A Guide to getting the best out of your Segmentation Analyses

Bite Sized White Paper | 2011
Introduction

Market segmentation is defined as the practice of ‘breaking down the market for a particular product or service into segments of customers which differ in terms of their response to marketing strategies’ (Wind and Douglas 1972). A good segmentation study identifies and profiles promising target markets so that you can reach them with optimal marketing mixes.

The purpose of this paper is to provide a step-by-step guide to best practice in developing meaningful and relevant segmentation solutions. We have a four step process that can be used as a framework for the design and delivery of an actionable segmentation project. This framework is based on earlier work by Larry Anderson (North America, Ipsos MediaCT).

Step 1: Is segmentation appropriate for the subject?

Segmentation studies can fail to provide actionable results when they are not an appropriate research methodology that fits either the data or the original objectives of the work. According to Engle Blackwell & Miniard (1998) segments that are identified should “minimize the variance in behaviour between each member of the segment and maximise the variance between segments.” In other words, they should form separate homogeneous subsets. If there is no significant variance between people and as a result, homogeneous subsets do not exist, segmentation research is not appropriate.

Actionable Segmentation is a Four-Step process

**STEP 1**
Is segmentation research appropriate?

**STEP 2**
Segment the market using demand variables. Profile the segments. Repeat Step 2 until viable segments are found.

**STEP 3**
Evaluate attractiveness of segments and select targets. If no segment is attractive - return to step 2.

**STEP 4**
Develop marketing mix for targets.

**Step 1a**
The segmentation continuum

**Step 1b**
Establish goals

**Step 1c**
Sample size

**Step 2a**
Segment the market

**Step 2b**
Viability

**Step 2c**
Profile segments

**Step 3a**
Evaluate attractiveness of segments

**Step 4a**
Target segment
**Step 1a: The segmentation continuum**

For the purposes of segmentation, products and services can be viewed as being on a ‘continuum’ with commodities (examples would include electricity, oil, gas, sugar, water) at one end and one-to-one personalised products and services (such as personal training, individual health check-ups or a piece of art) at the other. Commodities are normally mass-marketed as there is little opportunity (though it is not impossible) to differentiate them for different consumers. One-to-one products and services are normally micro-marketed, with each consumer independently targeted and receiving a personalised service, making it hard to group them together in a meaningful way.

The greatest opportunities for segmentation thus exist somewhere in the middle of this ‘continuum’, and we would suggest the optimum number of segments is most often between 3 and 8 segments.

**Step 1b – Establish Goals**

As with any analytical or marketing exercise, it is important to be clear about the goals that need to be achieved. No two segmentation studies are alike because the specific goals of every study are different. Typical examples of segmentation goals include:

- Realise economies by concentrating on key areas
- Identify opportunities (niches)
- Improve marketing efficiency
- Prioritise prospecting lists
- Reposition products

**Step 1c: Sample Size**

It is necessary to think ahead, at the design stage, as to how small your segments are going to be, bearing in mind that:

- Niche segments are likely to be small and constitute a small proportion of the sample / population
- A sample size of at least 100 will be needed in order to provide survey information on a segment, that can be projected to the population with any robustness

For example, if your smallest “actionable” segment is likely to constitute 5% of the sample, the overall sample size would need to be 2,000; bearing in mind that a conservative estimate is recommended as the number of emerging segments is likely to be unknown.
Step 2: Segment and Profile the Market

Step 2a: Segment the Market
Selecting the right questions (variables) to ask the respondent and deciding which of the variables to include in the analysis is critical. Failing to include a question or a piece of information that cannot be linked from an external database via an existing variable is an irreversible error and the segmentation will be deficient in that respect. On the other hand, the inclusion of superfluous variables, in particular, ones that measure the same behaviour or attitudes can adversely affect the study and are best avoided.

