

Chapter 3

Step 1: Deciding (not) to Segment



3.1 Implications of Committing to Market Segmentation

Although market segmentation has developed to be a key marketing strategy applied in many organisations, it is not always the best decision to pursue such a strategy. Before investing time and resources in a market segmentation analysis, it is important to understand the implications of pursuing a market segmentation strategy.

The key implication is that the organisation needs to commit to the segmentation strategy on the long term. Market segmentation is a marriage, not a date. The commitment to market segmentation goes hand in hand with the willingness and ability of the organisation to make substantial changes (McDonald and Dunbar 1995) and investments. As Cahill (2006) puts it: Segmenting a market is not free. There are costs of performing the research, fielding surveys, and focus groups, designing multiple packages, and designing multiple advertisements and communication messages (p. 158). Cahill recommends not to segment unless the expected increase in sales is sufficient to justify implementing a segmentation strategy, stating (p. 77) that One of the truisms of segmentation strategy is that using the scheme has to be more profitable than marketing without it, net of the expense of developing and using the scheme itself.

Potentially required changes include the development of new products, the modification of existing products, changes in pricing and distribution channels used to sell the product, as well as all communications with the market. These changes, in turn, are likely to influence the internal structure of the organisation, which may need to be adjusted in view of, for example, targeting a handful of different market segments. Croft (1994) recommends that – to maximise the benefits of market segmentation – organisations need to organise around (p. 66) market

segments, rather than organising around products. Strategic business units in charge of segments offer a suitable organisational structure to ensure ongoing focus on the (changing) needs of market segments.

Because of the major implications of such a long-term organisational commitment, the decision to investigate the potential of a market segmentation strategy must be made at the highest executive level, and must be systematically and continuously communicated and reinforced at all organisational levels and across all organisational units.

3.2 Implementation Barriers

A number of books on market segmentation focus specifically on how market segmentation can be successfully implemented in organisations. These books (among them, Dibb and Simkin 2008; Croft 1994 and McDonald and Dunbar 1995) highlight barriers that can impede the successful roll-out of a market segmentation strategy.

The first group of barriers relates to senior management. Lack of leadership, pro-active championing, commitment and involvement in the market segmentation process by senior leadership undermines the success of market segmentation. As McDonald and Dunbar (1995, p. 158) state: There can be no doubt that unless the chief executive sees the need for a segmentation review, understands the process and shows an active interest in it, it is virtually impossible for a senior marketing executive to implement the conclusions in a meaningful way.

Senior management can also prevent market segmentation to be successfully implemented by not making enough resources available, either for the initial market segmentation analysis itself, or for the long-term implementation of a market segmentation strategy.

A second group of barriers relates to organisational culture. Lack of market or consumer orientation, resistance to change and new ideas, lack of creative thinking, bad communication and lack of sharing of information and insights across organisational units, short-term thinking, unwillingness to make changes and office politics have been identified as preventing the successful implementation of market segmentation (Dibb and Simkin 2008). Croft (1994) developed a short questionnaire to assess the extent to which a lack of market orientation in the organisational culture may represent a barrier to the successful implementation of market segmentation.

Another potential problem is lack of training. If senior management and the team tasked with segmentation do not understand the very foundations of market segmentation, or if they are unaware of the consequences of pursuing such a strategy, the attempt of introducing market segmentation is likely to fail.

Closely linked to these barriers is the lack of a formal marketing function or at least a qualified marketing expert in the organisation. The higher the market diversity and the larger the organisations, the more important is a high degree of formalisation (McDonald and Dunbar 1995, p. 158). The lack of a qualified data manager and analyst in the organisation can also represent major stumbling blocks (Dibb and Simkin 2008).

Another obstacle may be objective restrictions faced by the organisation, including lack of financial resources, or the inability to make the structural changes required. As Beane and Ennis (1987) put it (p. 20): A company with limited resources needs to pick only the best opportunities to pursue. Process-related barriers include not having clarified the objectives of the market segmentation exercise, lack of planning or bad planning, a lack of structured processes to guide the team through all steps of the market segmentation process, a lack of allocation of responsibilities, and time pressure that stands in the way of trying to find the best possible segmentation outcome (Dibb and Simkin 2008; McDonald and Dunbar 1995).

