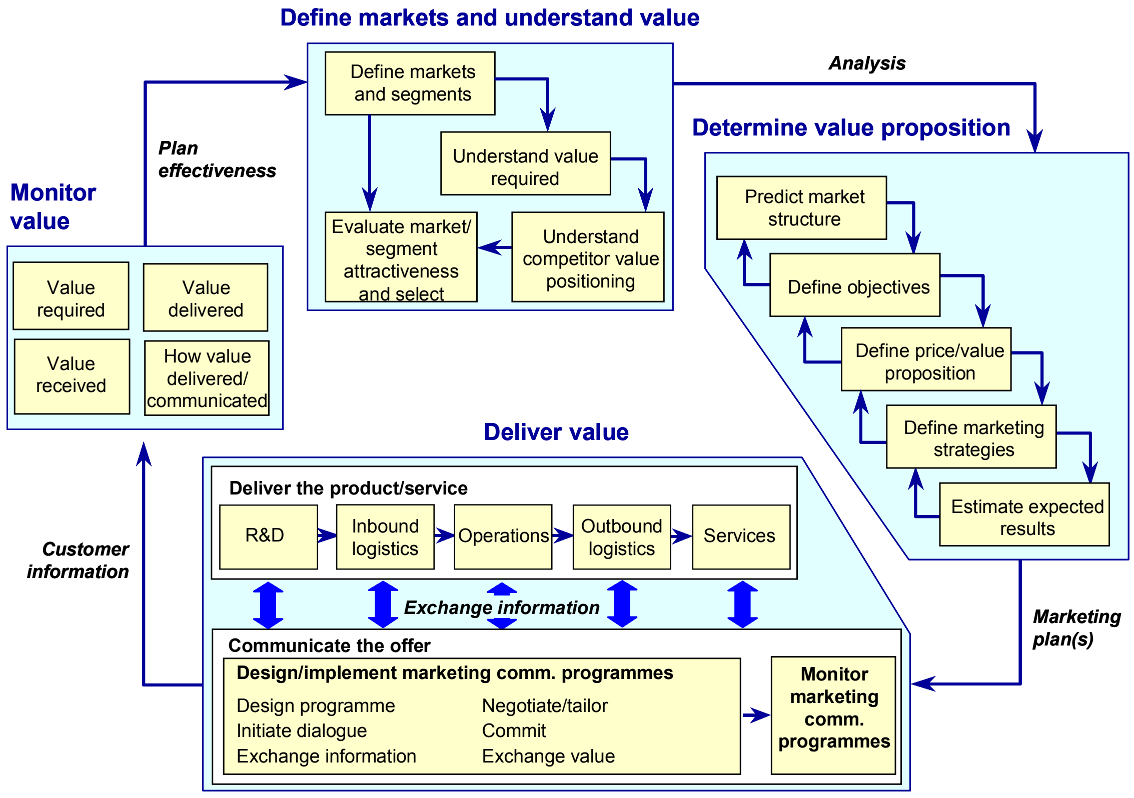

Figure 1.2 Summary of the marketing process

Source: McDonald, M. and Wilson, H. (2011). *Marketing Plans: How to Prepare Them, How to Use Them*. Chichester: Wiley.

The various choices made during this marketing process are constrained and informed not just by the outside world, but also by the organization's asset base. Whereas an efficient new factory with much spare capacity might underpin a growth strategy in a particular market, a factory running at full capacity would cause more reflection on whether price should be used to control demand, unless the potential demand warranted further capital investment. As well as physical assets, choices may be influenced by financial, human resources, brand and information technology assets, to name just a few.

The crucial point about this process is that it is the very first box that determines whether or not marketing is successful. So, let us look at the subject matter of the first box in a little more detail.

The central role of market segmentation

While the fundamental purpose of this book is about market definition and segmentation, the purpose of this section in this chapter is to position the segmentation process as being central not only to marketing but also to every corporate function.

Inputs to box 1 of the marketing process, 'Define markets and understand value', will commonly include:

- the corporate mission and objectives, which will determine which markets are of interest;
- external data such as market research;
- internal data which flows from on-going operations.

