
Correct Market Segmentation - the bedrock of success

**Professor Malcolm McDonald
21st January 2009**

Objectives

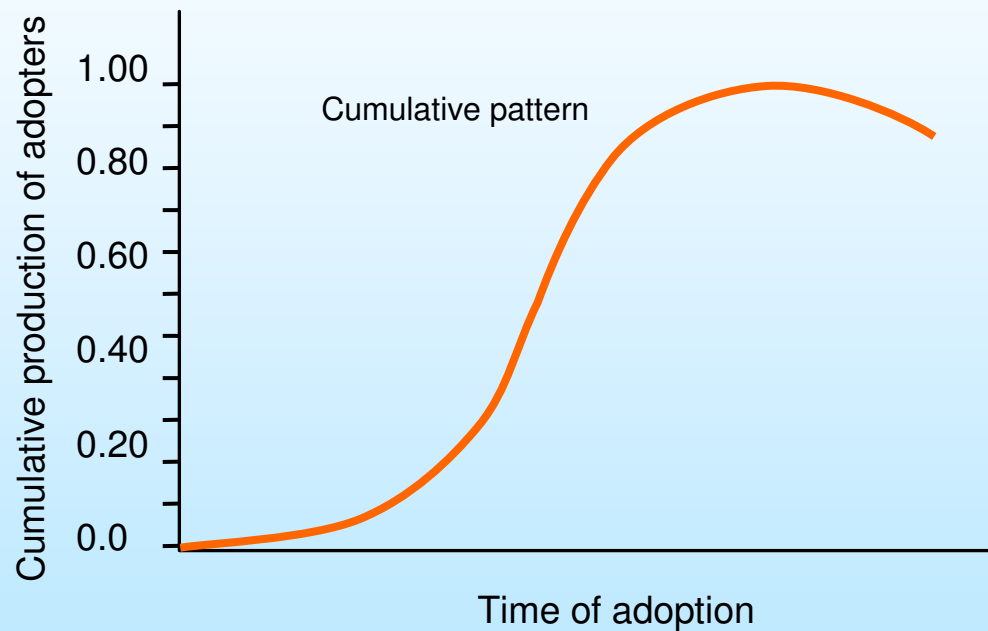
- To highlight the pivotal role of market segmentation in organisation success.
- To outline a proven methodology for segmenting markets.

Challenges

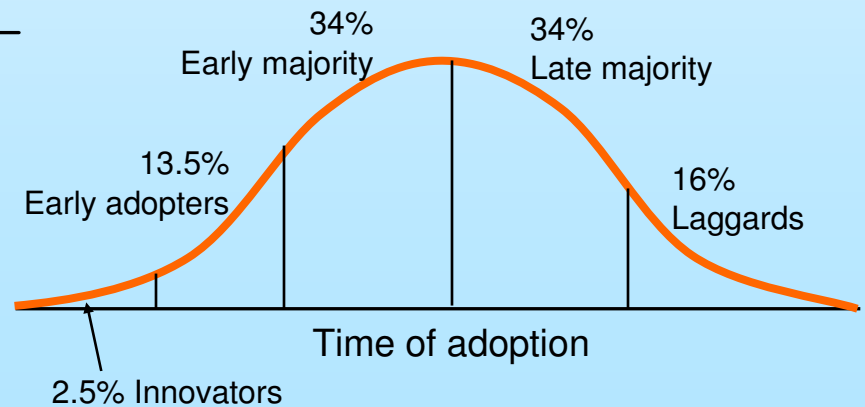
- Market maturity
- Globalisation
- Customer power

Generalised cumulative and non-cumulative diffusion patterns

Cumulative diffusion pattern



Non-cumulative diffusion pattern



The product / market life cycle and market characteristics

<i>Key Characteristics</i>	Unique	Product Differentiation	Service Differentiation	"Commodity"
<i>Marketing Message</i>	Explain	Competitive	Brand Values	Corporate
<i>Sales</i>	Pioneering	Relative Benefits Distribution Support	Relationship Based	Availability Based
<i>Distribution</i>	Direct Selling	Exclusive Distribution	Mass Distribution	80 : 20
<i>Price</i>	Very High	High	Medium	Low (Consumer Controlled)
<i>Competitive Intensity</i>	None	Few	Many	Fewer, bigger International
<i>Costs</i>	Very High	Medium	Medium/Low	Very low
<i>Profit</i>	Medium/High	High	Medium/High	Medium/low
<i>Management Style</i>	Visionary	Strategic	Operational	Cost Management

Needs Based Segmentation

- Over 25 years
 - 60 MBA plans per annum
 - 60 practitioner plans per annum
- = 3,000 strategic marketing plans
- Of which 500 had needs based segmentation
- = 16 per cent

Professor Malcolm McDonald, February 2006

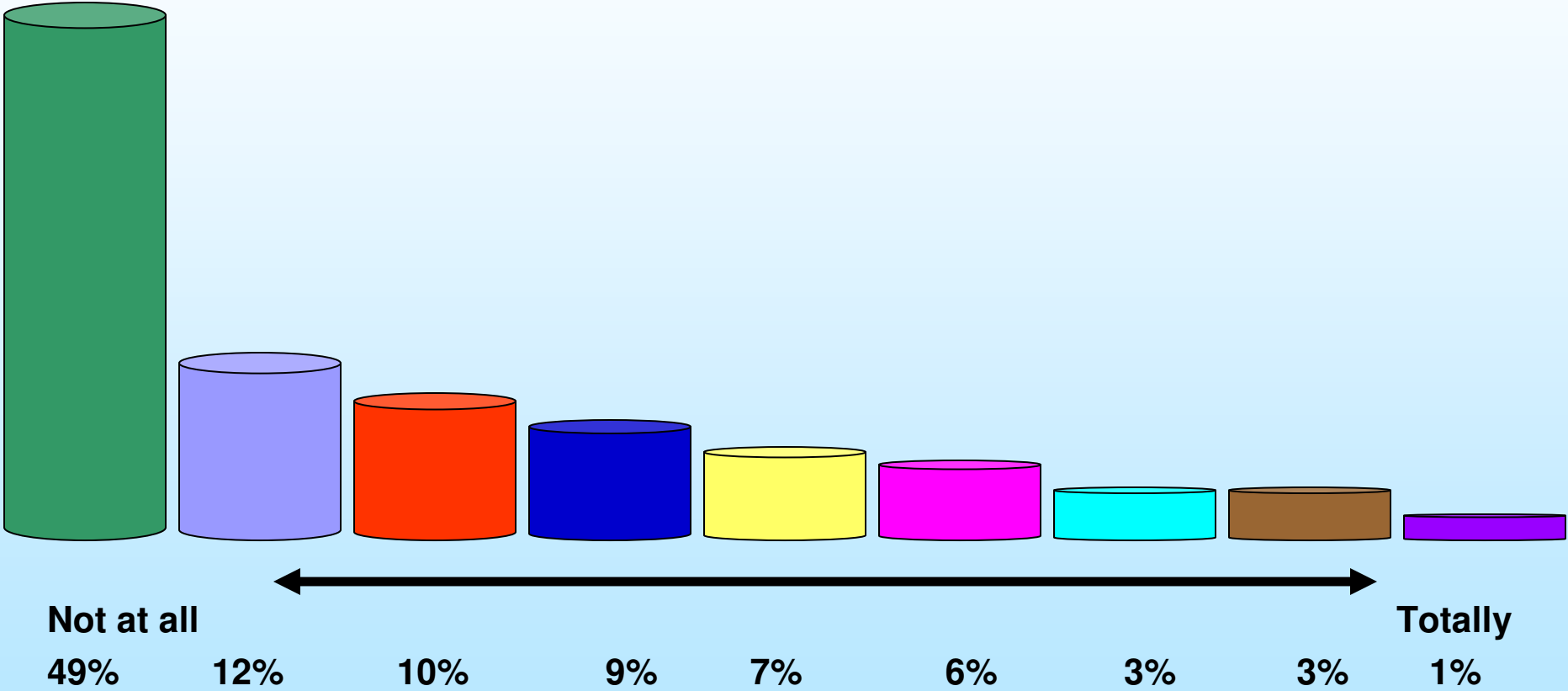
Market Segmentation

- 30,000 new consumer products are launched each year.
- 90% of them fail. Why?
- Fundamental paradigms such as market segmentation are broken.

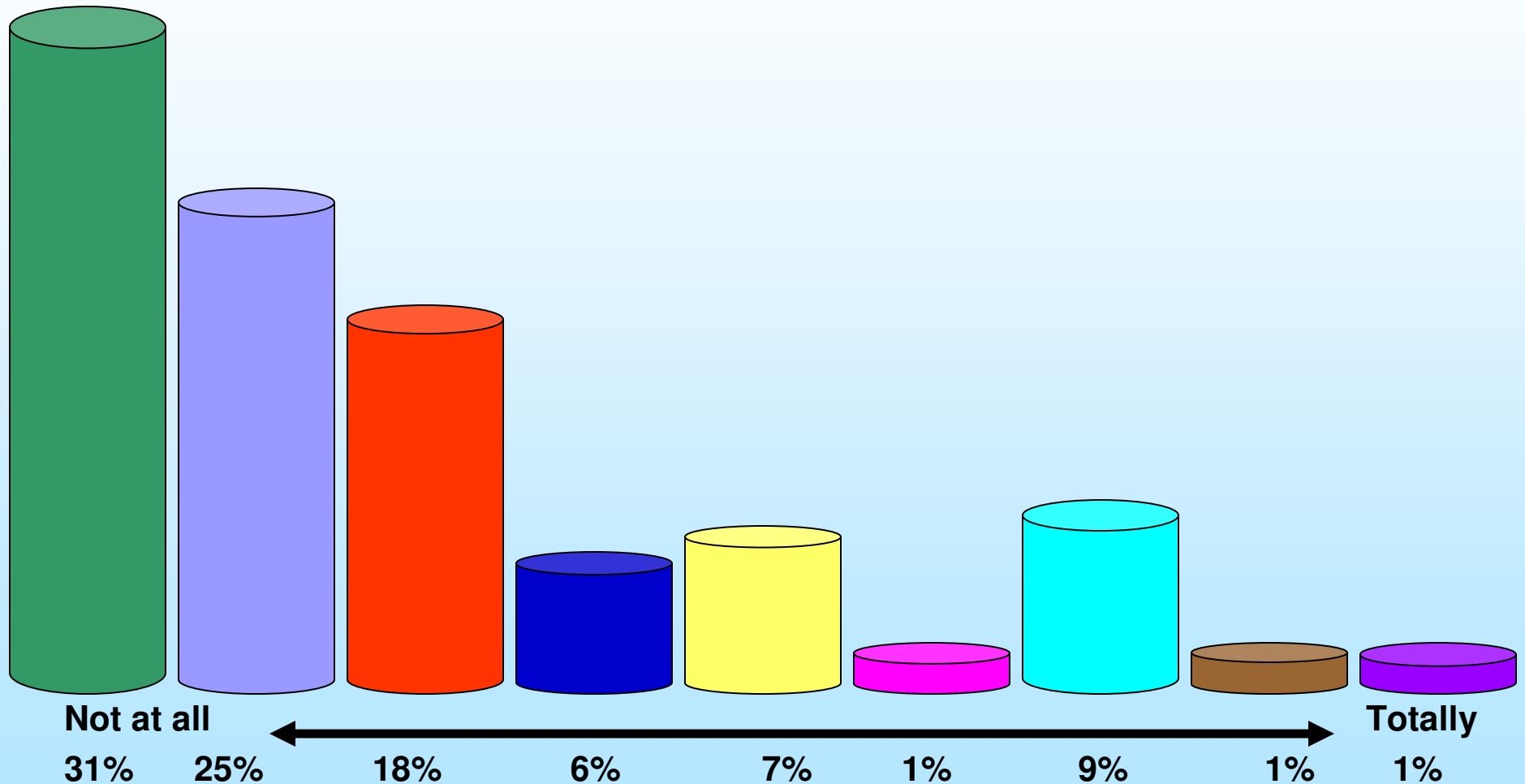
Christensen C, Cook, S, Hall, T. 'Marketing Malpractice. The Cause and the Cure', HBR, December

2005, pp. 74-83

We measure customer retention by market segment.



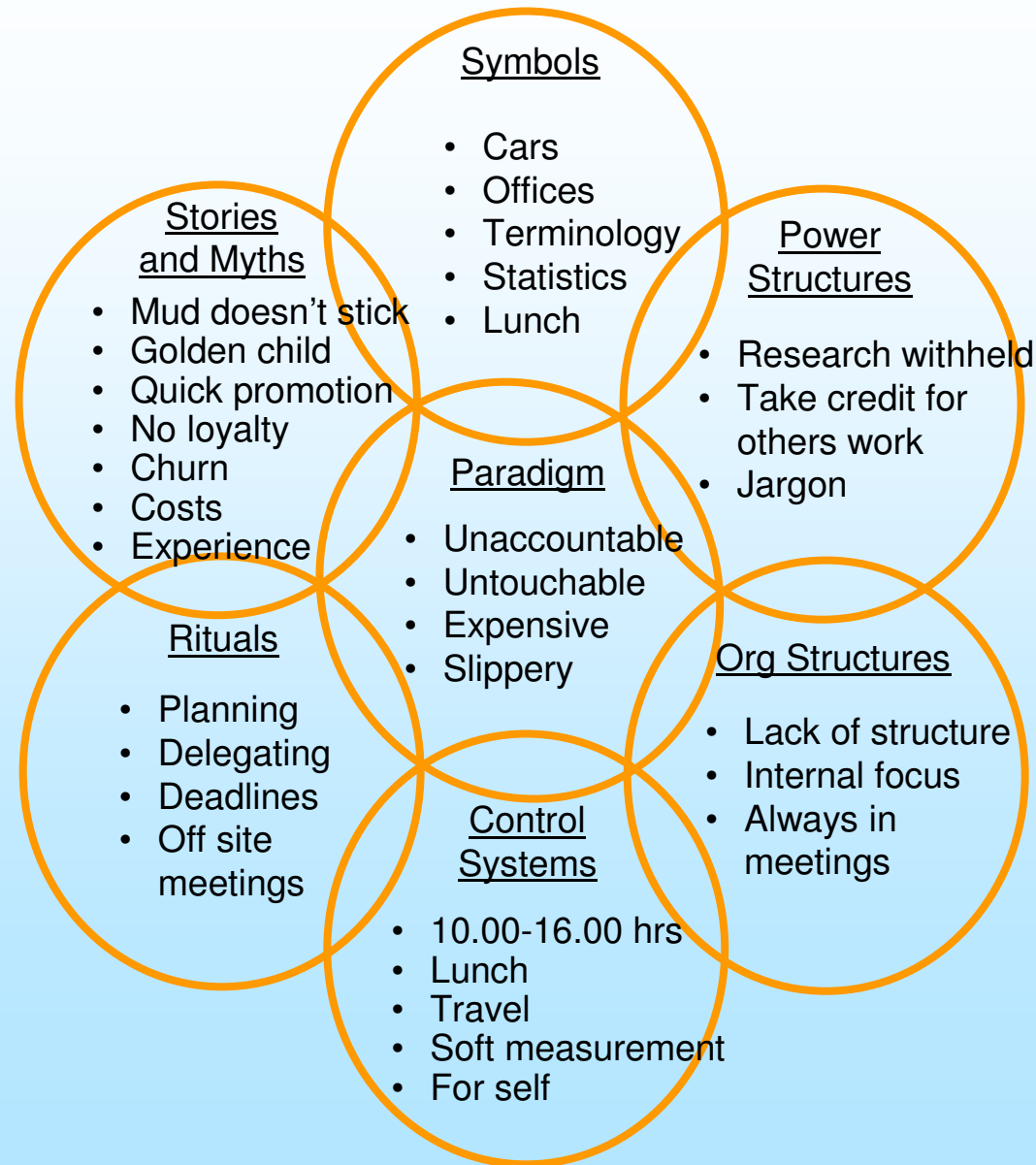
We know the financial impact of all the elements of our marketing strategy and we measure and report them to the board.



