The Complexity of Market Segmentation Process

Dr. D. S. Chaubey, Dr. K. R. Subramanian

Abstract— **Market Segmentation has turned out to be a more complex process than what is suggested by its core definition. On a philosophical plain, segmentation has shifted from a simple focus on understanding customers' needs to an intricate exploration of customer lifestyles, values, jobs to be done, need states and occasions. On a practical level, the multiplicity of real-time, digital data about customers has paved new ways of understanding them. Together, the complexity of modern-day customer segmentation has made it a sensitive topic for marketers. Market segmentation needs to address the realities of what current digitally savvy customers and aligning business functions around customer segments that can be focused on. Customer centricity is the operating word and organizations are more effective by such strategies. Organizations are more effective by such strategies in meeting current requirements of sales and market share and the long term requirements of business expansion and growth. The role of Big-Data in analyzing customer requirements and then segmenting is becoming popular. The current research paper will explore the possibilities and arrive at suggestions for companies to grow.**

Index Terms— **Market segmentation and philosophy, intricacies, complexity in modern times, digital realities, customer centricity, current requirements and future needs**

I. INTRODUCTION

Businesses have been segmenting markets and customers for years, but the era of Big Data is making it more essential -- and complicated -- than ever. The Big Data challenge is not simply a race to accumulate information; it is a race to understand customers more intimately, and to act on that knowledge. Segmentation is a foundational element of understanding customers. In its simplest form, customers are grouped based on similar characteristics. As the data improve (demographic, attitudinal and behavioral), the approaches to segmentation become more sophisticated. Yet many businesses suffer from a kind of segmentation paralysis.

Marketing bias and myopia is to be removed because; Great segmentation starts by identifying what the business, not just the marketing department, wants to know about its customers and how customer insight could make business decisions more effective. Generic segmentation that describes customers based on widely available data are not unique to a specific business and do not describe the behaviors or attitudes with which people think about a particular business. Businesses need to start with their own strategy and the right data. Segmentation is sometimes approached through profit and revenue, to characterize the customer, rather than accounting for how customers actually behave. This approach is common but is outdated. Big Data has made it easier for businesses to characterize each household based on its behavior, which ensures precision and relevance. Instead of a single segmentation, a portfolio of segmentations that seek to solve different business issues is often required. For example, a pricing problem will often need a pricing segmentation; a loyalty program will need a separate strategy. Customers are well segmented, but changes in customer behavior are not accounted for. Finding the right balance is one of the most difficult areas to manage within segmentation. Rather than thinking exclusively about segments, think about the set of attributes that rely on continuous scores against a specific behavior or attitude. This provides greater flexibility to grow an understanding of the customer over time and apply it across all dimensions of the business to drive parallel execution rather than limited to a major event.

Often segments are developed exclusively using complex modeling. When this segmentation is socialized throughout the organization, buy-in is difficult, as the complexity produces a level of distrust. Good segmentation allows you to develop clear customer segment strategies and should be intuitive enough to ensure that the way the segments fit together makes sense for the entire organization to act on and measure against. Big Data gives us the opportunity to move away from a one-size-fits-all approach and allows us to manage and activate on many segmentations with the consistency required for long-term analysis. Companies that view segmentation as the enabler of change and can move away from the "descriptive data dump" to develop a deeper understanding of Customers will soon outpace their competitors. The 2016 US presidential election is perhaps the biggest and most public failure of segmentation models in recent memory. Most models not only predicted Hillary Clinton's victory by a comfortable margin but also ignored the demographic, racial, and geographic segments that predicted a different outcome—and propelled Donald Trump's victory. Taking that failure as an example, we need to understand that segmentation models must evolve.

Figure 1: Relook at our approaches to segmentation

Especially for businesses, an evolution can result in more effective marketing strategies and more successful marketing performance in our increasingly dynamic marketplace.

