

Market segmentation

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Market Equity introduction

Market Equity works alongside senior management teams identifying improvements in value that have resided untapped in their markets and then embedded them in their companies. We utilize a unique suite of tools and techniques developed by the company's principals and provide our clients with:

- Real insights into what they need to do in order to attract and retain the customers they wish to serve.
- The means to set achievable marketing and financial objectives and the strategies required to deliver them.
- The structure and content of a powerful strategic document.

Our tried and tested approach ensures companies achieve:

- Long-term sustainable improvements in value for their shareholders.
- The essential market understanding and evaluation demanded by potential investors.

In addition, our method of working means that the skills we bring to our assignments are transferred to the team we partner in the business.

The services we provide to businesses fall under three headings:

- Consultancy in market segmentation and market-led strategy.
- Consultancy in raising capital from VCs/investors.
- Training programmes in market segmentation and market-led strategy.

For VCs/investors we provide consultancy in determining the realizable value of a business using our tools and techniques to provide the commercial due diligence analysis required.

And for all our clients, the services we deliver are tailored to fit their particular needs.

To find out how we can help you realize the full value of your business either e-mail your enquiry to us at info@market-equity.com or complete the enquiry form on the website <http://www.market-equity.com/contact.htm>.

Market segmentation summary

Little of what is best in marketing theory and practice works without correct market segmentation. It is one of the most fundamental concepts in marketing and has a profound impact on the success of your business. For your company to attract and retain the customers it wishes to serve it has to deliver propositions that outperform the competition in meeting the needs of these customers.

Market Equity has a fully documented approach to market segmentation and a powerful desktop software tool for generating market segments. At the heart of our approach is a detailed understanding of customer needs thus ensuring that the insights provided by our approach will enable you to clearly determine the propositions you need to offer if you are to outperform the competition.

The sequence of events for developing segments can be summarised as follows:

Be crystal clear about the market you are serving and how it works:

- Determine the scope of the project – defining the ‘market’
- Understand its structure and identify decision-makers – market mapping

Establish a representative sample of decision-makers and their transactions:

- Use differences in what the decision-makers regard as the discriminating characteristics and properties of their purchase to build a sample