Measurement of segment profitability

	Total Market	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6
Percentage of market represented by segment	100.0	14.8	9.5	27.1	18.8	18.8	11.0
Percentage of all profits in total market produced by segment	100.0	7.1	4.9	14.7	21.8	28.5	23.0
Ratio of profit produced by segment to weight of segment in total population	1.00	0.48	0.52	0.54	1.16	1.52	2.09
Defection rate	23%	20%	17%	15%	28%	30%	35%

The Cultural Web (What senior non marketers believe about marketers)



Britain's top companies (Management Today)

Year	Company ¹	Market Value (£m)	ROI ²	Subsequent performance ³
1979	MFI	57	50	Collapsed
1980	Lasmo	134	97	Still profitable
1981	Bejam	79	34	Acquired
1982	Racal	940	36	Still profitable
1983	Polly Peck	128	79	Collapsed
1984	Atlantic Computers	151	36	Collapsed
1985	BSR	197	32	Still profitable
1986	Jaguar	819	60	Acquired
1987	Amstrad	987	89	Still profitable
1988	Body Shop	225	89	Still profitable
1989	Blue Arrow	653	135	Collapsed

1. Where a company has been top for more than 1 year, the next best company has been chosen in the subsequent year e.g.. Polly Peck was related top 1983, '84 and '85
2. Pre-tax profit as a percent of investment capital

From Professor Peter Doyle, Warwick University

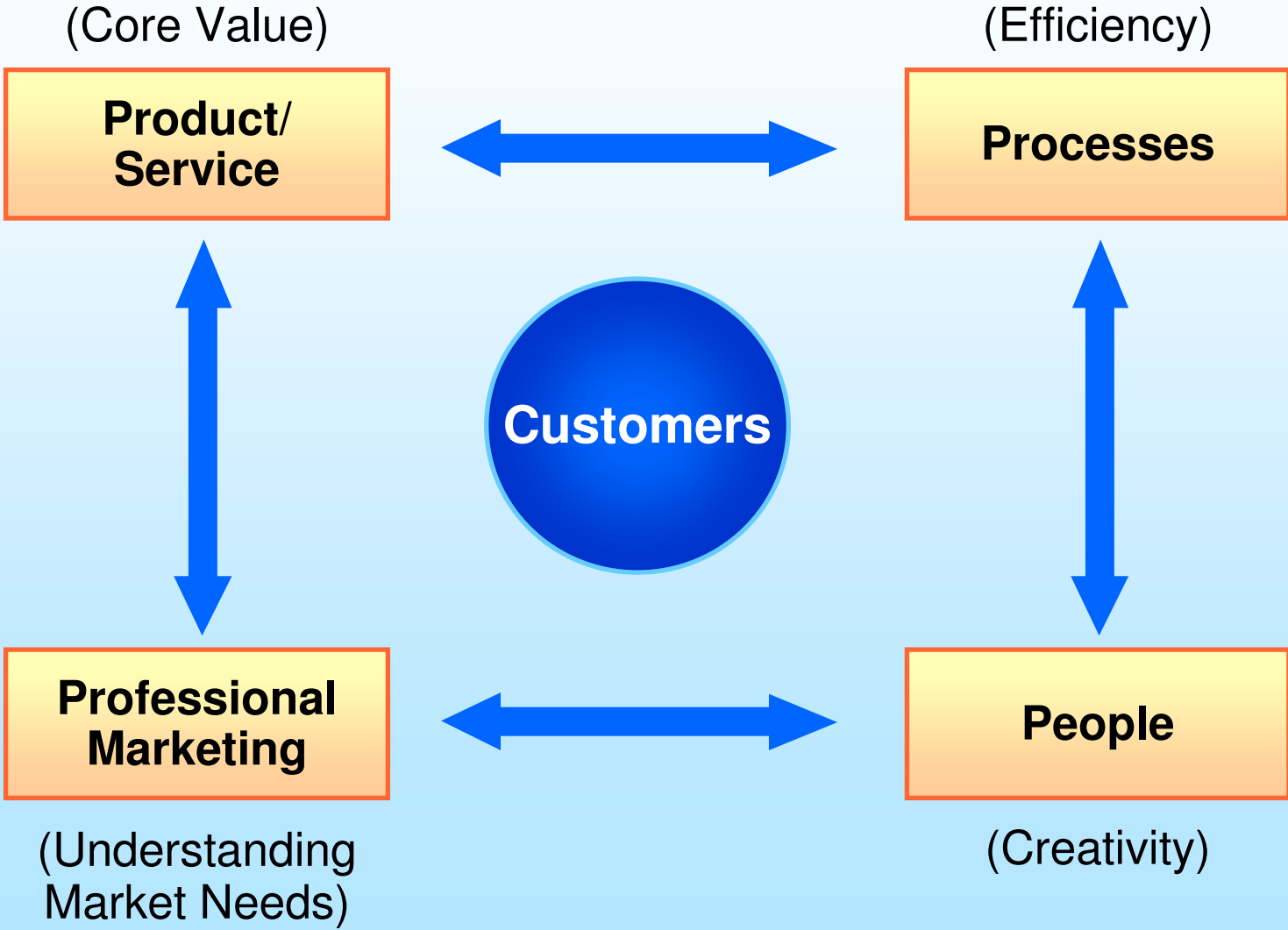
Britain's top companies

Year	Company ¹	Market Value (£bn) ²	ROI ³ %	Subsequent performance
1990	Maxwell Communications Plc	1.0	5	Collapsed
1991	Imperial Chemical Industries Plc	8.6	13	Collapsed
1992	Wellcome Plc	8.3	40	Acquired
1993	ASDA Group	1.6	7	Acquired
1994	TSB Group Plc	3.7	20	Acquired
1995	British Telecommunications Plc	22.2	17	Not Profitable
1996	British Steel Plc	3.3	19	Collapsed
1997	British Airways Plc	6.1	7	Not Profitable
1998	National Westminster Bank Plc	19.6	14	Acquired
1999	Marconi Plc	29.8	22	Acquired
2000	Marks & Spencer Plc	5.3	7	Not Profitable

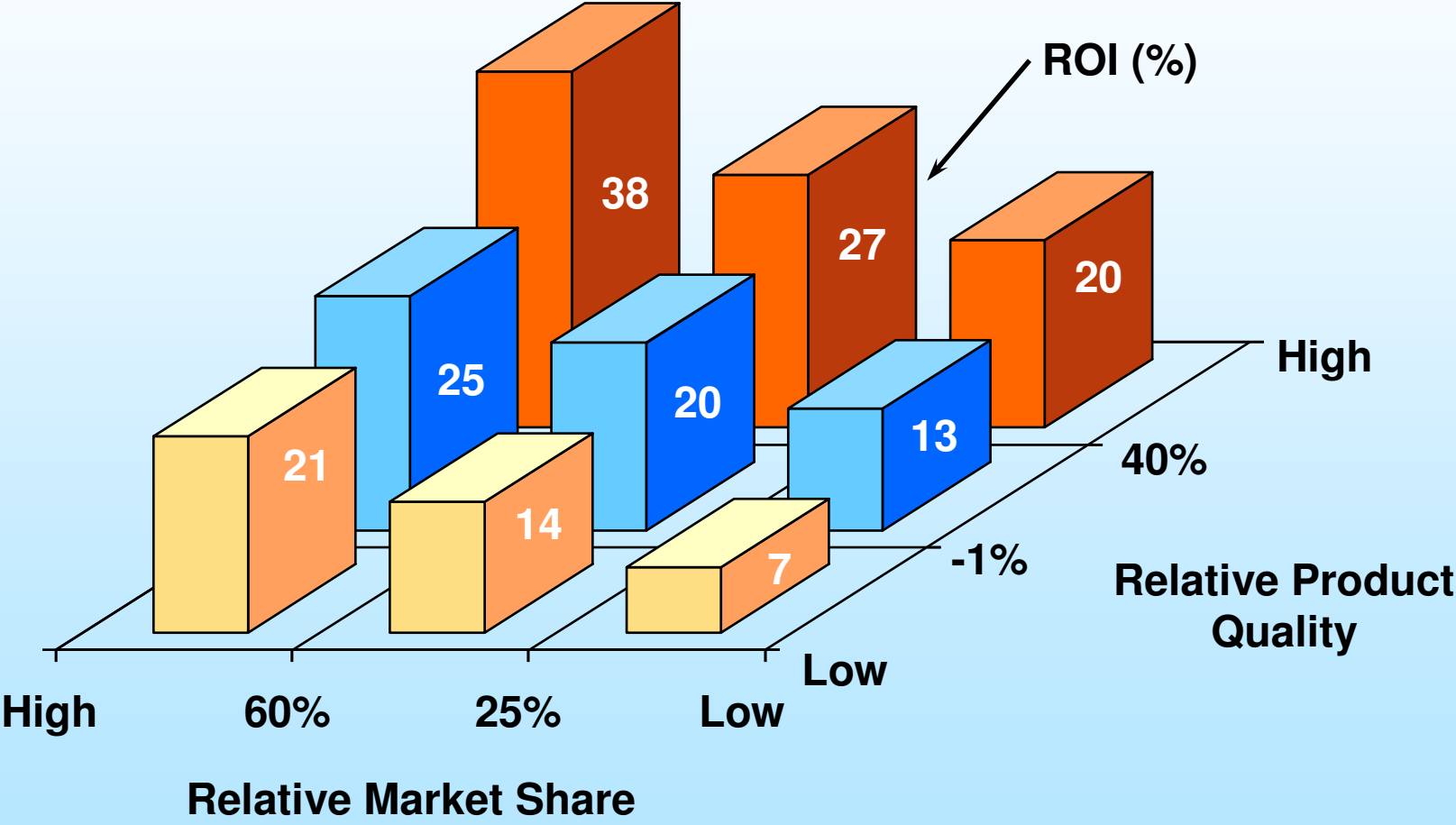
1. Each company was a FTSE100 when selected
2. Market Values as of 31 December of each year
3. Pre-tax profit as a percent of Equity & Long Term Debt

From Professor Malcolm McDonald

How excellent companies are responding

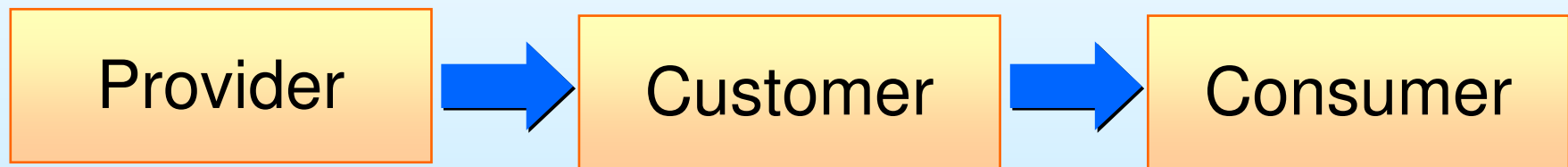


Quality and share both drive profitability



Source: PIMS

The value chain



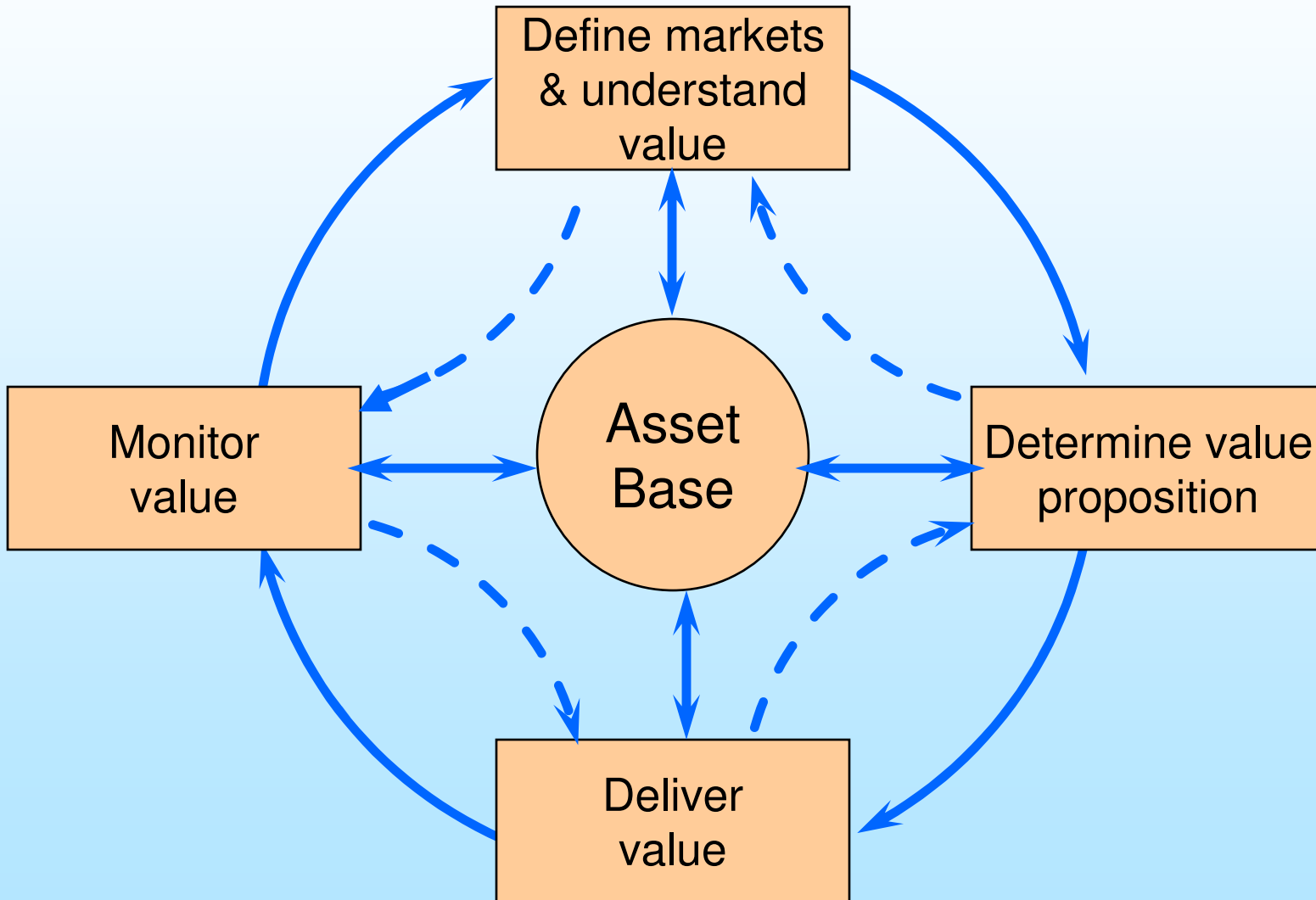
Definition of marketing

Marketing is a process for:

