

THE PROCESS OF STRATEGIC PLANNING

ARTICLE #3 OF 10

SEGMENTATION ANALYSIS: MATCHING MARKET POTENTIAL AND COMPANY STRENGTH

Strategic Planning pays dividends to companies when approached in a disciplined process with top-down support and bottom-up participation. The following is the third in a series of ten articles describing one proven, tested process for effective strategic planning.

Step three in the Strategic Planning Process is to conduct a market segmentation analysis. The purpose of this process is to match the company's current or prospective products and services with the market's potential. The alignment of the company's products with the market potential helps focus the strategic planning activities of the company in areas of highest volume potential and highest financial return.

The framework for segmentation analysis suggested in this article has been used successfully by a number of companies. First, before any consideration of the products and services that the company produces, **identify the market segments from the customers' needs perspective.**

Market segments are groups of customers who exhibit similar buying decision processes. For example, one segment of most markets consist of the customers who are very price oriented and buy based on price alone. Other segments may look for services ahead of price. The basic purpose of this process is to find customers who behave in a similar purchasing manner, and to find how their behavior is different from other market segments.

For example, a common method of market segmentation in consumer markets is to use demographic variables such as age, sex, income, and location to describe segments. The needs of a 25 to 35 year old college graduate recently married are very different from the needs of an empty nesting couple aged 60 to 65. The process of segmentation breaks the market into groups who exercise similar purchase patterns and implies how marketers should reach these groups.

There are many ways to segment markets. In addition to demographics, many marketers of consumer products use buying behavior patterns, psychographic segmentation variables, and lifestyle variables. There is no exact way to segment a market; it is a combination of science and art in understanding the buying behavior of your current and potential customers.

In business-to-business markets, the type of customer or customer channel, is a common segmentation variable. For example, retail automobile customer segments, such as automobile dealers, and retailers of automotive parts exhibit very different buying patterns for automobile repair products and services. The differences between these segments buying behavior patterns create unique segments.

Multiple market segmentation schemes are recommended. It is usually the responsibility of the marketing function of a company to develop a precise definition of the market segments. Ultimately in the strategic planning process, these segments will be prioritized and targets will be selected.

The second step in the segmentation process is assessing and assigning the market potential for each segment and determining whether that potential is growing, leveling off, or declining. This analysis allows the company to evaluate and select the market segments of highest potential for volume and profit contribution.

The third step is to match or fit **the products and services** of the company to the various market segments. For example, consumer food products such as single servings fit older aged market segments; other food products fit a family with young children. This matching process provides a way of identifying where the company is strong or weak and where the greatest market potential lies. This process may also have implications for new product development or market growth of the company.

From this last step in the process, management has a framework that allows analysis of:

- Market Segments and Market Potential (without company bias)
- Matching of Existing Products and Services to Segments
- Implications of where the company needs to focus product or market development
- Penetration or market share of various market segments
- Implications for functional tasks such as the sales planning and advertising
- Identification of products, services or market segments to be emphasized, diminished or discontinued

At the conclusion of this step management has a completed current situation analysis, and an outside analysis of market segments and their potential. An important point is that the segmentation scheme and the identification of market segments have come from the unique behavior of the market or customer. It is not an internally generated definition of market and product potential. The company products and services are now objectively matched to the market segments.

At the end of this phase, data collection and organization of the market factors is complete. The next articles will describe the further steps of SWOT analysis, Core Competency Analysis, Key Success Factors Analysis and Business Strategy Statement Development and The Balanced Scorecard.

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January 2002

(Article #4 in this series of 10 will deal with SWOT analysis)

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