Market Definition is a Multi-Dimensional Process

Michael W. Lodato, Ph.D.

Introduction

Customers today know more what they want, and they are more specific about when and where they want it. This means that markets have to be defined more precisely – and more often. In response, firms must become more adept at identifying precise differences among customers' needs and preferences. Armed with these understandings, firms are able to segment customers into groups with unique needs and preferences.

Once the uniqueness of customers' needs is known, firms can produce products and services tailored to the specific needs of individual customer groups.

The companies that take the time to understand current and future customer needs in specific market segments are winning the competitive battle over firms that rely mostly on technicians in the lab to figure out what can be done with technology.

Precise market definition is crucial to the success of a business because it affects what markets should be targeted, the selection of products, staffing, distribution, and many other factors.

The key to target marketing is market segmentation because it is central to matching supply and demand. The demand for hotel rooms, for example, can be dependent on foreign tourists, business persons, and vacationers. Focusing on these three market segments separately, however, can allow hotel firms to predict overall supply and demand more effectively.

There are several other advantages to good market segmentation. The more clearly defined the markets are:

- the more meaningful the analysis of the competition can be,
- the more accurate the calculation of relative market share can be,
- the easier it is to spot appropriate target markets where the business unit can win,
- the more possible it is to get a keen understanding of the industry in which the business functions,
- the more likely it is that the most appropriate distribution channels will be chosen to reach them.

The approach outlined below yields meaningful and precise definitions of market segments, which, in turn, yields precisely defined target markets. It views market segments as being multi-dimensional.

What is a Market?

A market is a set of organizations and/or people who could benefit from the products and services offered by you and your competitors and who have the purchasing power and authority to buy.

In general, there are two kinds of markets:

- consumer markets that consist of the ultimate consumers of the products or services for personal use; and
- business or industrial markets that consist of organizations that purchase products or services for use directly or indirectly in the production of products or services that they offer.
Products used directly by business and industrial markets include raw material, components, and packaging. Products used indirectly include business software, paper, pens, air conditioning, and banking services.

**Defining Target Markets**

*Target markets* are those markets in which the business will focus its marketing, sales, and product development efforts. The idea is to compete where the business has some leverage. All the remaining components of the product marketing strategy – product, pricing, promotion, positioning, and distribution – are specified based upon the target markets chosen.

**Methodology for Defining Target Markets**

*Target markets* are selected from candidate market segments. So the first task is to do what is called *market segmentation*.

The following graphic, Figure 1, summarizes a methodology for defining the target markets for a firm.

![Figure 1. Methodology for Defining Target Markets: Top Level Flow](image)

1. **1.0 Identify Market Segments**

   *Market segmentation* is the partitioning of a market into clearly defined parts in which the business unit could compete. In segmenting a market, we seek to characterize groups of prospects
   - with similar or related characteristics,
   - who have common needs and values,
   - which will respond similarly to specified offerings, and
   - which are large enough to be strategically important to the business unit.

   Market segmentation allows a firm to operate with limited resources, since mass production, mass distribution, and mass advertising are not required. Market segmentation can enable a small firm to compete successfully with a large firm by maximizing per-unit profits and per-segment sales.

   Segmenting a market may be as easy as sorting customers by size, location, or industry. Or it can be a complex process involving statistical models. Either way, the idea is to capture more market share and profit by catering to market niches large enough to justify individual attention. Marketers must ensure that each segment they define is *homogenous*, its members sharing a key characteristic that differs from that of all other segments.

   For example, a market for a sales automation software offering might be partitioned by industry into manufacturing, financial, transportation, hotel, etc. But this may not be precise enough for selection of the markets on which the business will focus. So, other dimensions are considered, such as geographical location, size of the business, computing environment, and number of salespeople.
1.1 Identify Dimensions That Define Markets Of Interest

Each market segment is best described in terms of several dimensions. For example, some dimensions that might come into play within a consumer market sector are gender, age, family income, and life stage. These are commonly referred to as demographic dimensions.

**Dimensions for market segmentation of industrial and business markets**

Instead of competing in markets dominated by larger firms, many small and medium-sized companies concentrate on specific market segments where larger firms are not dominant.

**Bases for Industrial and Business Market Segmentation**

The following exhibit shows that business markets may be segmented on the basis of technology employed, functions performed, organizational characteristics, user needs, and end use application.