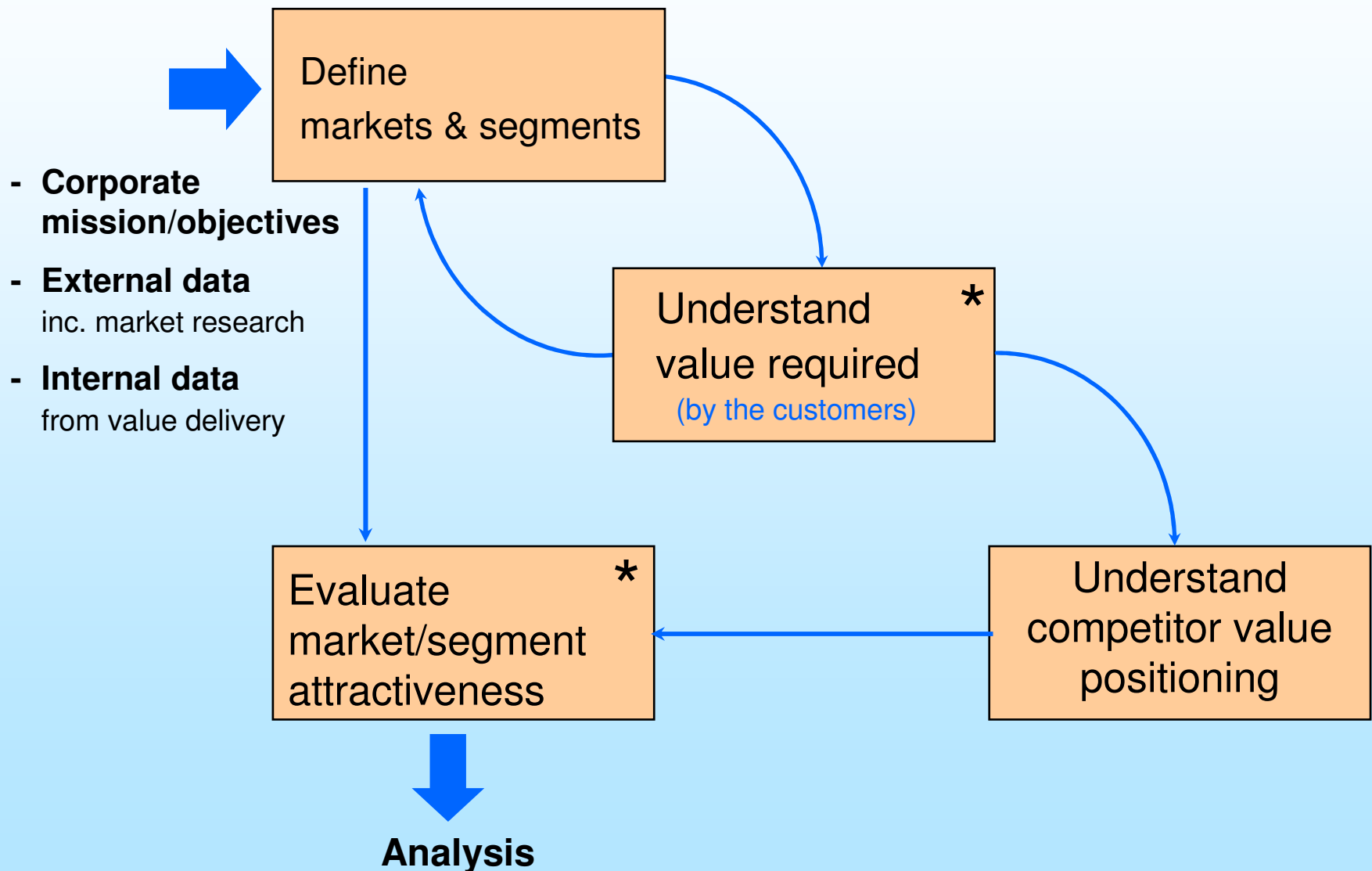
- defining markets
- quantifying the needs of the customer groups (segments) within these markets
- putting together the value propositions to meet these needs, communicating these value propositions to all those people in the organisation responsible for delivering them and getting their buy-in to their 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

Map of the marketing domain



Define markets and understand value



Market definition and segmentation

Correct market definition is crucial for:

- Share measurement
- Growth measurement
- The specification of target customers
- The recognition of relevant competitors
- The formulation of marketing strategy

Market definition

A market is the aggregation of all the products or services which customers regard as being capable of satisfying the same need.

Malcolm McDonald and Ian Dunbar



Are customers who the button manufacturer wants to sell buttons to in the 'market' for buttons or in the 'market' for garment fastenings?



Are customers who the financial company wants to sell pensions to in the 'market' for pensions or in the 'market' for securing a desired standard of living when they retire?

Some Market Definitions (personal market)

Market

Need

Emergency Cash ('Rainy Day')

Cash to cover an undesired and unexpected event often the loss of/damage to property).

Future Event Planning

Schemes to protect and grow money which are for anticipated and unanticipated cash calling events (eg. Car replacement/repairs, education, weddings, funerals, health care)

Asset Purchase

Cash to buy assets they require (eg. Car purchase, house purchase, once-in-a -lifetime holiday).

Welfare Contingency

The ability to maintain a desired standard of living (for self and/or dependants) in times of unplanned cessation of salary.

Retirement Income

The ability to maintain a desired standard of living (for self and/or dependants) once the salary cheques have ceased.

Wealth Care and Building

The care and growth of assets (with various risk levels and liquidity levels).

Day-to-Day Money Management

Ability to store and readily access cash for day-to-day requirements.

Personal Financial Protection and Security from Motor Vehicle Incidents

Currently known as car insurance.

