



Segmentation Perspective: Tools and Procedures

Decisive Information Group – DIG Consulting

Why Segmentation?

The ultimate goal of any market segmentation research initiative is to identify homogeneous segments of individuals who warrant special attention by the organization to either acquire new customers/business or retain valued customers. However, more important than coming up with the “right set of groups” is developing a *perspective* on the market that provides actionable strategic insights to achieve the business goals of the organization.

What Is Segmentation?

We believe that market segmentation is the “process” by which an organization develops a perspective on a market or their customers that can be leveraged for some defined marketing objectives. Inherent within this belief is the understanding that there is not a single, correct segmentation solution, but many, potentially, and that the involvement of the strategic management team in creating the segmentation solution is as important as the statistical tools that are applied to create the segmentation.

Segmentation Development Tools

In addition to the tools that are used to create segments, there are a variety of tools and analytic techniques that are employed throughout the process. These include:

- Data reduction techniques (e.g., factor analysis),
- Response modeling tools (e.g., multiple regression), and
- Respondent profiling approaches (e.g., multiple discriminant analysis)

Data reduction techniques have several valuable applications in segmentation work. In particular, they are important in reducing the measurement redundancy in the candidate segmentation basis measures.

Response modeling tools are important in ensuring the relevance of the segmentation structure to actionable management objectives. Specifically, they are used to quantify the extent to which a set of possible candidate basis measures is related to the managerially relevant criterion measures.

Respondent profiling approaches are used to develop a thorough understanding of the similarities and differences existing across a segmentation solution. They are also used to determine the extent to which the segments are unique in some measurable way available to the organization for future targeting.

Structuring Segmentation Models

The actual creation of the segmentation schemes is an iterative process involving

several alternative analytic techniques. While there are a variety of segmentation techniques available, most commonly we employ cluster analysis approaches (hierarchical and partition), latent class modeling and tree analysis techniques, such as CHAID or CART. Although the tools differ, they all attempt to develop a set of groups with high within group homogeneity and high between group heterogeneity.

Our constant focus is the development of actionable segments to achieve management's long term marketing and business objectives. As such, we recognize that market segmentation is an integral part of modern strategic marketing, and that the process of developing a useful segmentation scheme is difficult, requires substantial investment of time and money, and is fraught with opportunity for failure.

Most Segmentations Fail

There are many reasons why some segmentation schemes are less than successful. However, in our view there are three key hazards:

- Segmentation tools produce groups without any standard, objective criterion regarding their value. As a result, segmentations frequently fail due to an inability to align the segmentation with desired business goals and targeting programs.
- Each part of the strategic marketing process requires somewhat different information needs (e.g., for product development vs. targeting), and it is difficult to fully satisfy all needs with a single segmentation structure. The

fact that different segmentation schemes are increasingly found within a marketing organization underscores this point.

- Inadequate attention is given to the composition of the project team and work process, resulting in a segmentation that is not fully embraced by all necessary stakeholders or does not account for the various requirements for implementation.

As we believe that market segmentation involves developing a *perspective* on the market that provides actionable strategic insights to achieve the business goals of the organization, the composition and strength of the project team and the work process, rather than any particular statistical method or system used to develop the segmentation structure, is the single most important key to success.

About DIG Consulting

Decisive Information Group (DIG Consulting) is an independent research company with deep roots in marketing. We provide a full range of market research and strategic consulting services to corporations, associations and non-profits that market to either consumers or businesses.

For more information, please contact us at 415.989.9858 or visit us on our web site.



Co-authored by:

Lynn DeVon, Ph.D. – DIG Consulting
Jackie Dawley, Ph.D. – Insight Analysis