One method of grouping variables is to think about the purpose of the variable, such as: classifying the respondents, describing the segments or evaluating the attractiveness of the segments. Often one variable can fulfill more than one of these purposes. These three types of variables are described in more detail below:

- **Classification Variables.** These are used to classify survey respondents into market segments. Almost any demographic, geographic, psychographic or behavioural variable can be used to classify people into segments,

- **Descriptor Variables.** These are used to describe each segment and distinguish one group from the others. Examples include demographics, geographics, buying habits or usage levels.

- **Evaluation Variables.** The attractiveness of a segment will be determined using the evaluation variables. If evaluation variables are not included in the study, or they are of poor quality, the ability to provide actionable results will be threatened. Evaluation variables may also be classification and descriptor variables but in most cases, it must be something the respondent can control such as the amount a respondent may spend on a product or their attitude to, or perception of, a product or service.

Step 2b – Determine the viability
Having run the core statistical part of the segmentation analysis and having satisfied the ‘attractiveness’ element referred to earlier, there is a further set of criteria that must be satisfied for a segment to be considered viable. The criteria normally includes the following:

- **Relevant:** If the segments are not relevant to the company’s products or services they are unlikely to provide targets that will satisfy the goal of the segmentation

- **Large:** It should be large enough to represent a profitable target, whilst still being homogeneous within itself

- **Projectable:** Being certain that if 10% of the sample falls into a targetable segment that this represents exactly 10% of the prospective market

- **Identifiable:** A segment must be able to be consistently identified
Responsive: They should respond to changes in the marketing mix and marketing communications

Approachable: The targets must be able to be reached efficiently with targeted communications

Stable: They should be stable over time so as to warrant a unique marketing mix

If it fails to match all of these criteria, the segmentation solution should be discarded and another attempt should be made to find a solution.

CASE STUDY: Movie Segmentation

In this example a segmentation study was carried out for a film studio, who wanted to understand the level of piracy existing amongst consumers across a number of markets. Four clear segments were found and could be defined by a combination of their total movie consumption level and the extent to which this was made up of pirated material.

Segmentation of movie consumers

<table>
<thead>
<tr>
<th>Segment</th>
<th>% of Total Piracy</th>
<th>Total Movie Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occasional pirates</td>
<td>15%</td>
<td>Low</td>
</tr>
<tr>
<td>Dishonest movie enthusiasts</td>
<td>25%</td>
<td>High</td>
</tr>
<tr>
<td>Disengaged</td>
<td>15%</td>
<td>Low</td>
</tr>
<tr>
<td>Honest movie enthusiasts</td>
<td>45%</td>
<td>High</td>
</tr>
</tbody>
</table>

Occasional Pirates (15%)
- Lower consumption
- High % pirate activity
- Higher conversion potential
- Pirating family / action
- More likely to be females 25-34 with young family

Disengaged (15%)
- Low movie consumption
- Low % pirate activity
- Potential to use new digital models
- Low risk to pirate
- More likely to be 45+ post family

Dishonest Enthusiasts (25%)
- High consumption
- High % pirate activity
- Action preferred genre
- Low conversion
- More likely to be younger male students pre family

Honest Enthusiasts (45%)
- High overall consumption (cinema)
- Low % pirate activity
- High potential digital models
- Moderate risk to pirate
- More likely to be 35-44 with family
Step 2c – Profile the Segments

A typical consumer profile might contain demographic details, ownership of products, lifestyle, lifestage, media habits and a myriad of other things. The identified market segments are summarised by profiles, often given a descriptive name and a picture or rendering that makes the segment ‘come alive’. In practical terms, it is often useful, when appropriate, to use consumer panels for segmentation studies, as panel data offers the advantage of having dozens of demographic variables already available. From these profiles, the attractiveness of each segment can be evaluated and a target market segment selected.

Step 3: Evaluate Attractiveness of Segments and Select Targets

It is impossible to pursue every market opportunity (segment), so strategic choices must be made. The segment that offers the greatest opportunity should be pursued, but once again it is important to stress the

**CASE STUDY: Movie Segmentation**

In our example, we can see the consumer profile created for the “Dishonest movie enthusiast” segment (Russia).