<table>
<thead>
<tr>
<th>Technology Employed</th>
<th>Functions Performed</th>
<th>Organizational Characteristics</th>
<th>User Needs</th>
<th>Geographic</th>
<th>End Use Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computing Environment</td>
<td>Data Storage Applications</td>
<td>Type of Business</td>
<td>Buyer Requirements</td>
<td>Political Boundaries</td>
<td>Marketing Uses</td>
</tr>
<tr>
<td>Operating System</td>
<td>User Applications</td>
<td>Organization Size</td>
<td>Product Specifications</td>
<td>Regional Boundaries</td>
<td>Human Resources Uses</td>
</tr>
<tr>
<td>Database Structure</td>
<td>Industry Type</td>
<td>Benefits Sought</td>
<td>Metropolitan Statistical Area</td>
<td>Marketing Uses</td>
<td></td>
</tr>
<tr>
<td>Communication System</td>
<td>Non-Business Organizations</td>
<td>Organizational Problems</td>
<td>Density</td>
<td>Design Uses</td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td>Departments in Organizations</td>
<td>Purchase Behavior</td>
<td>Production Uses</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Positions within Organizations</td>
<td>Usage Patterns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Individuals in Organizations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Professions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 3. Some dimensions that should be considered and a sample partitioning of those dimensions.
Technology-Based Segmentation divides organizations into homogeneous groups on the basis of the technologies they employ, or wish to employ, in their operations.

Here is a partitioning one might use for each of these technology-based dimensions in the table:

• **Computing Environment:**
  - Lap-top, desk-top, workstation, small network, medium network, large network, small mid-range, medium mid-range, large mid-range, small mainframe, medium mainframe, large mainframe, other

• **Operating System:**
  - DOS, Windows, OS/2, Maclntosh, SCO, Novell, WFW, Windows NT, Sun OS/SPARC, UNIX, AIX, IBM, IBM R/6000, HP Apollo, DEC ULTRIX, DEC VMS, Silicon Graphics, Data General, HP-UX, Burroughs Unisys, other

• **Data Base Structure:**
  - Oracle, Sybase, Informix, other

• **Communication System:**
  - Local Area Network (LAN), Wide Area Network (WAN), closely-coupled network, other

In a services business, the Technology dimension can specify capabilities of people such as how adept they are at COBOL programming, project management expertise, training, applications knowledge.

Some Technology dimensions for consideration when defining software markets include:

• **Systems management software**
  - (Integrated applications that automate data center operations),

• **Information management software**
  - (Data base management, software engineering, applications development and life cycle management), and

• **Business applications software**
  - (End user computing solutions).

Function-Based Segmentation divides organizations into homogeneous groups on the basis of the functions performed. Functions-based dimensions include:

• **Data Storage Applications**
  - Hierarchical Storage Management, disaster prevention, data collection, normal backup, archiving, near on line, digital video, other.

• **User Applications**
  - Computer Aided Design, library storage, engineering, manufacturing, process control, instrumentation, inventory control, accounting, insurance processing, programming, material requirements planning, information services, education, and a host of others.

User-Based Segmentation divides organizations into homogeneous groups on the basis of the types of user organization. User-based dimensions include:

• **Type of Business (or Industry):**
  - Manufacturing, distribution, retail, service, agrabusiness, financial institutions, insurance, scientific, medical centers, construction, training, energy, pharmaceutical, real estate, software, telecommunications, transportation, travel, entertainment, utility, other.

• **Size of Organization:**
  - Fortune 500; Fortune 1000, large businesses, ($100M+), medium businesses, ($30-$100M), small businesses, ($1-$30M), little business, ($500K-$1M), micro business, (less than $500K), large department, medium department, small department, other

• **Professions:**
  - Doctors, lawyers, CPAs, consultants, other

• **Non-Business Organization:**
  - Universities, school administrations, hospitals, military bases, local government agencies, state government agencies, federal government agencies, other
• **Departments Within Organizations:**
  Human resources, manufacturing, engineering, sales, marketing, legal, other

• **Position Within Organizations:**
  Materials managers, financial managers, sales executives, engineers, professors, other

• **Individuals Within Organizations:**
  Students, military officers, traveling salesman, other

*Needs-Based Segmentation* divides organizations into homogeneous groups on the basis of product specifications identified by organizational buyers - in other words, on the basis of specific buyer requirements. Examples are the packaging requirements of customers of a fast food chain and the preference for types of computers (Apple vs. IBM).