At a more operational level, Doyle and Saunders (1985) note that management science has had a disappointing level of acceptance in industry because management will not use techniques it does not understand (p. 26). One way of counteracting this challenge is to make market segmentation analysis easy to understand, and to present results in a way that facilitates interpretation by managers. This can be achieved by using graphical visualisations (see Steps 6 and 7).

Most of these barriers can be identified from the outset of a market segmentation study, and then proactively removed. If barriers cannot be removed, the option of abandoning the attempt of exploring market segmentation as a potential future strategy should be seriously considered.

If going ahead with the market segmentation analysis, McDonald and Dunbar (1995, p. 164) recommend: Above all, a resolute sense of purpose and dedication is required, tempered by patience and a willingness to appreciate the inevitable problems which will be encountered in implementing the conclusions.

3.3 Step 1 Checklist

This first checklist includes not only tasks, but also a series of questions which, if not answered in the affirmative, serve as knock-out criteria. For example: if an organisation is not market-oriented, even the finest of market segmentation analyses cannot be successfully implemented.

| Task | Who is responsible? | Completed? |
|---|---------------------|--------------------------|
| Ask if the organisation's culture is market-oriented. If yes, proceed. If no, seriously consider not to proceed. | | <input type="checkbox"/> |
| Ask if the organisation is genuinely willing to change. If yes, proceed. If no, seriously consider not to proceed. | | <input type="checkbox"/> |
| Ask if the organisation takes a long-term perspective. If yes, proceed. If no, seriously consider not to proceed. | | <input type="checkbox"/> |
| Ask if the organisation is open to new ideas. If yes, proceed. If no, seriously consider not to proceed. | | <input type="checkbox"/> |
| Ask if communication across organisational units is good. If yes, proceed. If no, seriously consider not to proceed. | | <input type="checkbox"/> |
| Ask if the organisation is in the position to make significant (structural) changes. If yes, proceed. If no, seriously consider not to proceed. | | <input type="checkbox"/> |
| Ask if the organisation has sufficient financial resources to support a market segmentation strategy. If yes, proceed. If no, seriously consider not to proceed. | | <input type="checkbox"/> |
| Secure visible commitment to market segmentation from senior management. | | <input type="checkbox"/> |
| Secure active involvement of senior management in the market segmentation analysis. | | <input type="checkbox"/> |
| Secure required financial commitment from senior management. | | <input type="checkbox"/> |
| Ensure that the market segmentation concept is fully understood. If it is not: conduct training until the market segmentation concept is fully understood. | | <input type="checkbox"/> |
| Ensure that the implications of pursuing a market segmentation strategy are fully understood. If they are not: conduct training until the implications of pursuing a market segmentation strategy are fully understood. | | <input type="checkbox"/> |
| Put together a team of 2-3 people (segmentation team) to conduct the market segmentation analysis. | | <input type="checkbox"/> |

| Task | Who is responsible? | Completed? |
|---|---------------------|--------------------------|
| Ensure that a marketing expert is on the team. | | <input type="checkbox"/> |
| Ensure that a data expert is on the team. | | <input type="checkbox"/> |
| Ensure that a data analysis expert is on the team. | | <input type="checkbox"/> |
| Set up an advisory committee representing all affected organisational units. | | <input type="checkbox"/> |
| Ensure that the objectives of the market segmentation analysis are clear. | | <input type="checkbox"/> |
| Develop a structured process to follow during market segmentation analysis. | | <input type="checkbox"/> |
| Assign responsibilities to segmentation team members using the structured process. | | <input type="checkbox"/> |
| Ensure that there is enough time to conduct the market segmentation analysis without time pressure. | | <input type="checkbox"/> |

References

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McDonald M, Dunbar I (1995) *Market segmentation: a step-by-step approach to creating profitable market segments*. Macmillan, London

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