As is apparent in Figure 1.2, this stage of the process involves four major sub-processes, repeated here for convenience in Figure 1.3.

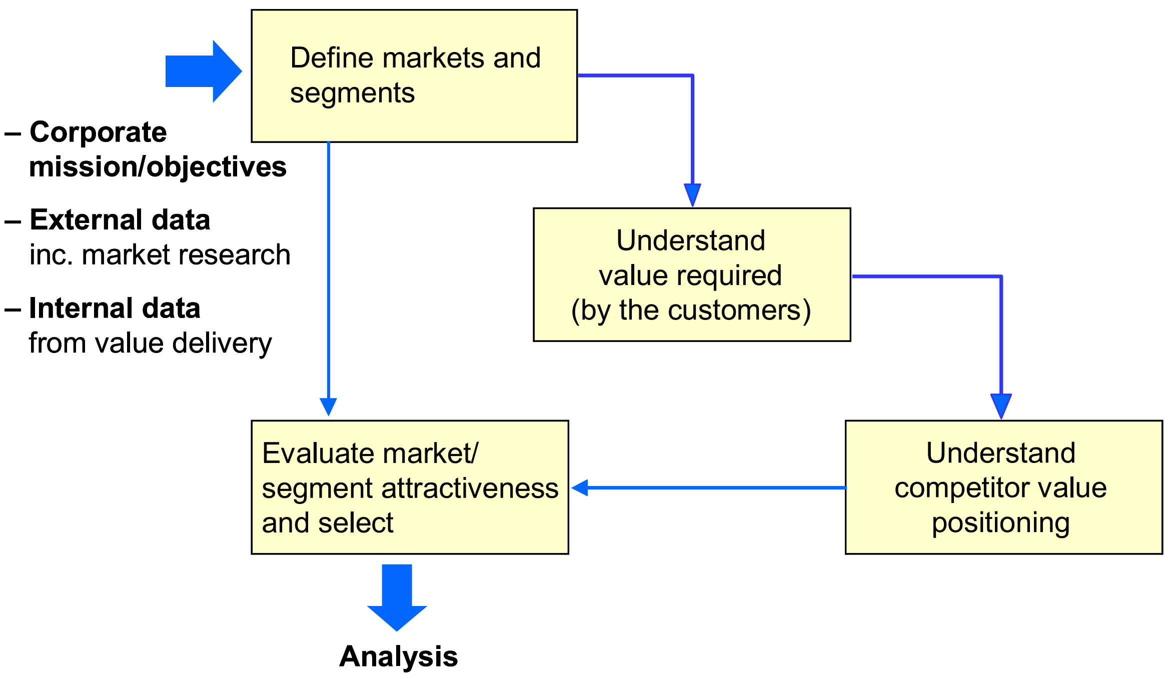

Figure 1.3 Define markets and segments, and understand value

Source: McDonald, M. and Wilson, H. (2011). *Marketing Plans: How to Prepare Them, How to Use Them*. Chichester: Wiley.

First, it is necessary to define the markets the organization is in, or wishes to be in, and how these divide into segments of customers with similar needs. The details of how this can be done are the core of this book. The choice of markets will be influenced by the corporate objectives as well as the asset base. Information will be collected about the markets, such as the market's size and growth, with estimates for the future.

Margin entry aligned to the first sentence of the above paragraph

The essential first step is to define the markets the organization is in, or wishes to be in, and how these divide into segments of customers with similar needs.

Once each market has been defined, it is necessary to understand what value the customers within each of the segments it divides into are looking for. This value is most simply thought of as the benefits gained from the product or service, but it can also encompass the value to the customer of other constituents of the total offer, such as surrounding services (maintenance or information for example), channels, and so on. This step also encompasses what the customer is prepared to give in exchange, in terms of price and other criteria, such as loyalty. Expressing customer value requirements is dealt with in detail in Chapter 7. This step of 'Understand value required' also includes predicting the value which will be required in the future.