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II. OBJECTIVES AND METHODOLOGY

Segmentation as a process of understanding markets and customers has been in vogue for quite a long time. What we need to understand as marketers is how this process needs to be redesigned to suit emerging needs, aspirations and expectations of customers and society. The worst thing that a company can do is to assume that once the segmentation is done it is forever. Nothing can be farther than truth. It all started with geographic segmentation of markets to cater to different needs of consumers in distant markets. Soon it was found inadequate and demographic and other variables came into segmentation process. Consumer behavior became a matter of study and research and with this the segmentation process has undergone drastic changes in outlook for companies. Companies understood that the key to their success depended on understanding the consumer and customer better in terms of their buying attitudes and behavior in different circumstances and understanding their motivations to buy. So, we see that market segmentation has undergone various dynamic changes due to consumer behavior. In order to understand this and for the immediate purpose of this research paper following specific objectives have been identified:

1. A brief review of business environment calling for market segmentation.
2. How market segmentation approach has been developed.
3. The need to understand complexity and the approaches by marketers.
4. How marketers have solved these problems and gone forward.
5. The challenges for current and future marketing of products.
6. Suggestions and recommendations

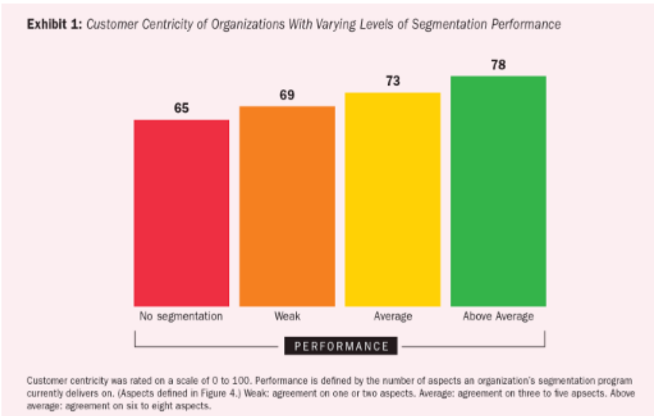
As seen from the introduction and the above objectives, the topic of market segmentation is very challenging and dynamic. One of the main influences in the segmentation strategies adopted by companies is the growth and availability of big data. We have also seen from the introduction and a brief peek at data sources that big data alone cannot solve all the problems of segmentation. While big data makes available several insights through analysis of consumer behavior, we need still executive judgment in making use of them and the digital developments and the consumer awareness of various competing products and offerings. While considering the methodologies for this research paper a separate survey through Questionnaire method was ruled out due to the difficulties of administering the questionnaire and selecting and qualifying the respondents. During the same time an extensive search for available data through published sources provided valuable clues and indicated the sufficiency of data and adequacy of the same for the research with the above objectives. As will be seen from the conclusions this method was suitable for the purpose of the current research paper.

III. REVIEW OF LITERATURE

Since the 1980s, companies have spent a lot of time and effort meticulously segmenting audiences on the basis of demographics and creating personalities for marketing teams. However, those methods are increasingly irrelevant, for a few reasons.

- First, there is no longer a competitive advantage to traditional segmentation. Every company is doing basic Recency, Frequency and Monetary (RFM) segmentation using the same combination of behavioral or demographic data.
- Second, potential clients change faster than static models. Many segmentation models that are static by design or updated only a few times a year, at best, don't capture consumers' fast-changing behaviors, especially in high-velocity markets such as technology and retail. We need more dynamic models.
- Third, the models' predictive power doesn't translate to actual return on investment. Traditional segmentation approaches were developed for mass-media buying and are not very effective in an increasingly one-to-one addressable world.

Research has shown that the organizations that are the best at orienting to customer needs at the heart of everything they do, (i.e. they are customer-centric) are able to more effectively identify and execute strategies that drive growth. Therefore, we find a close relationship between the quality of a segmentation program and an organization's level of customer centricity (Exhibit 1).



Customer centricity; Exhibit 1 (Figure 2)

When employed effectively, modern-day segmentations contribute to both short- and long-term strategy. In the short term, actionable segments can guide customer acquisition teams and aid in targeted marketing efforts to ensure that brands reach the right customers with the right messages. Furthermore, when integrated with customer behavioral data, segmentation can help customer relationship management teams to strengthen existing relationships with meaningful rewards and loyalty programs. In the long term, clearly differentiated and economically viable segments can guide decision-making on expanding the business into adjacent categories or segments. Segmentation can inform the organization's blueprint for long-term growth, guiding decisions on which products to launch, which go-to-market strategy to employ and which brands to reposition or acquire. Segmentation is a strategic weapon in the hands of a company. There is extensive literature on the requirements of effective market segmentation. Most initiatives as a result tend to focus on either the technical aspects or philosophical aspects and the type of segmentation is not a critical factor so long as it is aligned with the key business objectives. However, to truly serve as the platform for developing a unified, customer-centric business strategy, segmentation needs to do much more. Segmentation should bridge customer value and commercial benefits to company, providing organizations with a clear understanding of how they can simultaneously create value for their customers and their business. It should connect and rally different functions around the most important voice in the business: the customer. And segmentation should orchestrate the delivery of strategy by linking together key marketing tools.