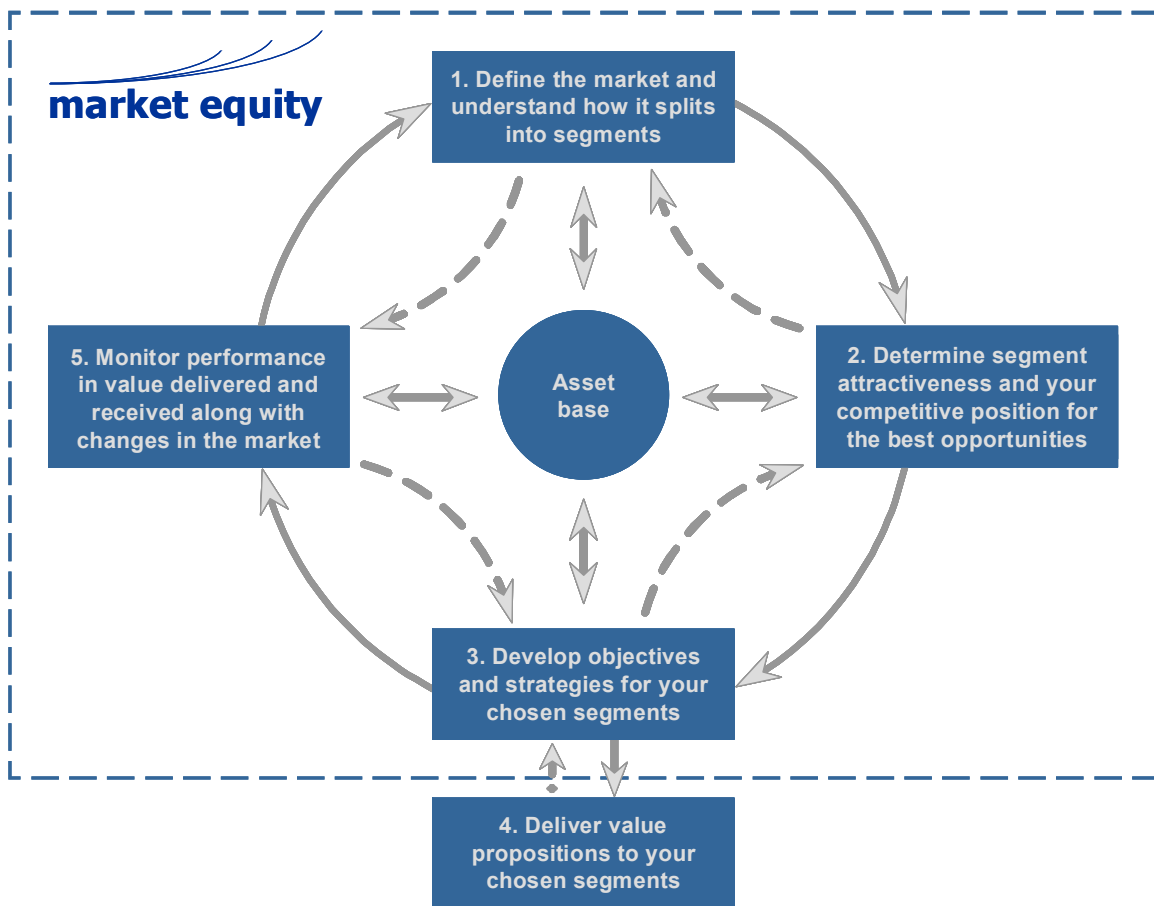
Determine why decision-makers make their choices, then segment the market:

- Understand the decision-makers in terms of the needs they are satisfying with their particular purchase preferences
- Form market segments by combining like-minded decision-makers

While the focus of our approach is on understanding customer needs we do not overlook the importance of also understanding how to reach your target segments. The process we follow carefully tracks this important component of a successful market segmentation project, starting with the market map.

Correct market segmentation provides vital input into the strategic marketing process and has a major influence on the financial performance of your business and your ability to secure sustainable improvements in value. This is illustrated by its premier position in

the strategic marketing process summarised in the following flow chart, a process which has been adopted by the forward thinking companies of today.



Each stage builds on the previous stage and with the continuously evolving nature of many markets it is essential that the process is seen as being cyclical as this will ensure that the business continues to deliver an industry-leading performance. In essence, the series of logical steps we have built into our strategic marketing process will help you determine what value your business can realize and how you can optimally get there.

The following are just some of the gains reported by clients through correct market segmentation:

- GB£28 million in 10 months – UK based company.
- A forecast gain of AU\$180 million over 12 months – Australian based company.
- Margins up by 8% - UK based company.
- A substantial increase in market share – mainland European company.

A customer's view of segmentation

This can be captured very simply: Meet my needs!

What is also important to acknowledge is that customers segment themselves and take no notice of how companies segment their market(s).

When choosing between competing products and services, the proposition customers select is the one that meets their needs better than any other at a price they perceive as providing superior value for money (which does not necessarily mean it has to be the cheapest). To win market share, therefore, a company must ensure that their offers meet these needs better than any other and are perceived as providing superior customer value propositions. As this is how customers operate in a market, then a segmentation project should have this as its segmentation criteria.

Despite this fundamental truth about market segmentation, supported by the fact that all of us, as customers ourselves, choose between competing products and services on this basis, many companies still pre-determine how their market divides into segments, based on, for example, such criteria as the products or services offered, or on demographics/firmographics, and organise their marketing effort principally around these dimensions. These companies will never realize the full value potential of their markets.