Publishers

Butterworth-Heinemann

Prentice Hall

Wiley

BPP

Macmillan

Consultancies

Others

Total £10m

Distributors

Wholesalers
eg Gardner & Bertram
£3.6m

Re-Sellers

Booksellers
Chains
33%, £3.6m

Booksellers Specialists
20%, £1.4m

Booksellers, Other
7%, £0.1m

Library Suppliers
7%, £0.1m

Internet Booksellers
1%, £0.4m

Specialist resellers
Not booksellers
20%, £0.3m

Book Clubs & Direct
Marketing
13%, £0.1m

Internet Specialists
0%, £0.1m

Consumers

Working professionals
£3m

Postgrads/execs
£3m

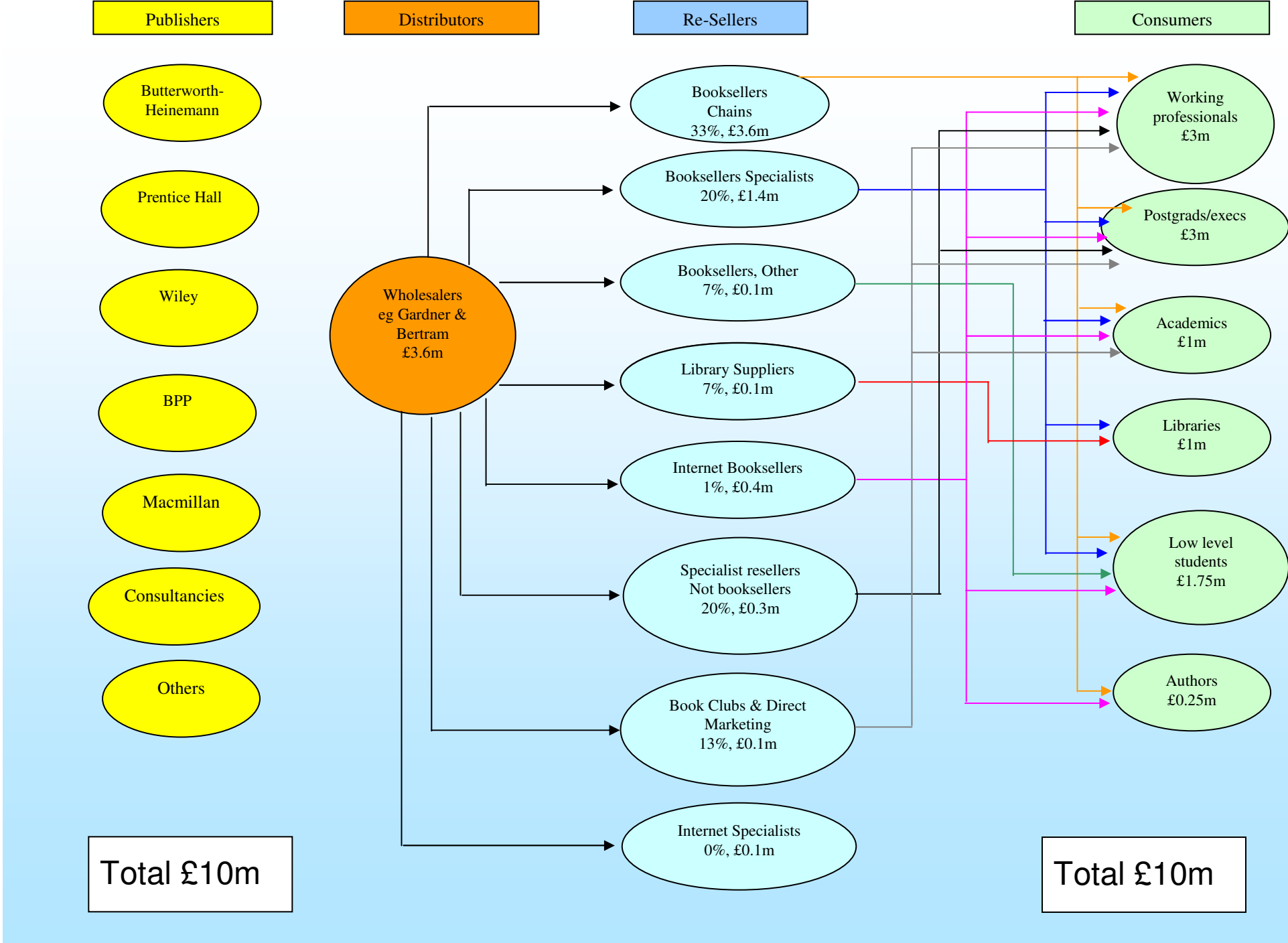
Academics
£1m

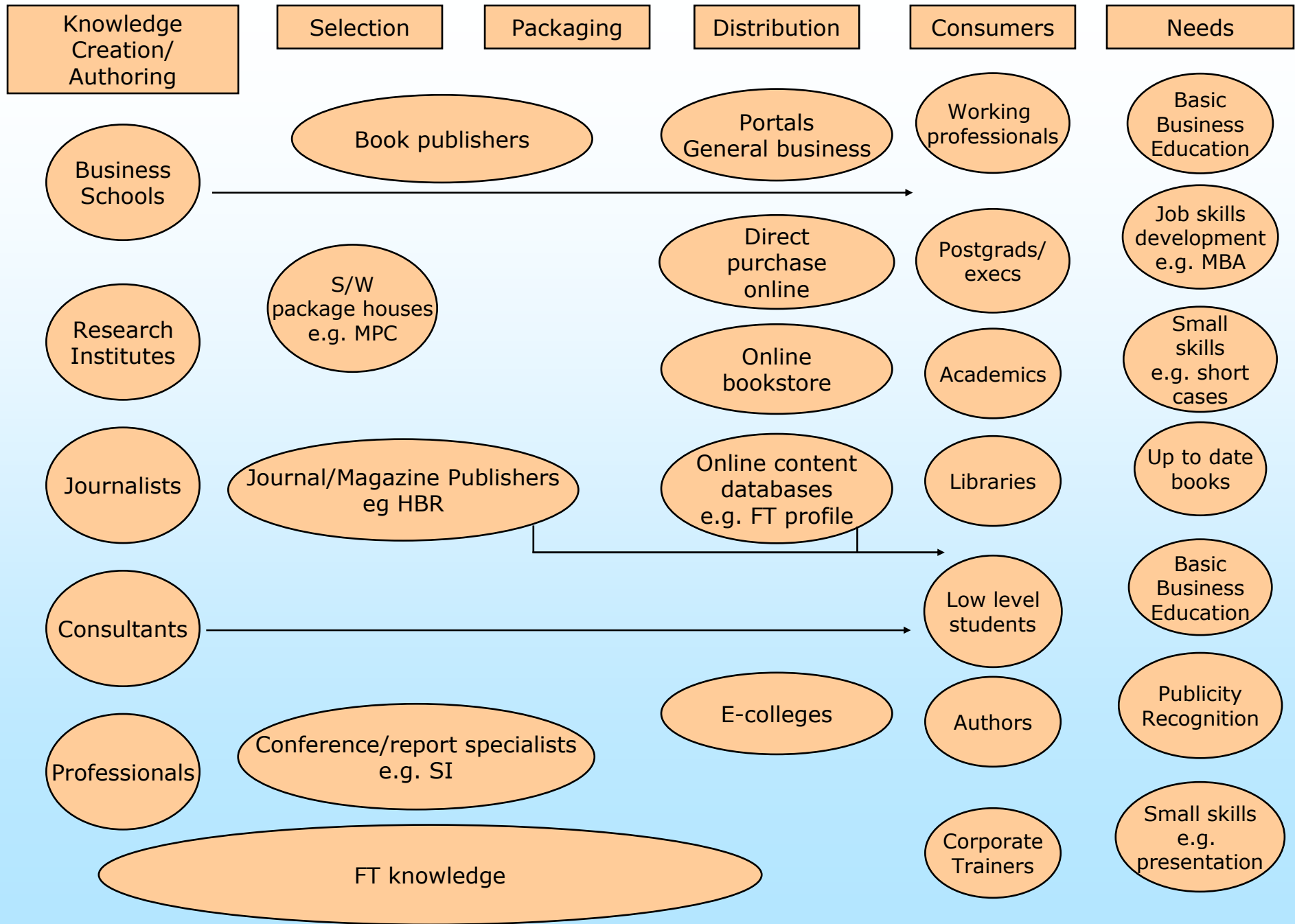
Libraries
£1m

Low level students
£1.75m

Authors
£0.25m

Total £10m

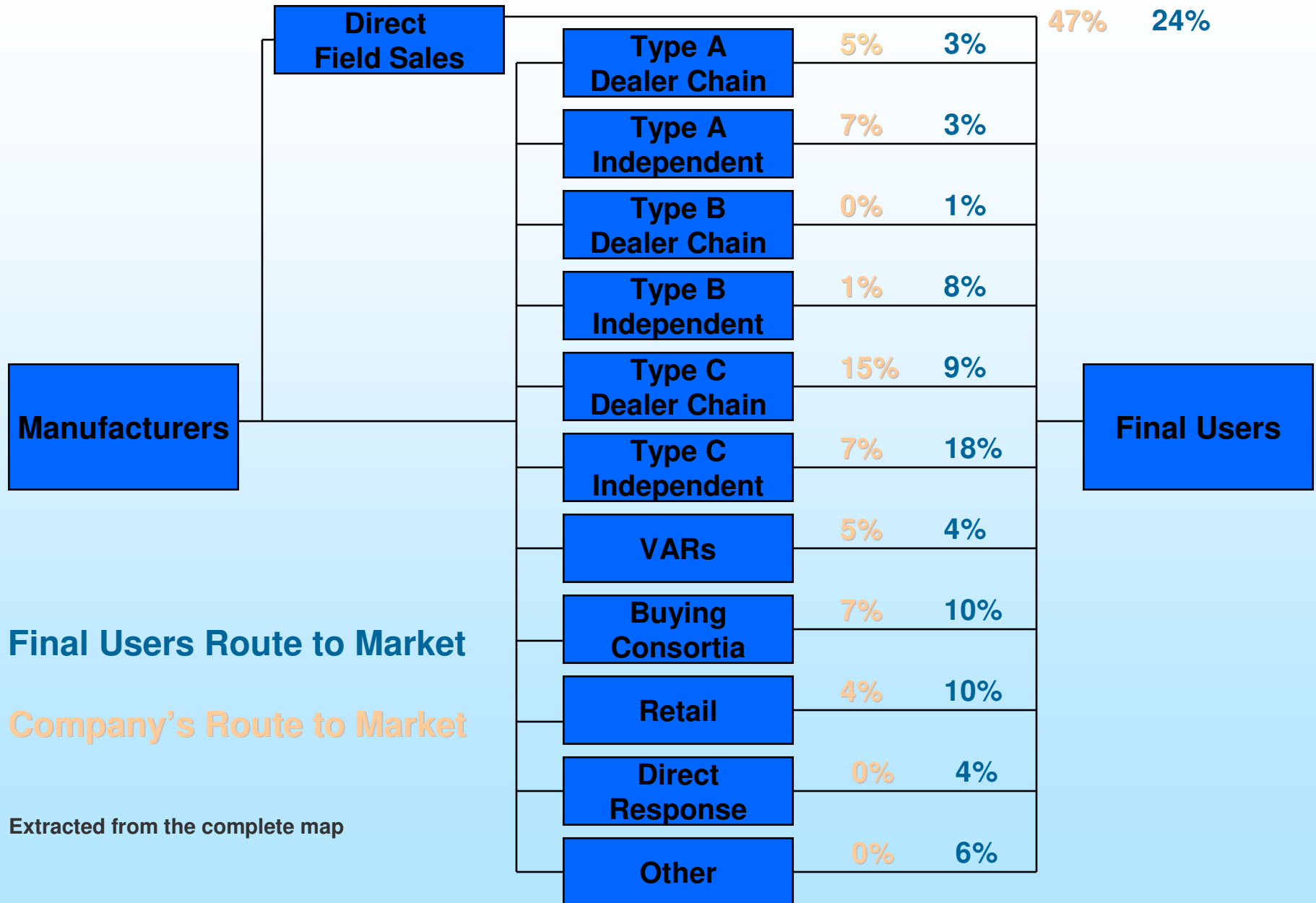


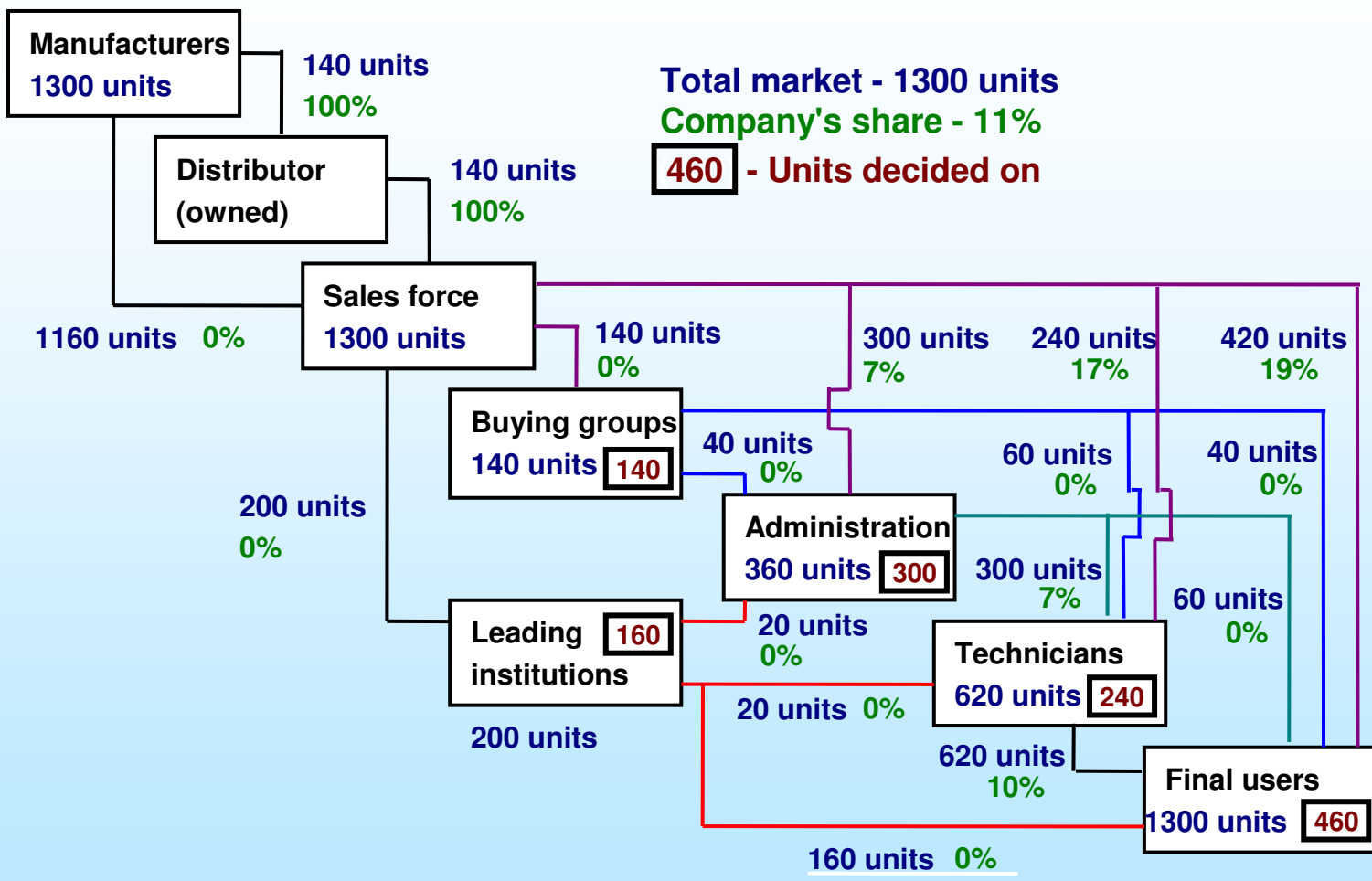


Radiator Market Map

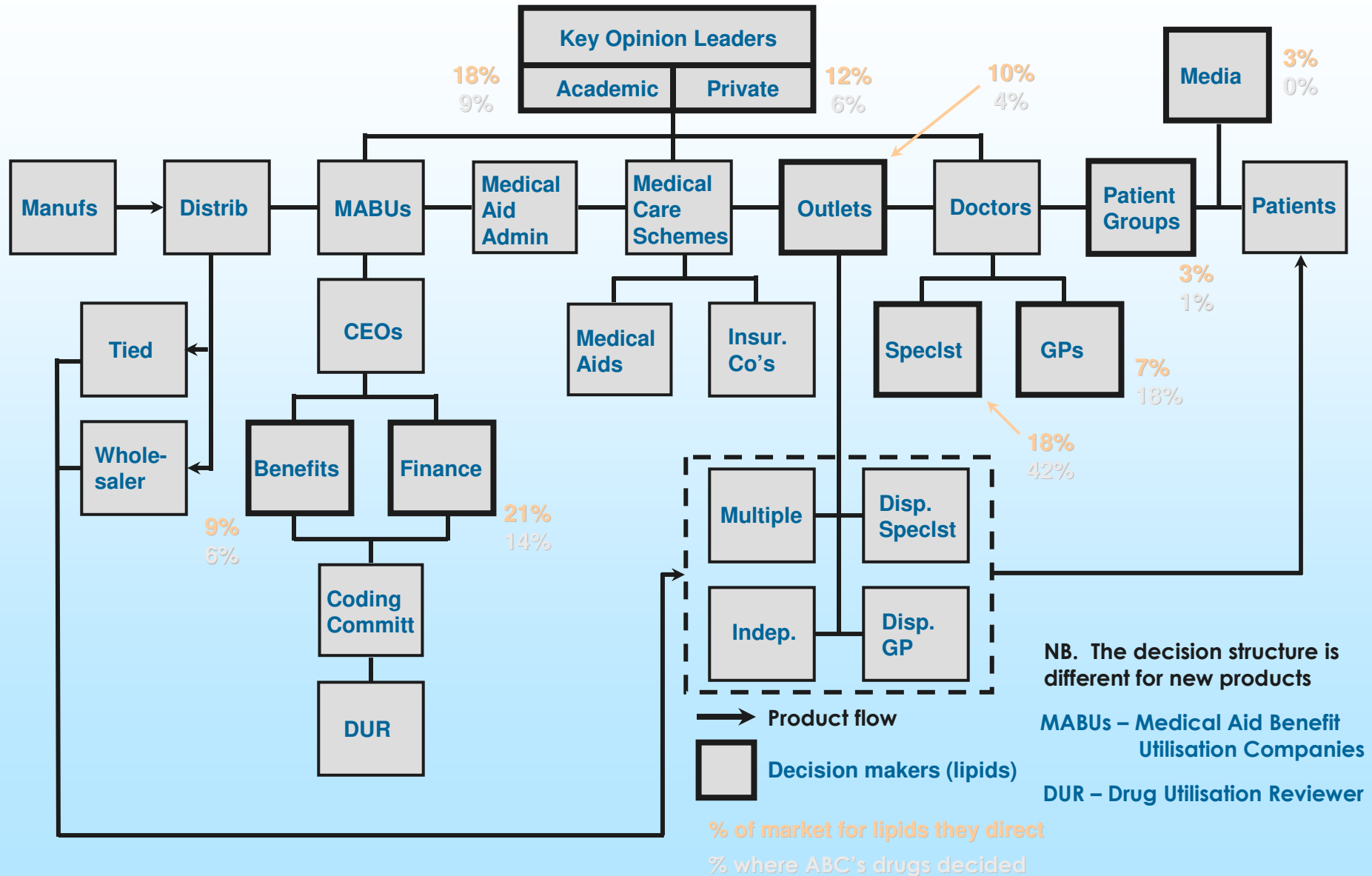
Radiator Manufacturer	Distributor	Installer	Primary Leverage Point			End User Segment
Distribution Sector Share			Specification Decision			
Stelrad 2275 41.7%	1. National Merchants 2605 47.8%	5. British Gas 465 8.5%	Manufacturer 10	Nil		10. Private Existing 2555 46.8%
1 1830 70.2			250 11	250 31.3	5 385	
2 360 17.3			12 Nil		6 2010	
3 66 11.2			13 Nil		7 100	
Premier 860 15.8%	2. Large Independents 2190 40.1%	6. Installer 2755 50.5%	Local Authority 10	Nil		11. Private New 800 14.7%
1 555 21.3			1350 12	1050 95.4	5 Nil	
2 280 12.8			13 50	50.0	6 50	
3 26 4.3			14 250	27.8	7 750	
Supaline 605 11.1%	3. Small Independents 560 10.6%	7. Contractor 1905 34.9%	Housebuilder 10	Nil		12. Public Existing 1100 20.2%
1 125 4.8			350 11	350 43.8	8 Nil	
2 450 20.5			12 Nil		9 Nil	
3 30 5.1			13 Nil		5 50	
Barlo 480 8.8%	4. Sheds 80 1.4%	8. Self Installer 80 1.4%	British Gas 10	500 19.6		13. Public New 100 1.8%
1 90 3.4			700 11	100 12.5	6 395	
2 270 12.3			12 50	4.5	7 506	
3 120 20.7			13 Nil		8 Nil	
Warmastyle 300 5.5%	9. Direct Works 250 4.6%	9. Direct Works 250 4.6%	Contractor 10	Nil	5.6	14. Commercial 900 16.5%
1 5 Nil			200 11	100 12.5	5 Nil	
2 255 11.6			12 Nil		6 Nil	
3 40 6.9			13 Nil		7 Nil	
Other Imports 905 17.1%			Consultant 10	Nil	11.1	8 Nil
1 Nil Nil			550 11	Nil		9 100
2 556 25.3			12 Nil			5 50
3 300 51.8			13 50	50.1		6 300
4 80 100.0			14 500	55.6		7 550
5455	5455	5455	3400		623	5455

Market map – office equipment

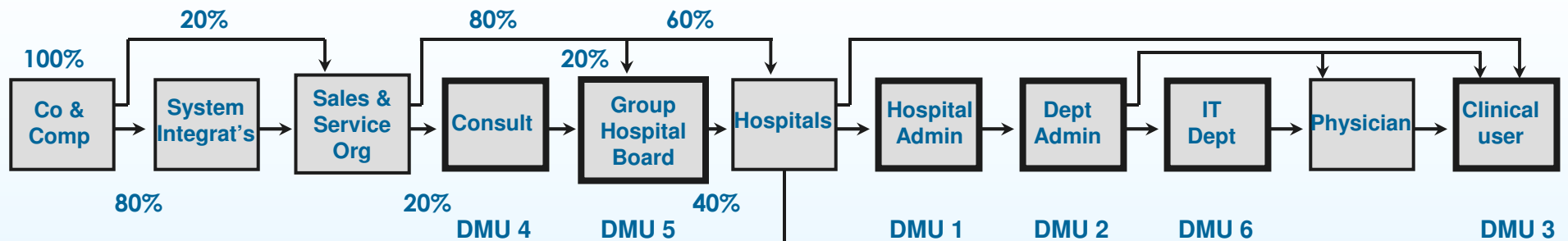




Market map – ethical drugs (SA)

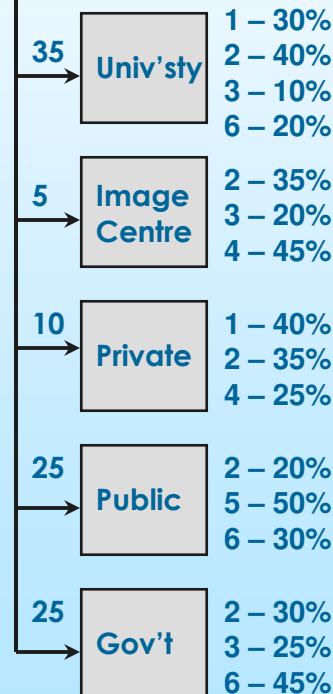


Market map and segments (USA)



Decision Makers (Segments)

- 1 – Financially motivated, will invest to make/save survival, competitive, standard adherence, balance sheet, future proofing, lease.
- 2 – Prestige, diagnostic quality, increase productivity, reference sites (proven track record), make my life easier, make referring physician happier.
- 3 – User-interface, performance, uptime, availability, system functionality, integration capabilities.
- 4 – Too small, but; capabilities, track record.
- 5 – Asset optimisation, wide area network, control, interoperability, volume pricing.
- 6 – Data integrity & security, platform, supportability, image quality, system administration and maintenance, techie.