'Understand competitor value positioning' refers to the process of establishing how well the organization and its competitors currently deliver the value that the customers seek. Again it involves looking into the future to predict how competitors might improve, clearly a factor in planning how the organization is to respond.

From these three processes, the relative attractiveness of the different markets and, within each of them, the relative attractiveness of their different segments can be evaluated. One tool of relevance here is Porter's five forces model (1985), showing the forces which shape industry competition and hence the attractiveness of a given market, or of a given segment.

The output will be some form of analysis, and one way of summing up much of the key information is in a portfolio matrix. Such a matrix provides a sensible basis for prioritization amongst the many possible product/segment combinations which the organization could address. A detailed methodology for doing this is outlined in Chapters 9 and 10.

To conclude this section, it is abundantly clear that organizations need to understand that, without correct market definition and correct market segmentation, marketing will never occupy a central role in strategy-making. It is also the genuine belief of the authors that only by going back to basics and focusing on the bedrock of successful marketing, namely market segmentation, can the cure be found for the malaise that infects the marketing discipline. This, however, means reaching some kind of consensus about what the 'correct' segmentation methodology is.

Definition of market segmentation

Since Smith (1956) proposed market segmentation as an alternative to product differentiation and Wind (1978) in his review of market segmentation pushed it to the top of the agenda of researchers and practitioners, most of the work on the topic has been around what segmentation bases to use. The alternative approaches considered have included size of purchase, customer characteristics, product attributes, benefits sought, service quality, buying behaviour and, more recently, propensity to switch suppliers.

With the advent of 'relationship marketing' and 'customer relationship management' (CRM), Coviello *et al.* (2002) and many others have gone further and proposed 'one-to-one' marketing as a successor to market segmentation. Wilson *et al.* (2002), however, found that most CRM projects failed because of poor segmentation and Rigby *et al.* (2002) summed this up succinctly by saying that trying to implement CRM without segmentation is like 'trying to build a home without engineering measures or an architect's plan'. Clearly, unless an organization understands the importance of being market driven, concepts such as CRM will simply end up as highly expensive fads with customers all too often remaining the Cinderellas.

Returning to the debate on alternative approaches to segmentation, you may have noticed that we have already laid our cards on the table. In the previous section we described segments as consisting of customers with similar needs.

Margin entry aligned to 'customers' towards the end of the above paragraph

A reminder: For 'customer' also read 'consumer'. A discussion about these two terms appears in Chapter 4.

Acknowledging that a market is not homogeneous and divides into segments is, of course, recognition that not all customers are the same, with market segmentation being the process of splitting customers, or potential customers, within a market into different groups, or segments, but why have we defined segments as consisting of customers with similar *needs*?

Margin entry aligned to 'market segmentation'

• Definition: Market segmentation is the process of splitting customers, or potential customers, in a market into different groups, or segments.

To answer this question, let us first consider who is the *final* arbiter of whether or not a company achieves its corporate financial objectives. (In the not-for-profit sector, 'customer satisfaction' is obviously a proxy for 'financial objectives'.)

Quite simply, for the overwhelming majority of companies in the world, especially those operating in competitive markets, the final arbiter is the customer. In these markets the customers no longer see themselves as playing 'second fiddle' in the marketing stakes, they are becoming more marketing literate, more knowledgeable about the options that are available and are increasingly demanding what they want, where they want it, when they want it and how they want it. Customers choose between competing products and services based on their assessment of superior value, in other words, they choose the proposition that consists of the benefits they are looking for at a price they perceive as providing superior value for money, which, we would add, does not necessarily mean it has to be the 'cheapest'. The challenge for every company is to be able to deliver the winning propositions, profitably. But first, of course, the company has to understand from a customer's perspective what these propositions need to be.

Marketing insight

For some companies, experiencing and then having to accede to the views of their customers is a lesson learnt many years ago. A 'classic' example was the launch in 1985 by the Coca Cola Company of 'New Coke' to replace 'Coke' with the claim that it was offering a better taste. 'New Coke' did not meet the needs of their customers, particularly the emotional tie they had with the original brand, and the Coca Cola Company finally bowed to customer pressure and relaunched 'Coke' as 'Coke Classic' not long after their attempt to replace it. The critical point here is that even mighty multinationals get their just deserts when they ignore the power of the customer.