The value of segmentation for both the company and the end user can be broken down as such;

- Provides greater choice of products/services
- Products/services should more closely match the needs of consumers.
- Better marketing planning as reactions to marketing activities can be predicted
- It helps organizations to identify prospects who are most likely to buy
- Marketers will get to know their customers better so that they can provide a better service
- Budgets can be more closely allocated on the basis of the investment and return needed from different segments.
- Smaller segments may be easier to dominate
- Marketing and sales activity will be closely focused, leading to more sales, lower costs and higher profitability.

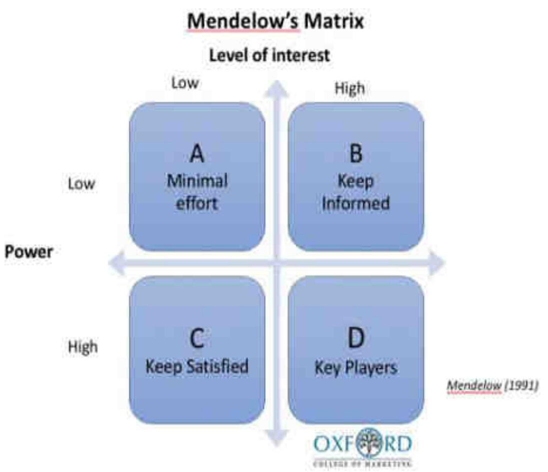


Figure 3: Mendelow's Matrix

Stakeholders are important to identify and to manage in order for our businesses and/or projects to have a high chance of success, but how can we ensure we use our limited resources – time and money – in an efficient way? This is where Mendelow's Matrix as explained below can help make our lives easier and more focused. Mendelow (1991) suggested that we analyze our stakeholder groups based on **Power** (the ability to influence our organization strategy or project resources) and **Interest** (how interested they are in the organization or project succeeding). All stakeholders may seem to have lots of power or we hope they would have lots of interest, but relatively speaking, some stakeholders will hold more Power than others, and some stakeholders will have more Interest. For example, a director is likely to have high Power and high Interest in the organization, whereas the Government would have high Power to impact strategy via regulation, but potentially less Interest – the same with a large competitor.

Creating a Grid Map of Stake holders

Based on Power and Interest the grid allows us to identify which stakeholders are incredibly important, with High Power and High Interest which we would need to manage closely, investing a lot of time and resource. For example, your boss is likely to have how Power to influence your work and also high interest in it being successful, or a technical external agency. Keeping these stakeholders on side and keeping them informed almost daily is a priority. However, those stakeholders with low power and low interest (e.g. the local community or media) should be monitored and minimum effort expended in terms of time and money. The other two quadrants highlight stakeholders that need to be kept satisfied (high Power, low Interest) and those that need to be kept informed (high Interest, low Power).

Creating an Action Plan

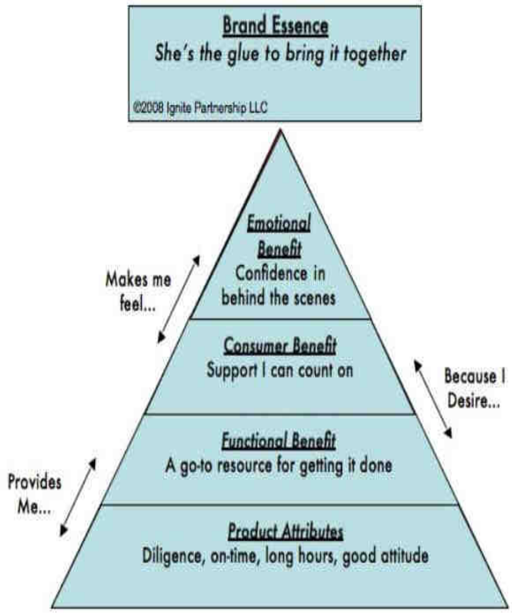
The position that you allocate to a stakeholder on the grid shows you the actions you need to take with them:

High power, highly interested people (Manage Closely) : aim to fully engage these people, making the greatest efforts to satisfy them.

High power, less interested people (Keep Satisfied): put enough work in with these people to keep them satisfied, but not so much that they become bored with your message.