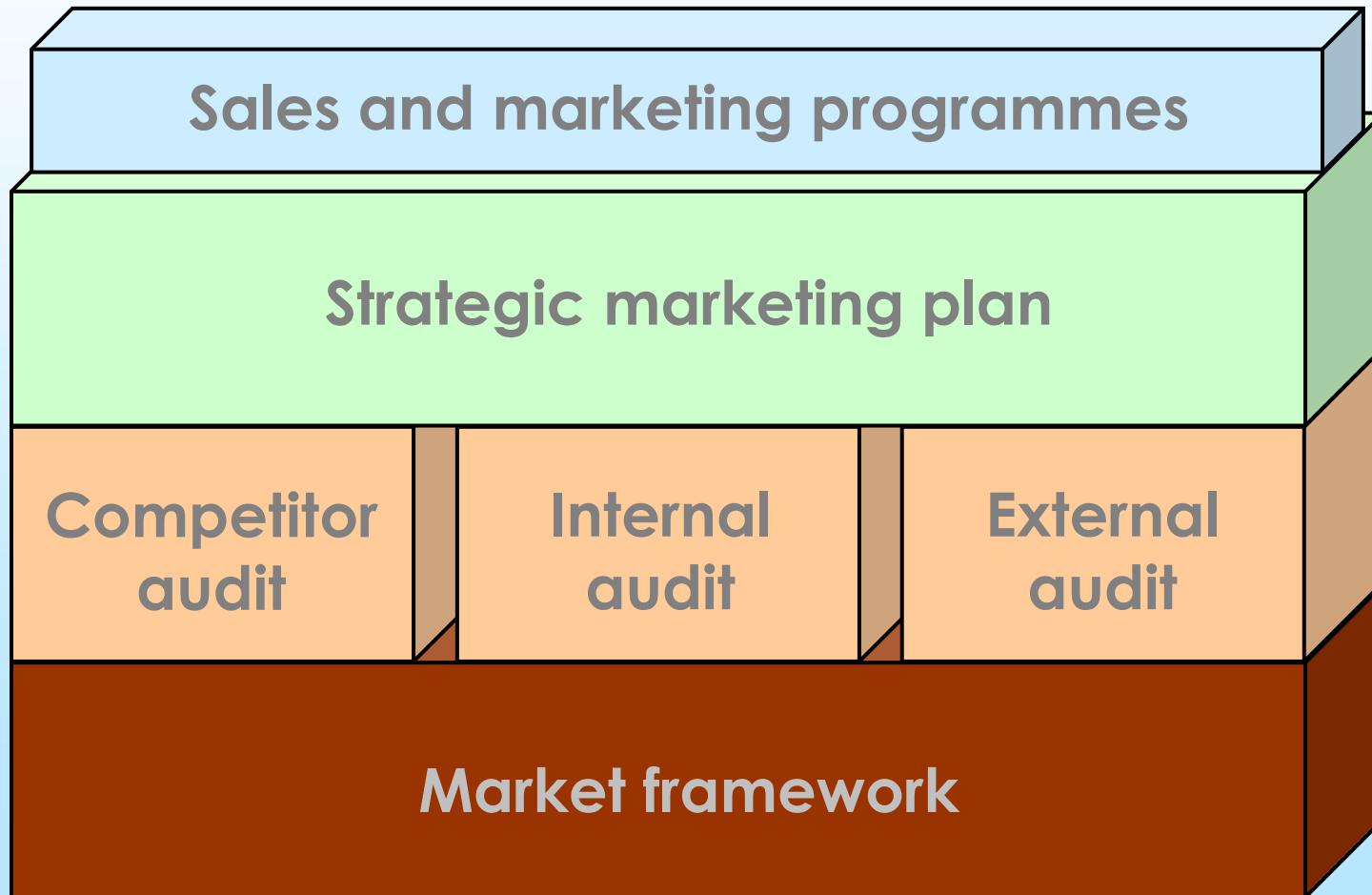
DMU - Decision Making Unit

Totals:

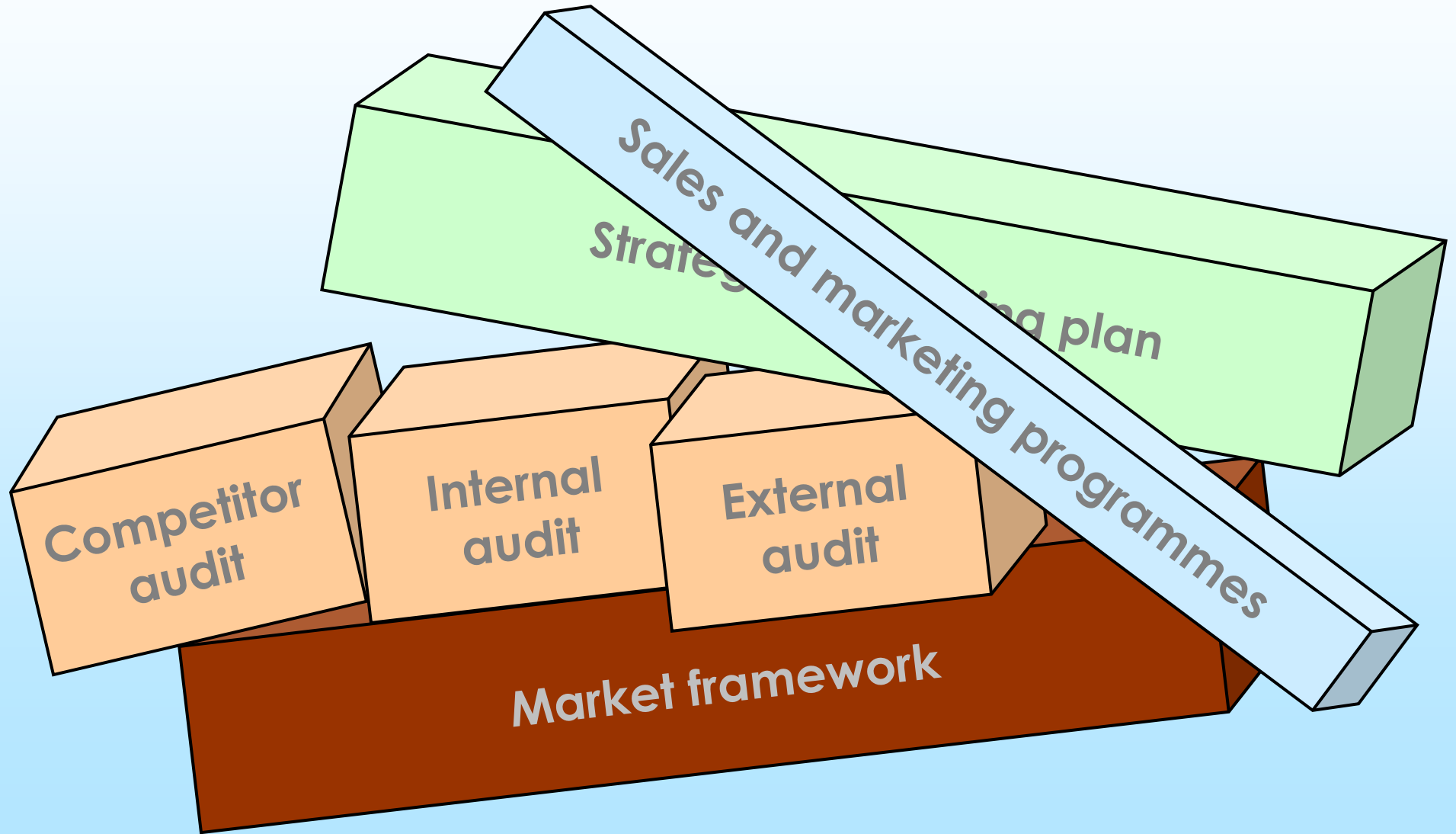
- 1 – 10.5+4.0 = 14.5%
- 2 – 14.0+1.75+3.5+5.0+7.5 = 31.75%
- 3 – 3.5+1.0+6.25 = 10.75%
- 4 – 2.25+2.5 = 4.75%
- 5 – 12.5 = 12.5%
- 6 – 7.0+7.5+11.25 = 25.75%

Specialised medical equipment and associated software – \$ 325 million

The building blocks for successful marketing



...but if the basic building block is unsound!



Market Segmentation

“You need to segment markets in ways that reflect how customers actually live their lives. Yet people segment by type of drill and by price point.

They measure share of drills, not holes. They benchmark drill features.

Then they offer more features. They solve the wrong problems in ways that are irrelevant to customers.

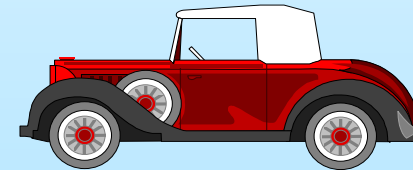
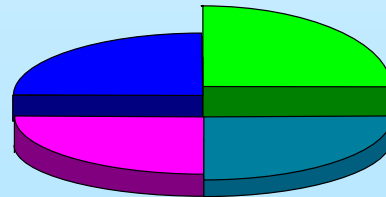
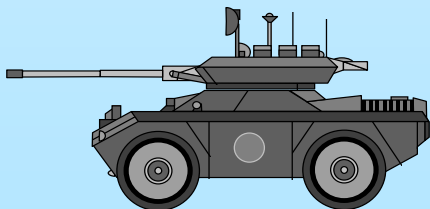
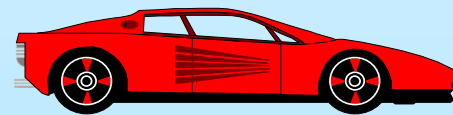
Segmenting markets by type of customer, by small, medium, large, by age, gender or lifestyle is no better. The problem is that consumers don't conform their desires to match those of the average in their demographic segment.”

Definition of 'market segmentation'

'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.'

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So that each can be targeted with the most appropriate marketing strategy . . .



Your view of holiday preferences

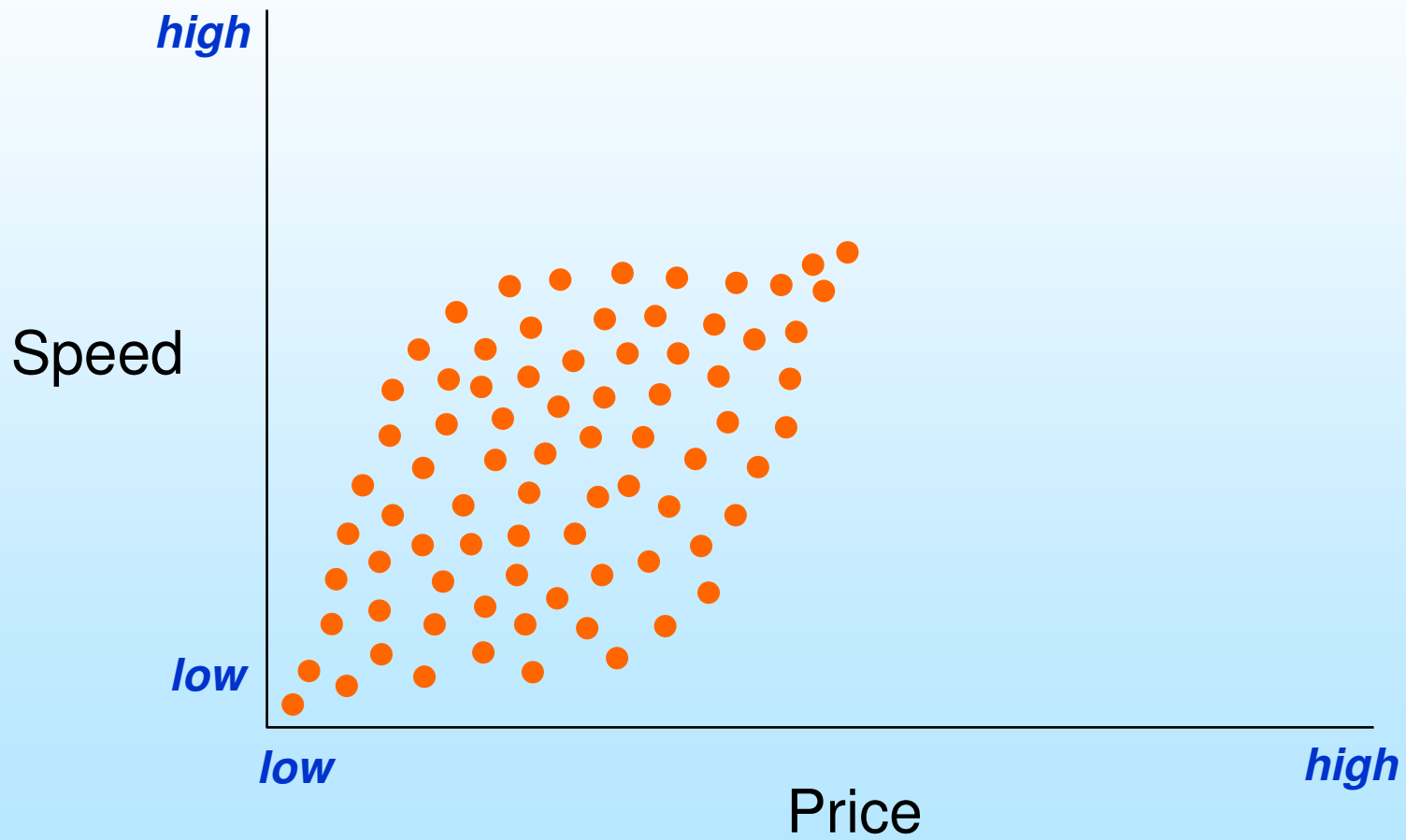
'Relaxing'

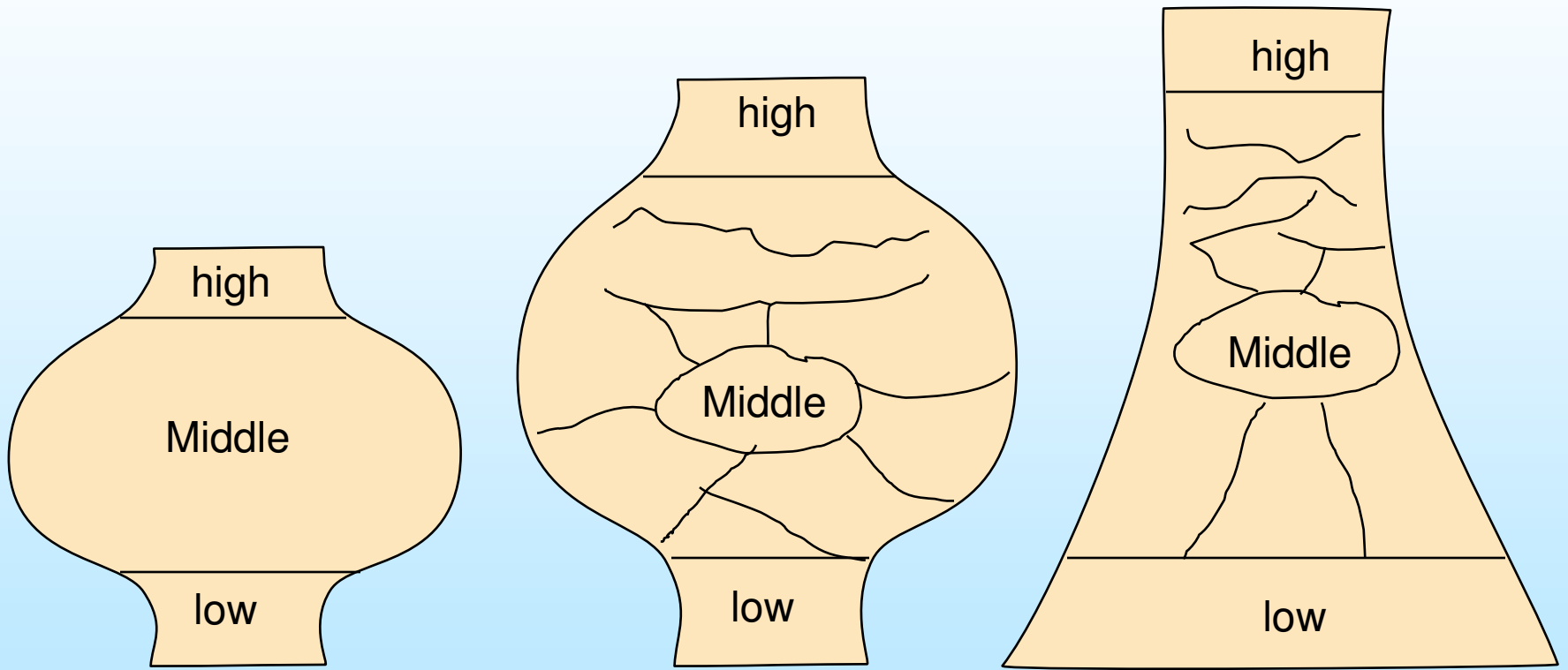


**All put together
by you (DIY)**

**All-inclusive
(pre-packaged)**

'Active'





*Low
cpm*

Big companies

*High
cpm*



Small companies

Personalising segments



Global Tech

Koala Bears	Uses an extended warranty to give them cover. Won't do anything themselves, prefer to curl-up and wait for someone to come and fix it. Small offices (in small and big companies).	<i>28% of market</i>
Teddy Bears	Lots of account management and love required from a single preferred supplier. Will pay a premium for training and attention. If multi-site, will require supplier to effectively cover these sites. (Protect me). Larger companies	<i>17% of market</i>
Polar Bears	Like Teddy Bears except colder! Will shop around for cheapest service supplier, whoever that may be. Full 3rd-party approach. Train me but don't expect to be paid. Will review annually (seriously). If multi-site will require supplier to effectively cover these sites. Larger companies	<i>29% of market</i>
Yogi Bears	A 'wise' Teddy or Polar bear working long hours. Will use trained staff to fix if possible. Needs skilled product specialist at end of phone, not a bookings clerk. Wants different service levels to match the criticality of the product to their business process. Large and small companies	<i>11% of market</i>
Grizzly Bears	Trash them! Cheaper to replace than maintain. Besides, they're so reliable that they are probably obsolete when they bust. Expensive items will be fixed on a pay-as-when basis - if worth it. Won't pay for training. Not small companies	<i>6% of market</i>
Andropov Big Bears	My business is totally dependent on your products. I know more about your products than you do! You will do as you are told. You will be here now! I will pay for the extra cover but you will! Not small or very large companies.	<i>9% of market</i>