Customers, therefore, segment themselves and what the company must focus on and understand are the needs that customers are seeking to satisfy and, in doing so, understand the motivations that drive the choices made by customers.

Despite this fundamental truth about market segmentation, supported by the fact that all of us, as customers ourselves, choose between competing products and services on this basis, many companies still predetermine how their market divides into segments based on, for example, such criteria as the products or services offered, or on demographics (sometimes referred to as 'firmographics' in business-to-business markets), and organize their marketing effort principally around these dimensions. The reason for this is that, whereas market segmentation seems comparatively simple as a concept, it is viewed as extremely difficult to implement in practice, requiring, as it does, a *market-based* approach.

The following is a brief review of the 'predetermined' approaches frequently used in market segmentation. In this review we also highlight the part that they can play in a market-based approach to segmentation.

Products and services

The problem with segmenting markets according only to the products or services offered, or the technology type, is that in most markets, many *different* types of customers buy or use the same products or services. For example, if a mail company organizes itself around express packages, or around mail sorting, it is unlikely that the company will ever get to understand fully the real and different needs of, say, universities, banks, advertising companies, direct mail houses, manufacturing companies, retailers, and so on.

However, by understanding which particular features of the product or service appeal to different customers, along with features associated with all the other aspects of a purchase, such as the channel, we have a route for understanding the motivations behind the choices that are made. This is because it is through these features that customers seek to attain the benefits they are looking for. Once this is understood, the needs-based propositions required for different segments can be developed.

Demographics

Variables such as sex, age, socio-economics, and so on, when used to define segments are, by implication, claiming, for example, that every 30–35-year-old will respond to the same proposition, that bishops and pop stars will behave the same way simply because they are in the same socio-economic group. Just reflect, for a moment, on the students in your year at school; would you expect them all to be wearing the same clothes, taking the same types of holidays, pursuing the same interests and driving the same cars? When someone wakes up on their birthday, do they become a stereotype associated with that age? For administrative convenience we would like the answer to be 'yes', but the answer is 'no'.

In business-to-business markets, customers are frequently segmented around business classification lines, which implies that all the companies in a particular sector, such as financial services, have exactly the same requirements and will respond to a single proposition. This approach could well be ignoring one or more of the following:

- different divisions and departments existing behind the business descriptor may have different applications for the product or service you supply. For example, would the mail company mentioned earlier find that the advertising and promotions department has the same requirements and specifications for mail services as the sales ledger department?
- the requirements of, say, advertising and promotions departments may well be the same regardless of business type;
- even within a single division of a company, there may well be different applications for the product or service you supply which, in turn, may have different specifications attached to them;
- segmentation along business classification lines assumes all the companies within the classification employ identical people with identical values. Businesses, of course, do not buy anything; it is their employees you have to sell to!

Although demographics on their own cannot define a segment because they do not define the proposition a segment requires, they have an important role to play in a segmentation project. This background information about customers can be used to identify the particular profiling characteristics associated with the customers found in each segment. In other words, demographics helps identify who is found in each segment which, in turn, will help you determine how to reach them.

Margin entry aligned to 'demographics'

● Definition: Demographics are measurable descriptions of customers.

Margin entry aligned to 'socio-economics'

● Definition: Socio-economic classifications group individuals according to their level of income and/or occupation (or that of the head of household).

Geographics

Rather like demographics, segments based on geographic areas, however tightly defined, assumes that everyone in a predetermined area can be expected to react to a particular offer in exactly the same way. Even at the postcode level this does not appear to work; simply look along your own street. Has everyone got the same furniture, do they buy from the same shops, eat the same food?

Once again, however, although geographic areas on their own cannot define the propositions required by segments and, therefore, cannot define segments, they, too, have a useful role to play in a segmentation project. This particular type of background information about customers can be used to identify the most likely locations the customers in each of the segments may be found and, therefore, further help you determine how to reach them.

A further consideration with respect to 'geography' is its use in international market segmentation. We look at this topic in the next chapter.