On its own, the needs-based approach to segmentation, while able to provide you with an invaluable insight into how to win a customer's business, still requires you to know how to reach them. The input to this part of a winning proposition, provided by a detailed understanding of who the customers are and where they are to be found, is clearly very important and plays a crucial part in our segmentation process. In addition, by really understanding what underpins a customer's choice we gain an insight into their motivations, which will lead you to understand what promotional stance to take with them.

It is worth noting that all the reputable marketing books and marketing courses which look at the alternative approaches to segmenting markets include 'needs-based' segmentation (sometimes called 'benefit' segmentation) in their reviews. They also

conclude that 'needs-based' segmentation is by far the most successful approach. It is also the approach endorsed by today's leading marketing gurus.

For over a decade we have followed the needs-based approach to segmentation, for which Market Equity has developed a series of practical steps, tried and tested in numerous markets around the world, and incorporated into our segmentation process.

The segmentation process – a brief review

Developing segments

There are five sequential steps required for the development of segments and these are as follows:

- Step 1 Determine the scope of the project in terms of the geographic area it will cover and the particular product and service ranges to be included in the identified market as defined by a customer need. Practical considerations are also taken into account, designed to ensure that the project leads to opportunities that are realistically available to your company.
- Step 2 Identify the decision-makers in the market as they are the individuals you should be targeting. This is not always as straight forward as it first appears and a market map, as defined and developed by Market Equity, will help you make the right decision.
- Step 3 Establish a sample of customers which will represent the different decision-makers found in your market (referred to as 'micro-segments'), with the difference between them being the key features they use to discriminate between competing offers and the importance of these features. These features need not only be those associated with what the actual product or service itself is, consists of or is made from, but can also include where it is bought, when it is bought and how it is bought.

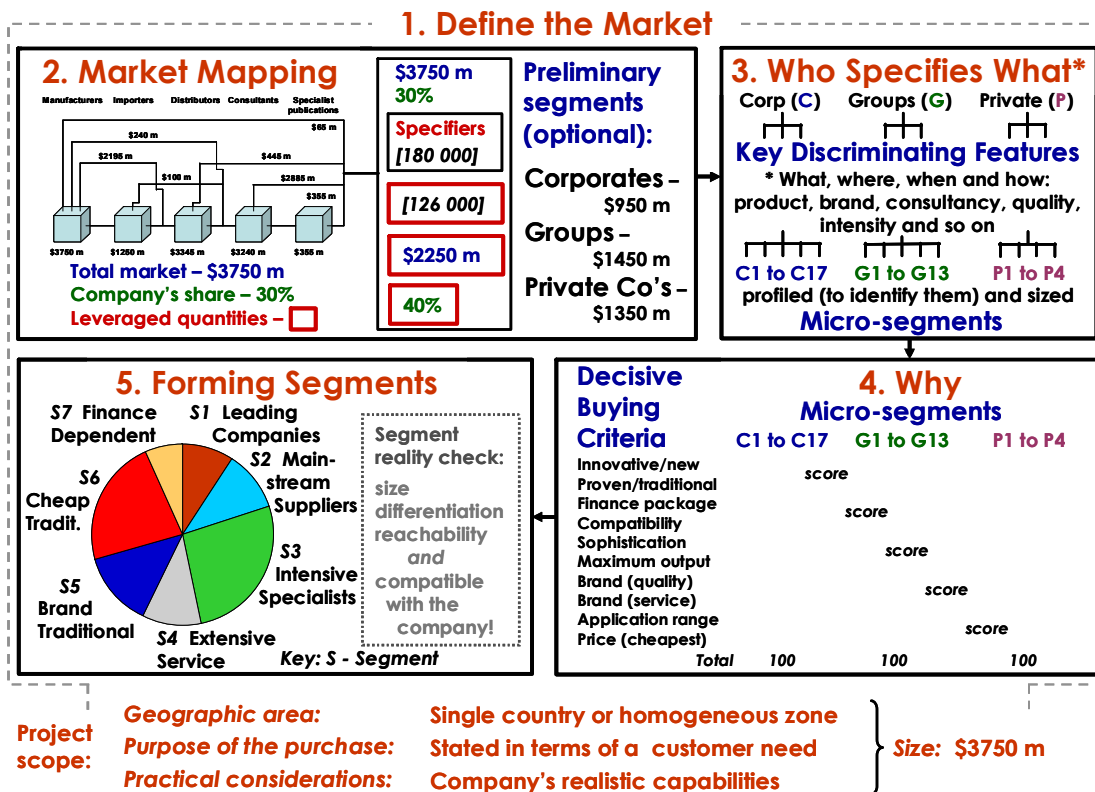
Record personal details about the decision-makers (including their company details if appropriate) which can be used to identify them.