Listen to how customers talk about category need

Customer View

Advice

- **cutting costs**
- **future technology direction**

Help

- **design & configuration**
- **process engineering**
- **electron commerce**

Run

- **international network**
- **disaster recovery**

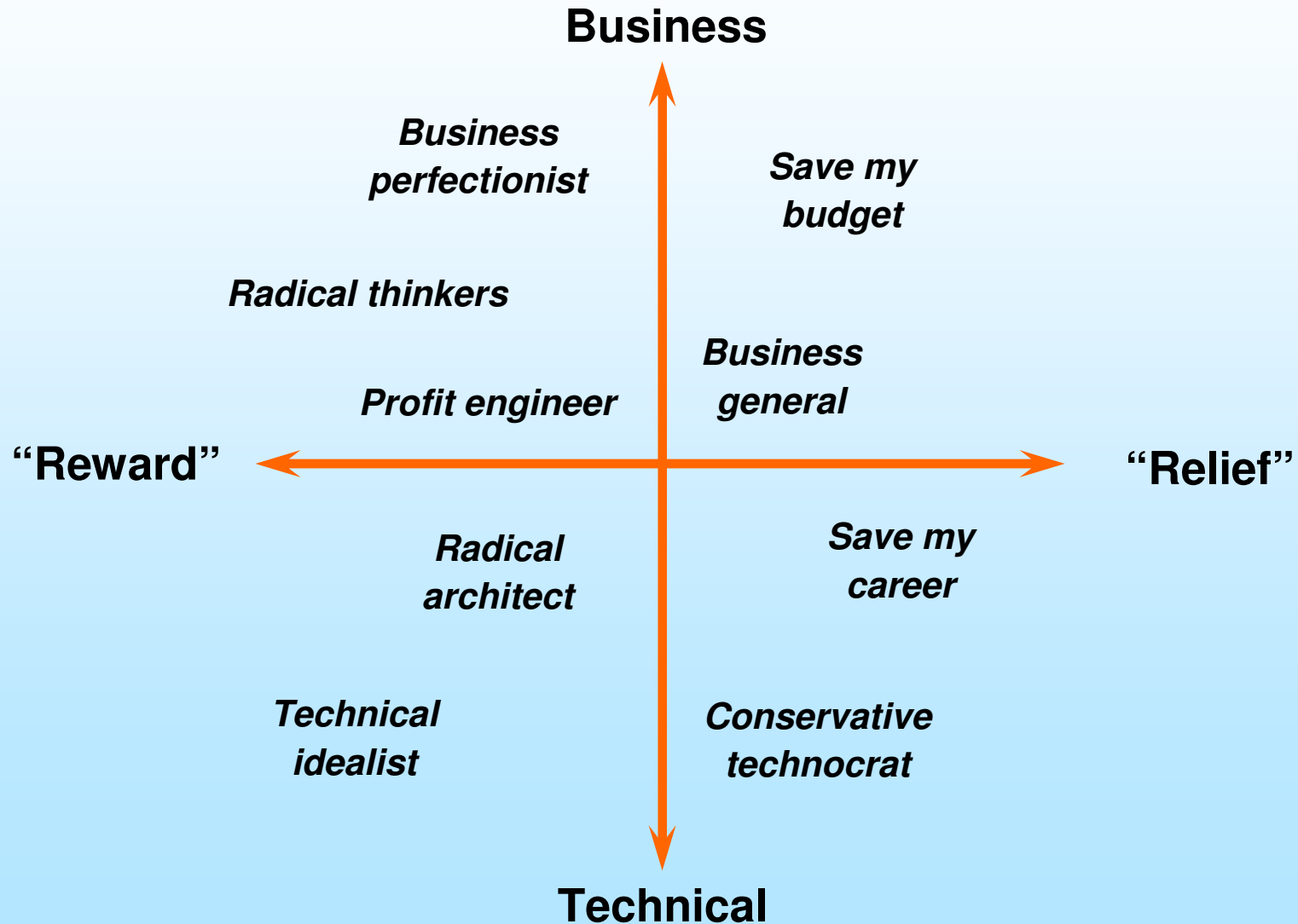
Supplier View

- fast PAD family
- multimedia FRADs
- PIX firewall

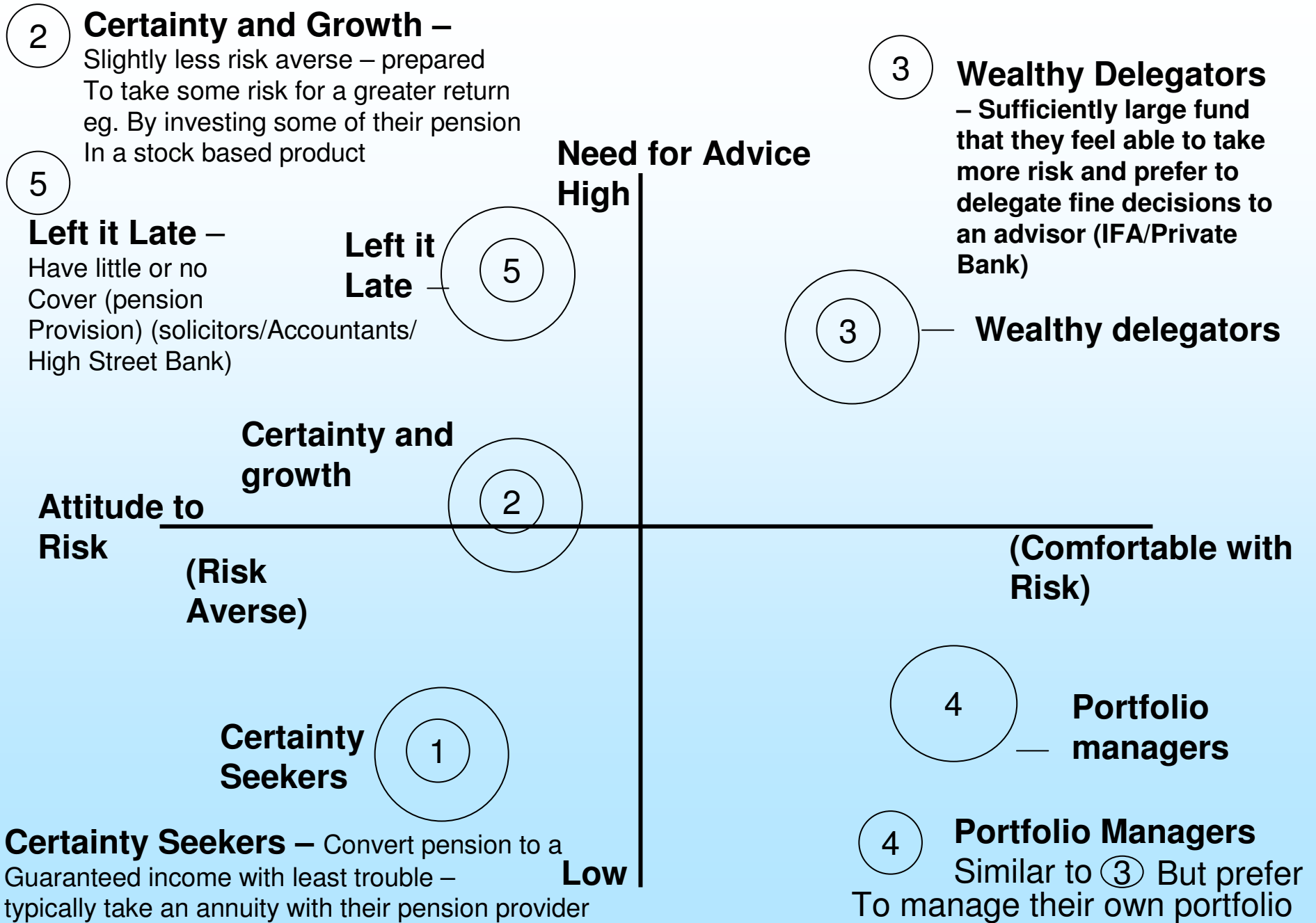
- Solutions
- Gigabit Ethernet
- solutions

- high performance
- LAN support

Understand the different category buyers



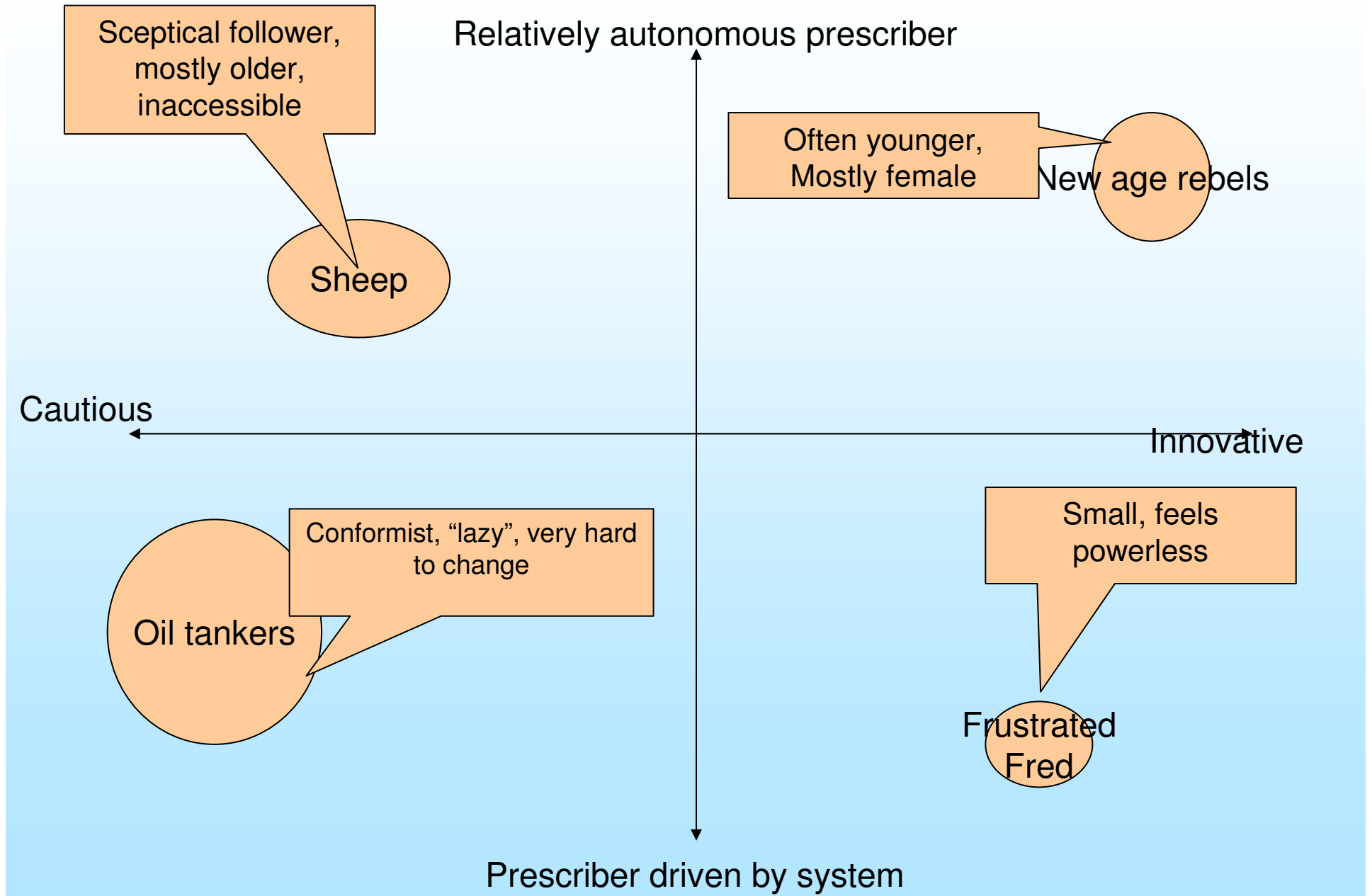
Retirement Income by Segment (Channels)



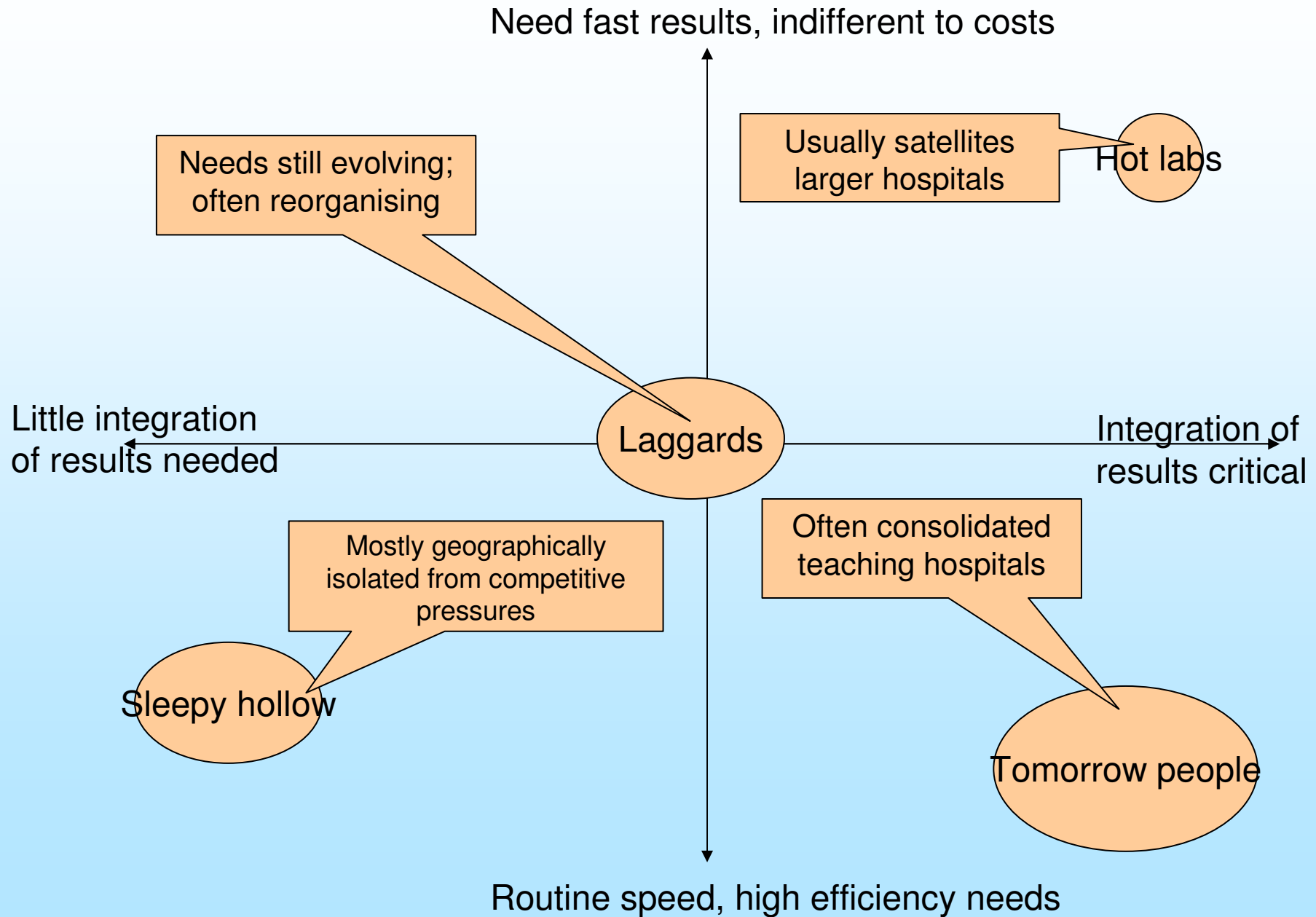
Pharma De. Typology

GP Types	
Type 1 Disillusioned 17%	Innovative in prescribing because this adds variety to a mundane job. Not interested in developing professionally – ‘medicine is not all it’s cracked up to be’ Pro technology Distrusts the industry Would like few drug controls
Type 2 Post graduate 21%	Formal GP Anti-promotion and avoids new drugs Strong post graduate interests, wants to develop professionally Conservative prescriber
Type 3 Self satisfied 19%	Satisfied as a GP Very conservative prescriber Low interest in post graduate education ‘Low Tech’ doctor
Type 4 Experimentalist 12%	Innovative because they would like to try new drugs and ‘experiment’ Pro promotion Has some interests in professional development
Type 5 Overstretched 12%	Formal type of GP Disillusioned with medicine – hard work, few rewards Often in single handed inner city practices Anti technology Low graduate interests Wants his life made easier Fairly conservative prescriber
Type 6 Progressive 19%	Informal type of GP Satisfied with his job and medicine as a profession Strong post-grad interests Pro technology Prepared to try new drugs