Margin entry aligned to 'geographics'

- Definition: Geographics are identifiable locations of customers.

Channels

Routes to market are becoming more sophisticated and complex, a topic we look at in a later chapter in this book, and are also becoming an increasingly important component of many winning customer propositions. Channels in themselves, however, do not define segments as they are simply the means by which customers and companies connect with each other. It is only when you understand the motives behind the channel choices made by customers that the channel component of a needs-based proposition can be developed.

However, even if channel does not feature as a key component of a winning proposition, it is, along with demographics and geography, background information about customers that should be tracked during a segmentation project. It could well be that some segments can be associated with particular routes to market, therefore, it is the channel(s) they use that provides the means for reaching them with their specific proposition.

Psychographics

Here we have another customer insight that can contribute to a segmentation project but, on its own, cannot define the entirety of a winning customer proposition. However, by identifying internal drivers of customer behaviour that can be associated with specific segments, psychographics can help define the most appropriate promotional stance to take. This not only provides the means of catching the attention of target groups in an ever cluttered world of communication, it can also provide the means by which you isolate and reach particular segments.

Margin entry aligned to 'psychographics'

- Definition: Psychographics are a customer's inner feelings and predisposition to behave in certain ways.

What we conclude from this discussion is that, while each of the above approaches to forming customer segments may be administratively convenient, they do not on their own define segments but provide insights that are *contributors* to a successful segmentation project.

Marketing insight	Customers segment themselves, they do not slot themselves into predetermined categories, and the propositions that appeal to them are those that satisfy their needs by delivering the benefits they are looking for at a price they perceive as providing superior value for money.

We can therefore extend the definition of market segmentation so that it captures both its focus and its purpose; market segmentation, therefore, is the process of splitting customers, or potential customers, within a market into different groups, or segments, within which customers share a similar level of interest in the same, or comparable, set of needs satisfied by a distinct marketing proposition.

Margin entry aligned to 'market segmentation'

● Extended definition: Market segmentation is the process of splitting customers, or potential customers, in a market into different groups, or segments, within which customers share a similar level of interest in the same, or comparable, set of needs satisfied by a distinct marketing proposition.

Marketing insight	For companies to fully realize the opportunities available to them in their markets, segmentation projects should focus on customers and their needs.

The failure of numerous companies around the world to grasp this fundamental principal of market segmentation is one of the main reasons why, according to Christensen *et al*. (2005), less than 10 per cent of new products succeed, meaning over 90 per cent of new products fail. In a statistical coincidence, only 10 per cent of the marketing plans evaluated by one of the authors over the last 35 years contained proper needs based segmentation, meaning 90 per cent did not.

Chapters 4 through to 10 of this book guide you through the process for developing needs based segments and for determining which of these segments your company should be operating in. It is presented in a format designed to utilize information already held by, or readily accessible to, your company. It also provides a structured approach for the collection and use of information in segmentation research projects. A summary of the segmentation process concludes this chapter.

Segmentation process summary

The segmentation process consists of two phases:

Phase 1 Developing segments

Phase 2 Prioritizing and selecting segments

The first phase of the process, which covers the essential steps you should follow to develop a segmented structure for a market, is applied to the whole market your business is capable of operating in, not just to that part of the market you are currently successful in. It therefore includes the customers of your competitors, as well as your own, along with the products and/or services bought by these customers.

The second phase of the process then looks at how to select which of the concluding segments your business should be operating in.

Developing segments

This first phase of the process contains three stages, broken down into five steps and is summarized in Figure 1.4.