Low power, highly interested people (Keep Informed): adequately inform these people, and talk to them to ensure that no major issues are arising. These audiences can also help point out any areas that could be improved or have been overlooked.

Low power, less interested people (Monitor): don't bore these stakeholder groups with excessive communication, keep an eye to check if their levels of interest or power change
World-class segmentation strategies would delicately balance in-depth customer understanding, commercial relevance and future orientation. Despite the importance of this balance, just one-fifth of marketers (20%) agree that their segmentation delivers on all three key aspects. In practice, segmentations are often limited by a narrow focus on either the needs of the business or the needs of the customer. On one end of the spectrum, segmentations that focus on driving short-term strategy can miss the rich customer understanding required to build truly forward-facing strategy. On the other end, segmentations that focus on painting a vivid picture of customers without reflecting business realities and exploiting concrete commercial opportunities fail to gain acceptance in organizations. Achieving this balance of rich customer insight and robust commercial opportunity requires *shifting the role of segmentation from research exercise to strategic endeavor.* Behavioral models of Market segmentation is illustrated in the following figures (Figure 4 and Figure 5). Segmentation nowadays is based on psychographic profiles customers as indicated in the following diagrams.



http://ignitepartnership.com/blog/wp-content/uploads/personal%20brand%20pyramid.png

Figure 4: Segmentation based on customer levels of perception

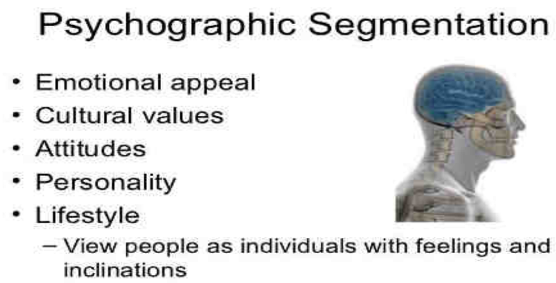
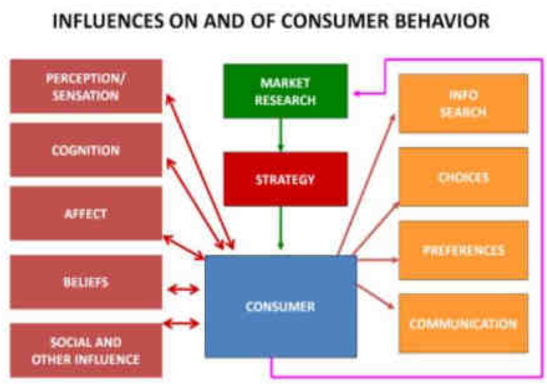


Figure 5: Segmentation based on various psychological factors.

Traditional models of segmentation concentrated on location aspects and demographics of customers as is seen below: Segmentations have the greatest impact when they are understood and used by all relevant functions in the organization. If not, they fail to reach all relevant functions of the business and are not incorporated into annual strategic planning cycles or day-to-day decision-making. If not actively engaged before and throughout a segmentation initiative, critical business functions can easily dismiss the outcomes of segmentation. Achieving maximum impact requires the endorsement of stakeholders and input from key functions at the start of a segmentation program. Early and ongoing engagement ensures stakeholder alignment and builds the shared sense of ownership essential to shaping customer-centric strategies. Upon completion of a segmentation program, it is critical that all end users are provided the appropriate level of training and equipped with tools to apply customer insights to day-to-day decisions. Ultimately, a vivid and intimate understanding of customer segments can serve as a galvanizing process across functions, only if appropriately inducted into the organization and in an inspirational way. As seen above these decisions were almost based on marketing assessment and performance of company products. Then came the processes based on behavioral aspects of Consumer as given below:

Figure 6: Traditional model of segmentation



http://www.consumerpsychologist.com/images/intro/consumer_behavior.png

Figure 7: Consumer behavior influencing market segmentation

Segmentation can only serve as a platform for growth when it is connected to key marketing tools and integrated into marketing processes. Segmentations are often developed without linking to commonly used marketing tools and processes and can instead of serving as the foundation for a customer-centric marketing system segmentation can ultimately become a stand-alone research report. To link segmentation to marketing tools and processes requires careful consideration of tools, data sources and processes at the outset. Effective connections between segmentation and databases improve the understanding of current and potential customers and can greatly expand the actionable nature of the program, making it easier to execute the business strategy. For example, connecting with the organization's CRM database—and any existing micro segmentations—allows for immediate translation of marketing strategy to execution, measurement and optimization. Synchronizing to the proprietary audience information database allows teams to quickly focus on core segments with more targeted media plan. And connecting to proprietary data management platforms provides the opportunity for accurate digital/programmatic media buying.