Dermatology segments

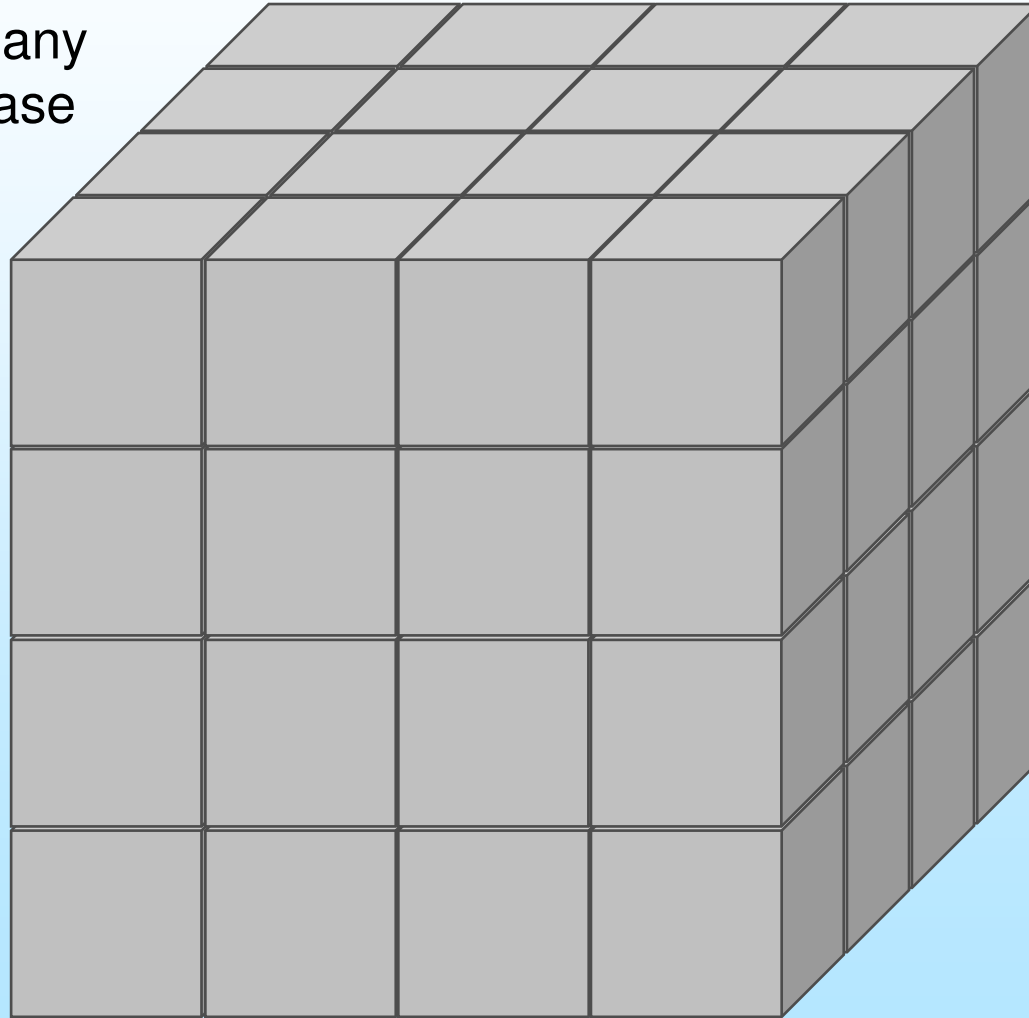


Hospital lab segments

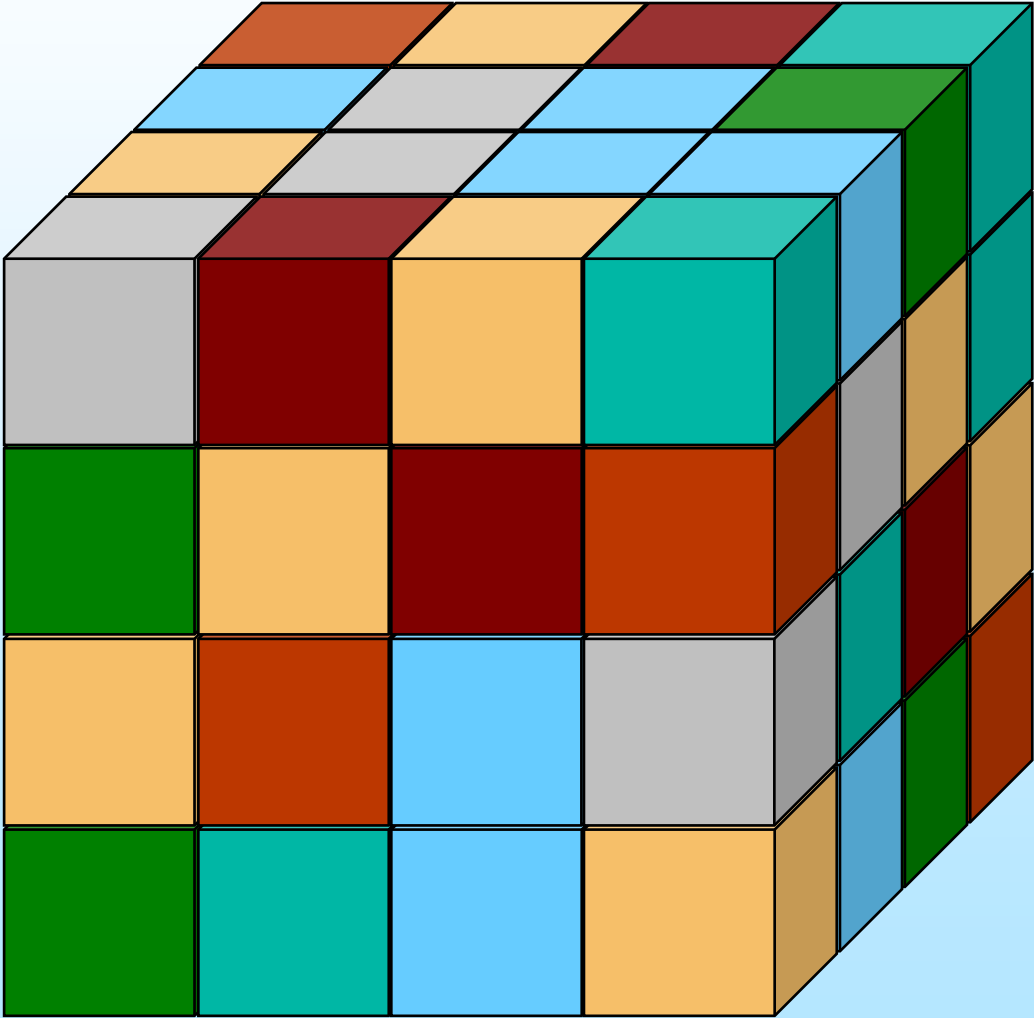


An undifferentiated market

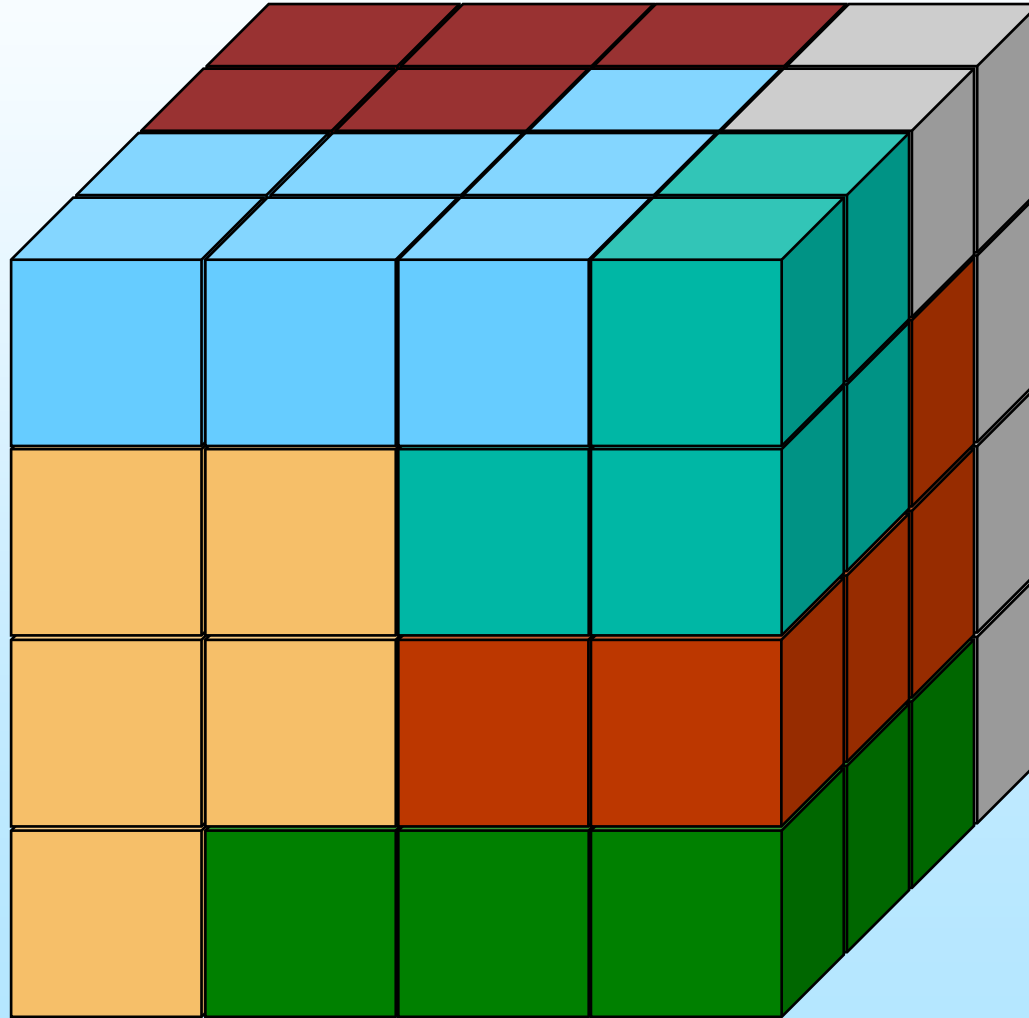
But one with many different purchase combinations



Different needs in a market



Segments in a market

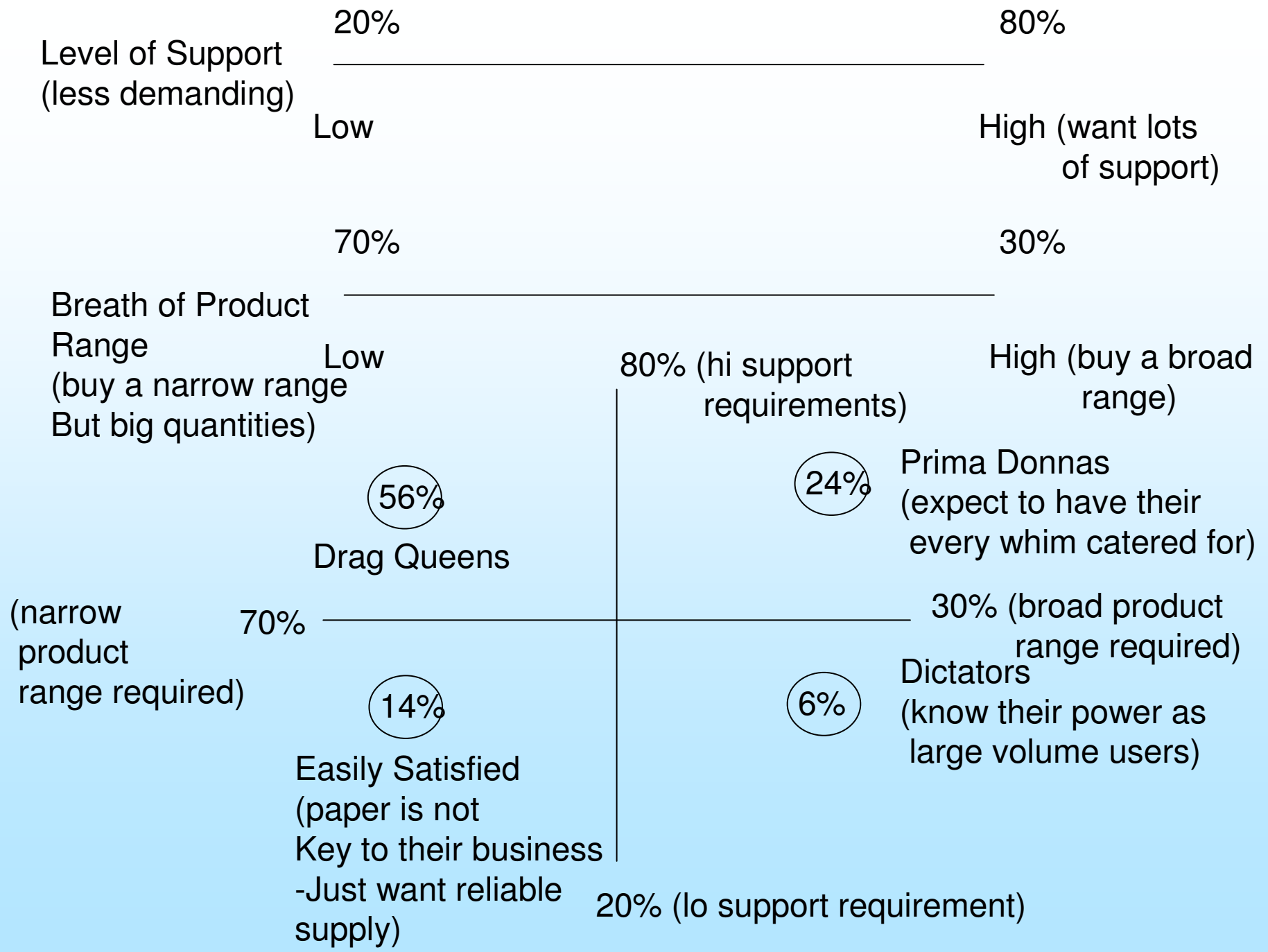


Quick Segmentation Exercise

1. Write down the main benefits sought by customers
2. Divide them into:
 - Hygiene factors
 - Motivators (those that contribute towards the customer's decision on who to buy from)
3. Take the 'motivators' and choose the 2 main ones
4. Estimate the percentage of customers at each end
5. Cross multiply them to create a perceptual map
6. Give them names

Example = Copier Paper

1. Service delivery – (Fast, paper always ‘there’ – point of delivery availability of products; service levels)
2. Product fit for purpose - (Hi quality print finish for colour copiers; consistency of quality; paper that doesn’t screw up in the machine; print definition; no waste)
3. Environmental factors - (Recyclable)
4. Level of support - (Delivered in small lots; consignment stock; easy ordering {on-line}; delivered to difficult locations)



Relevant?