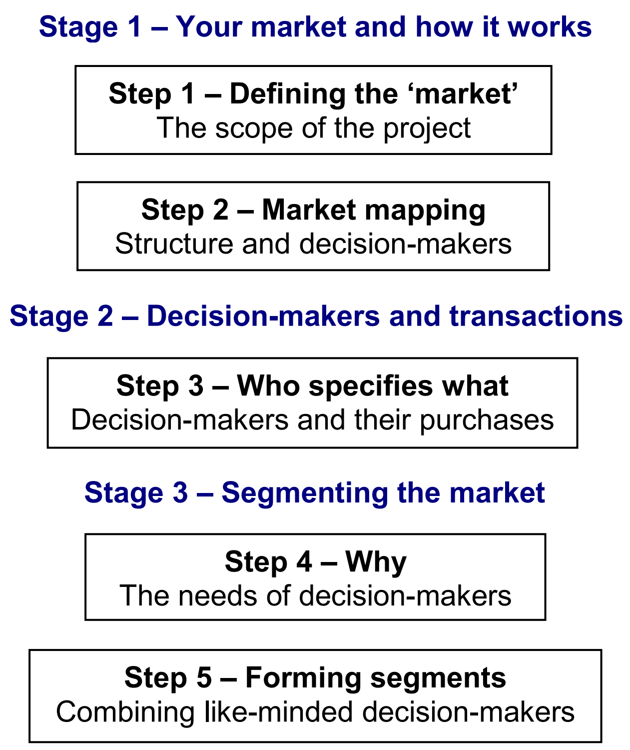

Figure 1.4 The segmentation process:
Phase 1 – developing segments

Stage 1: Your market and how it works

The first step, defining the 'market', establishes the scope of the segmentation project by specifying the geographic area covered by the project and by clearly understanding from a customer's perspective their underlying intentions for entering the market in terms of the use, or purpose they have for the purchase of your products or services or those of your competitors. Where necessary, the scope is modified to take into account the realistic capabilities of your organization.

The second step, market mapping, requires you to present the market being covered by your project as a diagram. It is rather like a flow chart along which cash from the final users flows to you and your competitors, the suppliers, and the products and services from the suppliers flow to the final users. In many markets, however, a flow chart simply tracking the physical stages of the distribution chain is inadequate in covering the role played by 'influencers' on the purchase decision, and/or the purchase decision routines encountered by companies in the market, both of which should appear on a market map.

From the supplier's perspective, the market map, in truth, is probably better described as the obstacle course they have to overcome in order to get through to the final user.

Once the market map is complete, you are then required to determine at which points along it decisions are made about competing products or services, as it is at these points segmentation should occur.

This step also enables you to introduce into the process any current segmentation structure you may have for the market being segmented and to test its validity. The rigour of the process ensures that it will not prejudice the outcome in any way.

Stage 2: Decision-makers and transactions

Step 3 enables you to look at any of the decision-making points on the market map and construct a model of the market based on the different customers found within it and the transactions they make. It requires you to record the key features sought by the market when deciding between competing offers. These are selected from the actual products and services on offer (what is bought) and from the options presented by where it can be bought, when it is bought and how.

It is during this step that information is recorded about the decision-makers which can be used to identify them in the market.

Stage 3: Segmenting the market

Step 4 moves from the transactional look at the market covered in the previous step to looking at the reasons why the features sought by the decision-makers when deciding between alternative offers are important to them. Once the real needs, the real benefits, have been understood, their relative value to each 'cell' in the model generated by Step 3 is assessed. The importance of price in each purchase is also recorded.

Step 5 then describes techniques for grouping these cells together in order to obtain the best fit. Cells similar to each other in terms of the relative importance of the needs they are looking to have satisfied are therefore combined to form 'segments'.

In most markets the number of concluding segments is between five and ten.

This step then subjects each 'segment' to a reality check based on the size of each segment, the differentiation between the offers they require, your ability to identify and reach the different customers found in each segment, and the compatibility of these segments with your company.

To help explain the process of developing segments, in subsequent chapters a case study is used. This not only helps illustrate each step in turn, it also demonstrates how each step relates to the other steps. Further examples are also included where appropriate, both alongside the case and throughout the text.

Prioritizing and selecting segments

The second phase of the process looks at how to select which of the concluding segments from the first phase your company should be operating in and for which it should be developing marketing strategies. There is a single stage in this second phase, broken down into two steps and is summarized in Figure 1.5.