For segmentation to fully effect change, organizations should first create cross-functional alignment by setting a vision for success and developing a blueprint on how segmentation results will be implemented across the organization.

Assigning responsibilities to key stakeholders before beginning a segmentation program ensures that all relevant functions are involved and committed to using segmentation as a platform for growth, rather than a research tool. Maintain consistent internal communication and stakeholder management across all levels of the organization so that all teams are aligned with key decisions and engaged on the implications of those decisions on segmentation outcomes. Support from senior stakeholders is a critical enabler for setting the foundation for effective segmentation, and ongoing support from cross-functional segmentation champions can help ensure that key outcomes are applied at all levels of the organization.

Finally, end users of the segmentation need to be provided with tools to guide them through interpretation of results and help them translate insights into action. It is imperative that socialization is not a one-and-done process, but an ongoing initiative to infuse customer-centric capabilities and a customer-centric mindset into the organization. Although segmentation provides the groundwork for sound strategy, to truly unlock customer-centric growth, segmentation must galvanize organizations around their priority customers and serve as a spark plug for igniting a customer-centric culture.

IV. FINDINGS AND CONCLUSION

One of the main problems of Marketing has been the disconnection between corporate strategy and marketing efforts particularly segmentation of markets. Segmentation can create the bridge and close the GAP between business strategy and marketing efforts. It is a strategic weapon for companies to face competition hands down. While long term benefits of strategy are realized by aligning segmentation, the organization need not and does not sacrifice short term profitability and shareholder delight. Customer centricity is achieved through a strategic segmentation program. There is no doubt that the business environment is becoming increasingly competitive and only organizations with a strategic outlook towards all activities of marketing and focused on corporate mission and objectives will survive.

It is in this context that the organizational approach to segmentation has been reviewed through this article. The segmentation of markets has been a domain of mainline marketing activities for a long time. Historically market segmentation was evolved to conserve marketing resources while expanding sales volumes and market share in geographic territories contiguous to where a strong presence of the company existed. This further developed to market segmentation based on demographic to psychographic profiles of customers till consumer behavior became important in understanding customers and markets. Behavioral models of market segmentation concentrated on consumer attitudes and preferences based on the emotional appeal, benefit proposition and not exclusively based on functionality of a product. Further personal values, cultural orientation, attitudes and life styles of consumers influenced the market segmentation profile and process. Stake holder power, resources and interest became focus of segmentation till finally the segmentation became a strategic marketing and corporate function.

The complexity of consumer behavior and marketing strategy has continued to influence segmentation. From an isolated function of marketing segmentation has evolved as an integrative function incorporating the needs of corporate strategy, sales volumes, and market share and customer perceptions of company and product roles. Marketers and companies have understood the changing role and need of market segmentation for long term corporate benefits of survival and growth and not constricted to the role of increasing sales and market share; of course these considerations are fundamental but it has evolved for satisfying the needs of corporate responsibility of the company. Strategically, companies will grow and expand by segmentation into viable markets which satisfy the needs of corporate strategy and involvement of higher echelons of the hierarchy.

Today, with the digital proliferation through devices and Technology and the ‘always on’ customers companies are constantly in touch with their customers and opinion leaders which shapes the corporate strategy and market segmentation. The digital development has given the companies the advantage of consumer perceptions and customer needs on a constant basis. Marketers have gone forward to meet these challenges squarely and shape their corporate strategies on currency of business environments and changes thereof.

The future challenges will include development of marketing information systems and real time data bases to be responsive. Big data is helpful in getting the volumes and complexity of information gathering. But decisions have to be made based on dynamic information of the customer tastes and preferences in various market segments and constantly modify corporate strategy. Traditional methods of market segmentation cannot create the kind of competitive advantage that modern marketing companies need.

V. SUGGESTIONS AND RECOMMENDATION

At the end of the day, customers are looking for competitive and durable solutions to their business problems. We need to understand the motivation that makes them feel like a champion so they can go about their lives with ease and appreciate the products and services marketers put in front of them. That means getting to know your customers beyond what marketing knows and create a competitive advantage for the company. For segmentation to be effective it has to be aligned with other corporate functions alongside marketing. This corporate perspective of market segmentation is evolving and the faster the companies catch up the more successful they will be.

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