Step 4 Understand the real needs of customers and list the benefits they are seeking, along with the importance of these benefits, for each micro-segment. Valuable input to this understanding comes from having identified what aspects of a purchase are important to them in Step 3.

Step 5 Bring together those micro-segments that illustrate similar patterns of importance for the benefits in order to form clusters.

Verify that the concluding clusters can be regarded as segments, with the three most important criteria being segment size, the distinctiveness of the offer each requires, and the ability to reach them.

A diagrammatic summary of the process to this point appears below.



Supporting software

Market Equity has its own data processing system for market segmentation. EXMAR[®] Market Segmenter is a very quick and powerful desktop software tool for generating segments from any set of data and enables its users to regain control of the analysis routines associated with market segmentation. It also produces the visual outputs required for effectively communicating the findings to others.

Prioritising opportunities

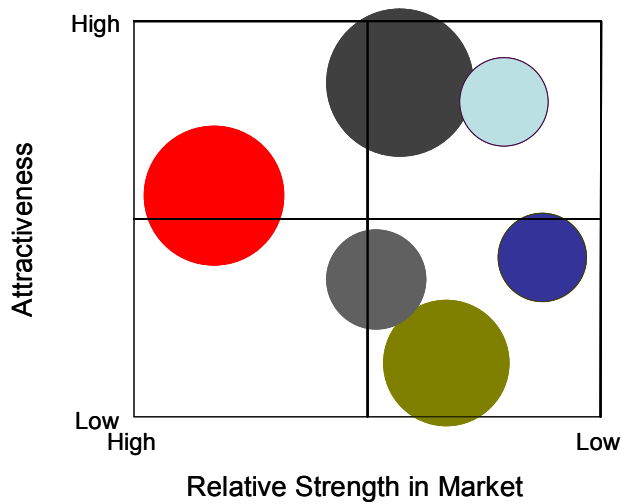
Because each segment presents an opportunity for someone, it is essential to ensure is that your company identifies where its best opportunities are to be found. Our segmentation process therefore moves into a second phase that prioritises and selects segments for your company using the following two steps:

- Step 6 Establish the attractiveness of each segment to your company based on how well each of them meets your requirements using factors that you would use to determine where you would allocate your resources.

- Step 7 Determine the relative competitive strength of your company for each segment based on how well you, compared with your competitors, meet their requirements as perceived by the customers in each segment.

This approach will prevent your company from falling into the trap of making this important strategic decision based purely on segment attractiveness.

A facility for performing this analysis is built into our powerful desktop strategic marketing software tool, EXMAR[®] Strategic Planner. Our software also produces a visual presentation of this analysis as illustrated in the following example.



Note: Each circle represents a specific market segment and the product or service they purchase.

Only on completion of steps 6 and 7 will we then look at developing segment-specific objectives and strategies. This will ensure that your company's financial and management resources will be focussed into those segments that provide the greatest opportunity for your business to unlock its value potential.

Full details of our market segmentation process and how the results are used in the development of marketing objectives and strategies can be found in *Market Segmentation: How to do it, how to profit from it* by Malcolm McDonald and Ian Dunbar (2004) published by Elsevier Butterworth-Heinemann (ISBN 0 7506 5981 5).

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