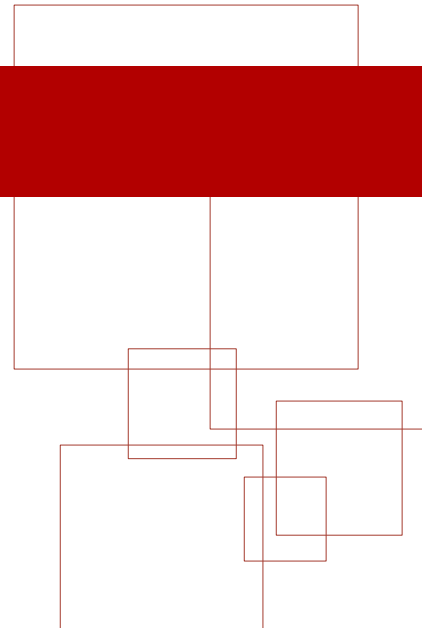




How to segment your market



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CONTENT

1. What does “segment your market” mean

“Wide diversification is only required when investors do not understand what they are doing”, according to a financial wizard we know as Warren Buffet. What Warren Buffet did not realize is that his words hold equally true for a large number of businesses and indeed, marketers.

1. What does “segment your market” mean
2. Why is market segmentation necessary
3. Framework for segmenting a market

Ask a marketer “Who is your customer?” and chances are that you will get a response that ranges from “Hmm... I think...” to a long-winded “My customer is someone who is ... and ... and.” The truth is, most of us have difficulty answering this seemingly harmless, but important question. More often than not it is because we have not examined our markets closely.

A market is made up of customers - these could be individuals or businesses. Some or all of these customers may share some common traits. Imagine identifying such commonality or pattern amongst these customers and grouping the customers based on these patterns. Each of these groups is called a “segment” and the process of identifying these segments is “market segmentation”. Members across segments may have some things in common, but commonality within a segment trumps everything else.

A publisher's market may have the following basic segments – infants, kids, tweens, teens, adults. A computer maker's market may have the following segments – businesses, schools and homes.

2. Why is market segmentation necessary

Market segmentation is vital for both consumer as well as industrial markets. Markets are not monolithic. While 1-on-1 marketing may be a utopian ideal representing extreme segmentation, there are reasonably sized segments in any market. Each of these segments present a market opportunity of varying size and profitability. How these segments are defined and prioritized, determine to a large extent, the marketing plan and its success.

While segmentation has a broader benefit of focusing the company efforts, its effects are most visible in marketing and consequently, sales. Segmentation helps marketing understand the

marketplace better, prioritize the segments for marketing plan and subsequent execution.

Marketing battles are fought in the minds of the customer and are not rooted in the realities of the product, according to marketing gurus, Al Ries and Jack Trout. In most industries, the market leader is invariably one that consumers instantly associate with a single or simplified concept: Volvo = safety; Heinz = ketchup; Fedex = overnight. Such simplicity and related association comes at a cost. Everything else has to take a backseat relative to the chosen concept. As a marketer it is vital that we are aware of the segments in the market and identify the concept that will resonate well with the most profitable segment. All marketing efforts then can be tuned for better resonance with the chosen segments.

Segmentation helps sales team by providing a useful parameter for account qualification. Saddled with a large number of leads, it is easy to apply the “segment” test to (dis)qualify a lead. “Does this lead belong to my target segment” is a quick way to eliminate distractions.

3. Framework for segmenting a market

Segmentation and market understanding have a chicken-and-egg relationship. Does segmentation improve a marketer's understanding ? OR Is a good understanding necessary for useful? The reality is both are true. A basic understanding of the marketplace is needed to get started. But as we start segmenting, assumptions and questions surface, which lead to a better understanding of the market.

So how does one get started.

Step 1: Start by asking the question *Who is my ideal customer?*

This is a bit easier if we already have a few customers, but is not a necessity. Listing down specific attributes that we would want in a customer helps identify the “segmentation variables” - attributes that determine the patterns within segments. For a consumer market, these could be Age, Gender, Marital status, Place of residence. For an industrial market, segmentation variables could be Revenue, Number of employees, Location, Number of years in operation.