Stage 4 – Identifying your target segments

Step 6 – Segment attractiveness Measuring segment potential

Step 7 – Company competitiveness Company strength by segment

Figure 1.5 The segmentation process:
Phase 2 – prioritizing and selecting segments

Stage 4: Identifying your target segments

Step 6 in the overall process of segmentation first defines the criteria your company would use in order to determine the attractiveness to the company of any segment. The relative importance of these criteria to each other is then established, followed by a means of quantifying each of them.

An overall attractiveness score is then calculated for each concluding segment based on how well each of them satisfies your company's requirements.

The final step in the segmentation process then establishes your company's ability to meet the requirements of each concluding segment, compared with the ability of the competition to meet these requirements, from the *segment's* point of view.

By combining segment attractiveness and relative company competitiveness, you can construct a strategic picture of the market which can be used to select those segments which will enable your company to achieve its corporate objectives.

Marketing objectives and strategies

Segmentation is not an end in itself. Only by developing and implementing the appropriate strategies for each of your chosen segments will your company be able to reap the benefits of segmentation. It is because of this that a chapter has been set aside in this book to discuss the setting of marketing objectives and strategies for segments (Chapter 13).

Chapter 1 review

This chapter highlighted the failure of marketing to have a major influence in boardrooms. We concluded that much of this failure can be attributed to a lack of understanding about what marketing is.

A definition of marketing was put forward which describes what marketing actually entails if it is to have a major impact on corporate strategy development. Each stage of the process this involves was briefly summarized.

It is clear that the critical stage of the process is the first one, namely defining markets and how they split into segments based on understanding the value different groups of customers in each of the markets are looking for. Here, we also identified the significance of establishing an organization's competitiveness by segment and determining the attractiveness of segments to the organization. If this stage is not done correctly, the other stages in the marketing process will be ineffective.

We then discussed different approaches to market segmentation and concluded that understanding customers by their needs was the most appropriate approach to adopt, particularly as this was how customers segmented themselves. This approach also provides companies with the insights they need to produce winning propositions.

Next, we presented an overview of the segmentation process to follow. This has been broken down into two phases, 'developing segments' and 'prioritizing and selecting segments' in which there are seven steps, five in the first phase and two in the second phase.

Finally, we pointed out that segmentation was not an end in itself and that once the segments had been identified, marketing objectives and strategies had to be developed for each segment the company wished to target. Only by implementing these strategies would the benefits from the segmentation project be realized. A chapter on setting marketing objectives and strategies is included in this book.

References

Christensen, C., Cook, S. and Hall, T. (2005). 'Marketing malpractice: the cause and the cure'. *Harvard Business Review*, Vol. 83, No. 12, December, 74–83.

Coviello, N., Brodie, R., Danacher, P. and Johnston, W. (2002). 'How firms relate to their markets: an empirical examination of contemporary marketing practice'. *Journal of Marketing*, Vol. 66, No. 3, 33–46.

Deloitte and Touche LLP (2008). *Marketing in 3D*. Available from www.deloitte.co.uk.

Kotler, P. (2003). 'The decline of marketing from four Ps to one P'. *Market Leader*, Winter, 38–40.

McDonald, M. (2003). 'Is marketing in safe hands?'. *Market Leader*, Summer, 14–16.

McDonald, M. and Wilson, H. (2011). *Marketing Plans: How to Prepare Them, how to Use Them*. Chichester: Wiley.

Porter, M. E. (1985). *Competitive Advantage - Creating and Sustaining Superior Performance*. New York: Free Press.

Rigby, D., Reicheld, F. and Scheffer, P. (2002). 'Avoid the four pitfalls of CRM'. *Harvard Business Review*, Vol. 80, No. 2, 101–9.

Smith, W. (1956). 'Product differentiation and market segmentation as alternative marketing strategies'. *Journal of Marketing*, Vol. 21, July, 3–8.

Wilson, H., Daniel, E. and McDonald, M. (2002). 'Factors for success in relationship marketing'. *Journal of Marketing Management*, Vol. 18, No. 1/2, 199–218.

Wind, Y. (1978). 'Issues and advances in segmentation research'. *Journal of Market Research*, Vol. 15, 317–37.