Dishonest movie consumer

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Key Piracy Motivations</th>
<th>Piracy Habits</th>
<th>Online Social Life</th>
<th>Digital Lifestyle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male 61%</td>
<td>Most extroverted segment; like to help bring their friends and family together</td>
<td>20% counterfeit</td>
<td>Very involved in social networking, visit between 4 and 5 times per week</td>
<td>60% own a digital camera and 18% own a digital video camera (both highest); they love taking photos or shooting movies and sharing them online</td>
</tr>
<tr>
<td>Female 59%</td>
<td>Price of legitimate content</td>
<td>60% digital</td>
<td>Always updating their online profiles; they love sharing their lives with others online</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teens 13 – 17</td>
<td>25%</td>
<td>20% secondary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adults 18 – 24</td>
<td>35%</td>
<td></td>
<td></td>
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<tr>
<td>25 – 39</td>
<td>25%</td>
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<td></td>
</tr>
<tr>
<td>40+</td>
<td>15%</td>
<td></td>
<td></td>
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<tr>
<td>Lifestage</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Adults w/kids</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>&lt;18</td>
<td>21%</td>
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<tr>
<td>Households with Kids</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Have kids &lt;8</td>
<td>31%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kids 8 - 12</td>
<td>40%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Kids 13 - 17</td>
<td>50%</td>
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<tr>
<td>Overlap Analysis</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consume legitimate movies only</td>
<td>BOTH</td>
<td>Consume legitimate movies only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entertainment Habits</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>TV and movies are great excuses to bring family and friends together</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Love music; want it immediately accessible wherever they go</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Digital Lifestyle</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Over ½ have a computer they use to access and manage their home entertainment devices and content</td>
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</tbody>
</table>
importance of including the right variables. If the data is not available (e.g., usage levels, value of purchase) to measure the size of the opportunity, it will be left to marketing to guess which segments should be targeted.

**CASE STUDY: Movie Segmentation**

Ipsos MediaCT used the segmentation to help a client pinpoint where the greatest opportunities would exist to convert users of pirated material. In this case, attractiveness was measured as the potential to convert users to legitimate consumption.

In assessing “attractiveness”, one should still take a holistic view of all of the segments together. For example, a segment which is to be targeted towards cut-price services is only attractive if it does not “cannibalise” other segments that are willing to pay the full price. Furthermore, if attractiveness is influenced by how well competitors are serving the segment, the only way to know if this is the case would be to include questions about brand usage and brand loyalty.

**Step 4: Develop Marketing Mix for Targets**

To guarantee that segmentation research will be actionable, a marketing mix must be developed and implemented. While the implementation of this is the client’s responsibility, the components of the mix depend upon the research design. For example, if questions about media preference are not asked, it will be impossible for the client to include media recommendations (promotion) in the marketing mix.

The marketing mix should be viewed as an integrated and co-ordinated package of benefits that reflects the characteristics of consumers. The elements of the marketing mix should be integrated because each element of the mix usually has some impact, direct or indirect, on the other parts.

In practice, a final critical stage of the segmentation process is communicating your findings clearly and convincingly to the client and their stakeholders, getting their ‘buy in’ and being involved in follow-up activities. Embedding the segmentation throughout the whole business should involve sharing compelling segmentation materials (using booklets, presentations, workshops) which can be easily understood and accessed across the whole organisation. To make the most of the segmentation, further analysis should include the development of a small number of key “golden questions”, which can be asked of consumers in future studies, in order to determine with a high degree of accuracy which segment they are likely to belong to.
Final Thoughts

Segmentation is an established area of expertise for Ipsos MediaCT. Essentially, our philosophy is that a market segmentation study must produce meaningful information and be actionable. It is more than a statistical exercise in generating segments. It has to deliver actionable information, which can be used to improve the competitive position and profitability. Ipsos MediaCT would be happy to discuss how these steps can be applied to aid the success of any of your segmentation projects.

References


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