Targeted customer

From Mr D. O. R. Mossman

Sir, I have received an insurance company leaflet which suggests that I could save over £200 on my car insurance. The small print then explains:

All price saving comparisons included in this leaflet are based on a 44 year old female living in the Darlington area, with Comprehensive cover but zero No Claims Discount, driving 12999 miles per year in a 2002 Rover 25 1.4.

If she would like to get in touch with me I will pass the leaflet on to her.

Yours sincerely,
DAVID MOSSMAN,
24 Harestone Hill,
Caterham, Surrey CR3 6SX.
January 14.

The Times 19th Jan 2005

Communicate the offer: activities

Supplier perspective		Interaction perspective		Buyer perspective	
Advertising	Selling	Marketing activity	Interaction	Decision theory	Consumer behaviour
		Define mkts/ understand value Create value proposition	<i>Recognise exchange potential</i>	Problem recognition	Category need
Brand awareness					Awareness
	Prospecting		<i>Initiate dialogue</i>		
Brand attitude				Information search	Attitude
- info re benefits - brand image - feelings - peer influence	Provide information		<i>Exchange information</i>		
	Persuade		<i>Negotiate/ tailor</i>	Evaluation of alternatives	Information gathering & judgement
Trial inducement	Close sale		<i>Commit</i>	Choices / purchase	Purchase process
Reduce cognitive dissonance	Deliver		<i>Exchange value</i>		
	Service		↓ <i>Monitor</i>	Post-purchase behaviour	Post-purchase experience

Activities by medium

Activity

Recognise potential *Initiate dialogue* *Exchange information* *Negotiate / tailor* *Commit*

Medium

Personal contact

Direct mail

Telephone

Advertising

Electronic

The Sunworshippers



Background

- Live in Braintree in Essex; the family comprises Mum and Dad and three children, the oldest of which is just about to start her GCSEs
- Holidays are an important part of their lives: they book early and enjoy the ritual of preparing for their departure
- Mrs Sunworshipper and her daughter always book a programme of sunbed sessions in the month leading up to their holiday

Holidays

- Have holidayed in The Med for years, even when the kids were quite young
- They always get a package deal to the same tried and trusted resort and tend not to stray too far from the beach or hotel pool
- Now that their children are a bit older, they want to spread their wings and are planning to holiday in Florida next year

The Sunworshippers

	Internet	Mobile telephone	iTV	Broadcast TV	Traditional channels
• Recognise					
Exchange potential					
• Initiate dialogue					
• Exchange information					
↓					
Negotiate/tailor					
↓					
↓					
Commit					
↓					
↓					
• Exchange value					
• Monitor					

John and Mary Lively



Background

- Live in Luton; childhood sweethearts, John and Mary have been seeing each other seriously for three years
- They were planning to buy a house together but put their plans on hold to ensure that they could take a holiday this summer
- John DJs part-time in a local nightclub and would happily leave his job as a mobile phone salesman to pursue a DJ-ing career in a European beach resort

Holidays

- Feel like The Med doesn't have anything else to offer them and are keen to travel further afield: Mary likes the sound of Tunisia
- Tend to book a holiday on the basis of the facilities available, and are always keen to get involved in watersports and other beach activities
- Wouldn't dream of holidaying anywhere that doesn't have thriving nightlife

John and Mary Lively

	Internet	Mobile telephone	iTV	Broadcast TV	Traditional channels
• Recognise					
Exchange potential					
• Initiate dialogue					
• Exchange information					
↓					
Negotiate/tailor					
↓					
↓					
Commit					
↓					
↓					
• Exchange value					
• Monitor					

SWOT analysis

- **By segment**, what value is required by the customer?
- What value are you offering to entice the customer to buy from you
- Avoid SWAGs

Strategic marketing planning exercise - SWOT analysis

1. SEGMENT DESCRIPTION

It should be a *specific* part of the business and should be *very important* to the organisation

--

2. CRITICAL SUCCESS FACTORS

In other words, how do customers choose?

1	
2	
3	
4	
5	

3. WEIGHTING

(How important is each of these CSFs? Score out of 100)

Total 100

4. STRENGTHS / WEAKNESSES ANALYSIS

How would your customers score you and each of your main competitors out of 10 on each of the CSFs?

Multiply the score by the weight.

	You	Comp A	Comp B	Comp C	Comp D
1					
2					
3					
4					
5					
•					

5. OPPORTUNITIES / THREATS

What are the few things outside your direct control that have had, and will have, an impact on this part of your business?

OPPORTUNITIES

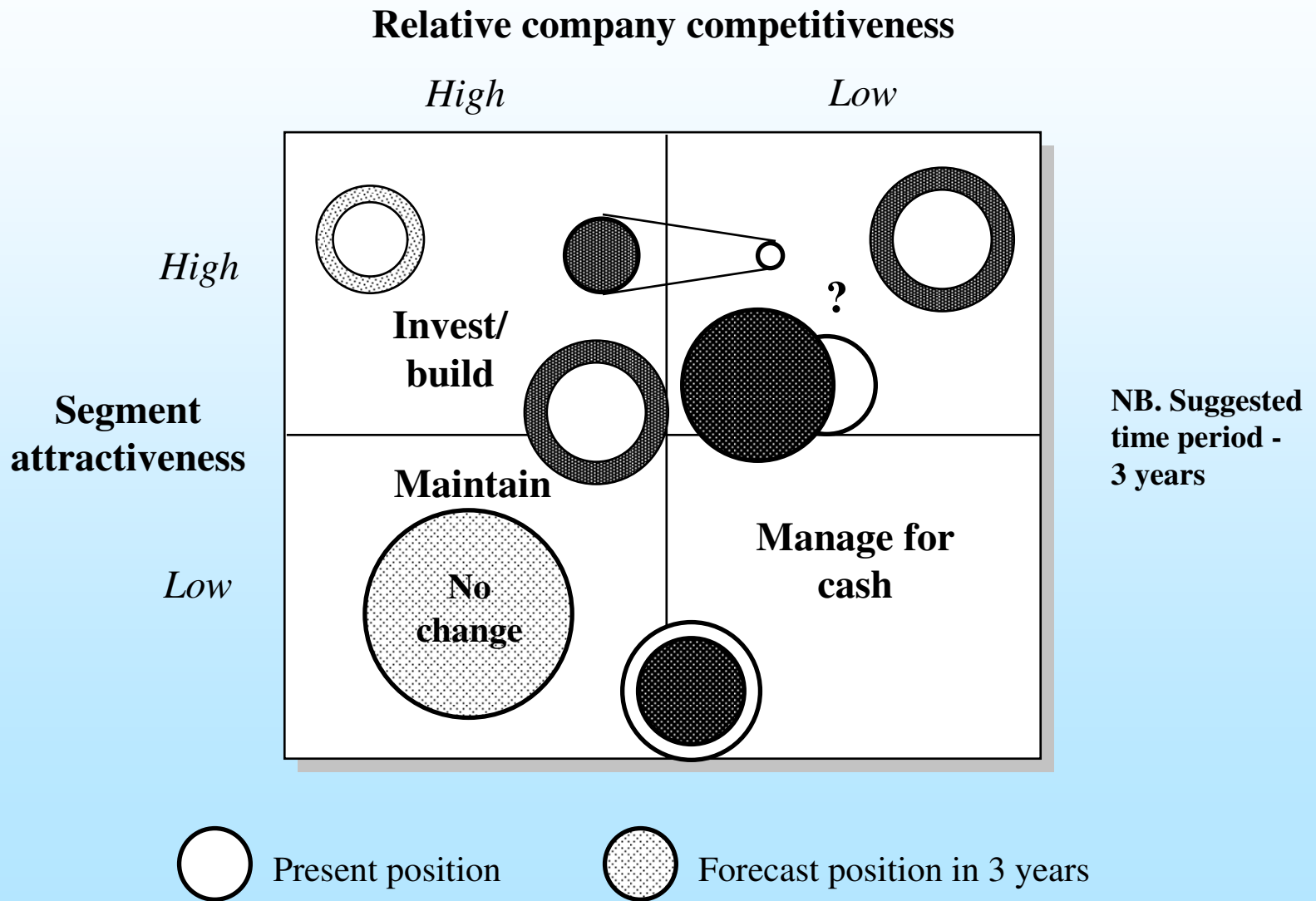
1	
2	
3	
4	
5	

THREATS

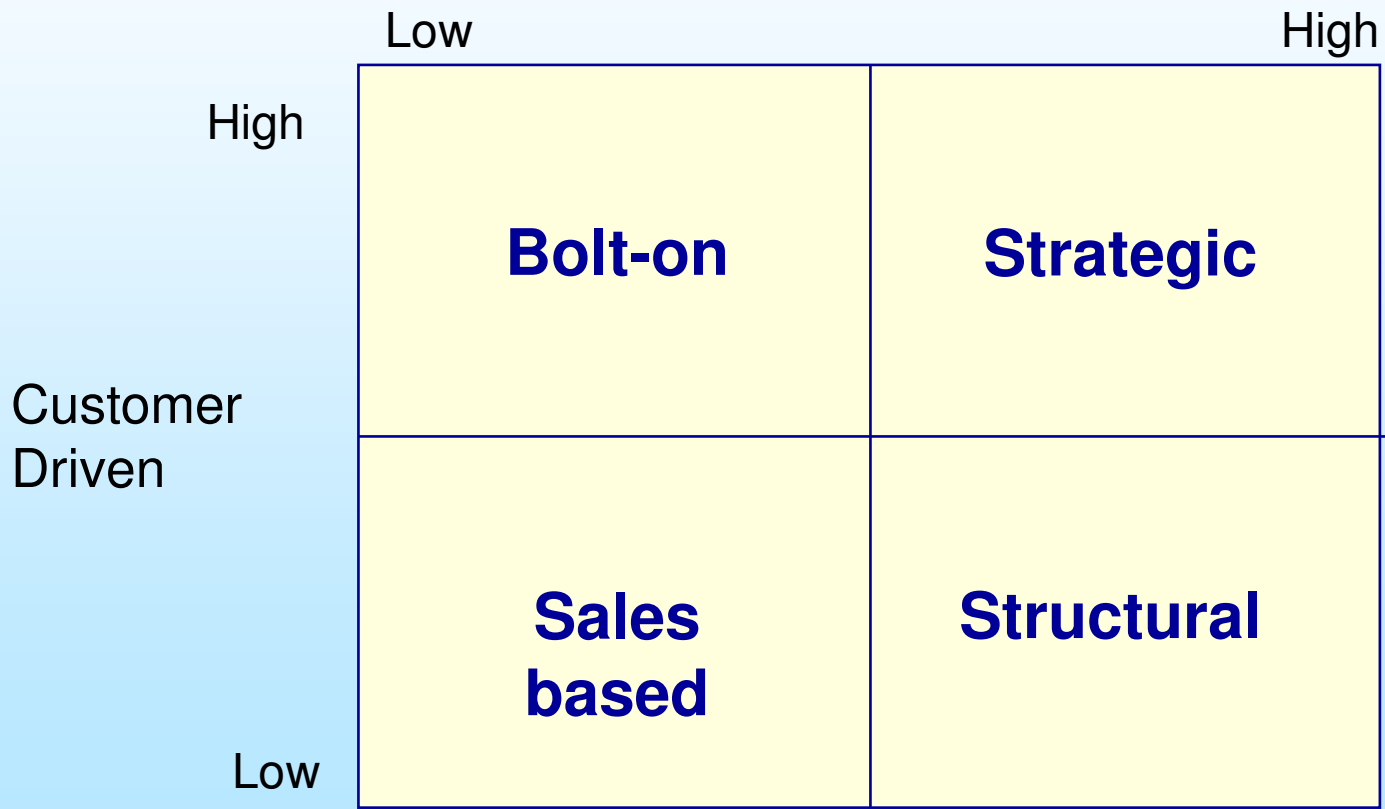
6. KEY ISSUES THAT NEED TO BE ADDRESSED

What are the really key issues from the SWOT that need to be addressed?

Portfolio analysis - directional policy matrix (DPM)



Organisational Integration



Understand market segmentation

- Not all customers in a broadly-defined market have the same needs
- Positioning is easy. Market segmentation is difficult. Positioning problems stem from poor segmentation.
- Select a segment and serve it. Do not straddle segments and sit between them.
 1. Define the market to be segmented and size it (market scope)
 2. Determine how the market works and identify who makes the decisions (market mapping)
 3. Develop a representative sample of decision-makers based on differences they see as key (including what, where, when and how), note who they are (demographics) and size them
 4. Understand their real needs (why they buy, the benefits sought)
 5. Search for groups with similar needs

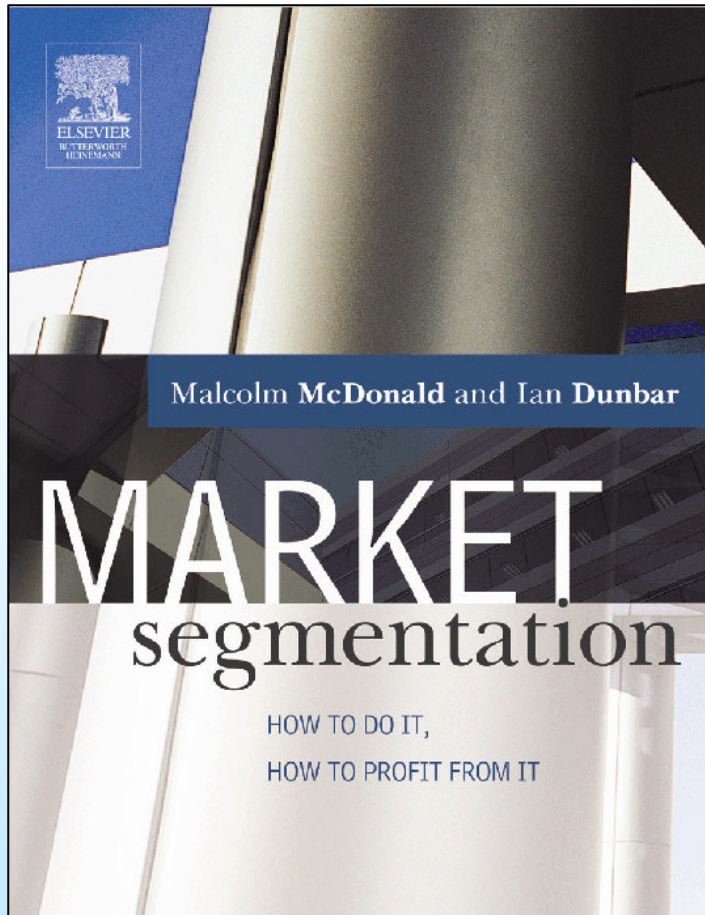
What Does a Strong Strategy Look Like?

- Previous research has linked superior performance to strategies with these properties:
 1. Homogenous market segment definition
 2. Segment specific propositions
 3. Strategy uniqueness
 4. Strength leverage and weakness minimisation
 5. Creation of internal and external synergies
 6. Provision of tactical guidance
 7. Alignment to objectives
 8. Alignment to market trends
 9. Appropriate resourcing
 10. Clear basis of competition
- These properties were used to assess the outputs of the marketing strategy making process

Based on "Creating Market Insight" by Brian Smith and Paul Raspin, Wiley 2008.



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