The tables on the next page illustrate some of the variables that can be used for segmenting a consumer market (B2C) or an industrial market (B2B).

Table1: Illustrative segmentation variables for consumer market (B2C)

Type of variable	Questions to ask
Demographic	Are there patterns in terms of age? Gender? Does Marital status have any impact? Does it matter where the customers reside? Do I get insights, if I consider the annual income of the customers?
Psychographics	Is the customer fun-loving? Out-going? How often does the customer go out shopping? Is the customer an expert user of the product or service?
Occasion of use	Does it matter if I consider when the product or service offering will be used? Is it on birthdays? Is it on marriage anniversaries? Is it on holidays?
Frequency of use	Is there a pattern if I consider heavy users? Do light users of the product or service offering have something in common?

Table2: Illustrative segmentation variables for industrial market (B2B)

Type of variable	Questions to ask
Demographic	Should I look at the revenue of the company? Does the number of years of operation indicate a pattern? What vertical is the business in? Is it a product or a service business? Does it matter where the customers reside? Do I get insights, if I consider the number of employees in the business?
Ownership	Are companies that are publicly traded more suitable for my business? Should I look at privately held companies? Companies with external investment?
Location / Geographic spread	Do business that are in a single location qualify to be my customer. How about companies with multiple locations? Do companies with international presence show a common trait? What about companies that operate only within the country? Do companies that are largely urban help me define my marketing plan? Do I go after companies targeting rural markets?
Frequency of use	Is there a pattern if I consider heavy users? Do light users of the product or service offering have something in common?
Expertise	Are companies that have used similar product or offering in the past my customer? Should we consider companies that have not been exposed to this product or offering? Do we look at companies that are looking to upgrade?

This exercise sets us thinking objectively about the customer, and ways to define them.

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Step 2: Identify the variables that are meaningful for your business by asking the question **If I used this variable to describe my customer, does it really help?**

Having listed the potential segmentation variables, and possible values that they can have (example: Age: 0-10 years, 10-20 years, 20-50 years, greater than 50 years), ask if customers identified using the variable show some distinct behavior. For example, in the above illustration, do customers below 10 years of age demonstrate a behaviour that is different from those in the 20-50 years bracket with regard to my product or service. If the answer is no, drop the variable.

Let us say that you are in the B2B business, delivering high speed broadband services, and have shortlisted the following variables for segmenting your market.

Number of employees, Number of locations, Frequency of use

Higher the number of employees, more likely is the need for high speed broadband services. Number of locations tells you the ability to scale your business in a given account. Frequency of use may determine how the business perceives the value of high speed broadband service.

Step 3: Find the right combination by taking a pair of shortlisted variables and plotting the values on two axes.

Each value of a segmentation variable represents a segment. However, a segment based on one variable may not be very insightful. So we try and use 2 variables in combination.

Pick any two variables and draw a 2-dimensional matrix with one variable on each axis. Mark the values on the axes that the variables can take . Each of the cells represent a more refined segment. Let us say we pick the two variables in the current example – Number of Employees and Frequency of Use. We may end up with something like the matrix below.

	>1000	May need	Need, can afford	Need, can afford
Number of employees	50 - 1000	May not need	Need, may not want	Need, can afford
	<50	Don't need	Need, can't afford	Need, can't afford
		Light	Medium	Heavy
		Frequency of use		

Repeating this exercise with 2 variables from the shortlisted list, helps us look at the market in multiple ways. Some of these segments may not be useful. Others may lead to newer insights.

We can segment to any level we want to. However, for the exercise to be productive and meaningful, it is best to work with no more than 5 segmentation variables, ideally 3 or 4. Anything beyond 5 is likely to become unwieldy and a theoretical exercise. Anything less than 2 may result in over-simplification of the market, without yielding any meaningful insight.

Once we have identified the variables and used them to define specific to create the segments, we are in a better position to answer the question “Who is your customer”.



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