Here are examples of needs choices:

- Product serviceability
- Capacity
- Easy upgrade path
- Low power consumption
- Type of connectivity
- Number of simultaneous users that can be handled.
- Storage requirements
- Screen resolution requirements
- Reliability
- Response time
- Degree of expandability
- Degree of modularity
- Intensity of use of the CPU

*Geographic Segmentation* divides organizations into homogeneous groups based on specific geographic locations. Examples are oil field equipment users (which are largely concentrated in Texas, Oklahoma, and Louisiana), resort locations, certain metropolitan areas, automobile manufacturers (which are concentrated in the Detroit area), etc. Organizations want prospects to be within reach of their marketing and technical resources, within their geographical areas of concentration.

Some geographic dimensions with sample partitioning:

- **Region:**
  Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England.

- **City or Statistical Metropolitan Area Size:**
  Under 5,000, 5,000 to 20,000, 20,000 to 50,000, 50,000 to 100,000, 100,000 to 250,000, 250,000 to 500,000, 500,000 to 1,000,000, 1,000,000 to 4,000,000, 4,000,000 +.

- **Density:**
  Urban, suburban, rural

*End-Use Application Segmentation* divides organizations into homogeneous groups on the basis of how different purchasers will use the product or service. End use of a product or service may dictate unique specifications for performance, design, and price. Computers are a perfect example because of the wide variety of uses for them. Stereos for home use will have designs very different than for stereos for use in automobiles.

**Market Segmentation of Consumer Markets**

Segmenting consumer markets is generally much simpler and easier than segmenting industrial markets, because industrial products, such as forklifts and trucks, have multiple applications, and appeal to diverse customer groups.
Bases for Consumer Market Segmentation

The following exhibit shows some of the commonly used bases for consumer markets and some dimensions that are often examined.

<table>
<thead>
<tr>
<th>Demographic</th>
<th>Geographic</th>
<th>Psychographic</th>
<th>Behavioral</th>
<th>Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>Political Boundaries</td>
<td>Activities</td>
<td>Use Occasion</td>
<td>Health Benefits</td>
</tr>
<tr>
<td>Sex</td>
<td>Climatic Regions</td>
<td>Interests</td>
<td>User Status</td>
<td>Safety Benefits</td>
</tr>
<tr>
<td>Family Size</td>
<td>Regional Boundaries</td>
<td>Opinions</td>
<td>Usage Rate</td>
<td>Social Benefits</td>
</tr>
<tr>
<td>Family Life Cycle</td>
<td>Metropolitan Statistical Areas</td>
<td>Self-Orientation</td>
<td>Attitude Toward Product</td>
<td>Intellectual Benefits</td>
</tr>
<tr>
<td>Income</td>
<td>Density</td>
<td>Attitudes</td>
<td>Loyalty Status</td>
<td></td>
</tr>
<tr>
<td>Occupation</td>
<td>ZIP Codes</td>
<td>Social Class</td>
<td>Readiness Stage</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td>Lifestyle</td>
<td>Time of Purchase</td>
<td></td>
</tr>
<tr>
<td>Religion</td>
<td></td>
<td>Personality</td>
<td>Shopping Frequency</td>
<td></td>
</tr>
<tr>
<td>Race</td>
<td></td>
<td>Politics</td>
<td>Media Habits</td>
<td></td>
</tr>
<tr>
<td>Nationality</td>
<td></td>
<td>Perceptions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 4. Bases for Segmentation of Consumer Markets

Demographic Segmentation divides a population into homogeneous groups based on characteristics such as age, gender, income level, level of education, occupation, household size, stage in family life cycle.

Some demographic dimensions with sample partitioning:
- **Age:** Under 6, 6-11, 12-19, 20-34, 35-49, 50-64, 65+
- **Sex:** Male, female
- **Family size:** 1-2, 3-4, 5+
- **Family life cycle:** Young & single, young & married with no children, young & married with youngest child under 6, young & married with youngest child 6 or over, older & married with no children, older & married with children, older & married with no children under 18, older & single, other
- **Income:** Under $5,000, $5,000-$10,000, $10,000-$15,000, $15,000-$20,000, $20,000-$30,000, $30,000-$50,000, $50,000-$100,000, $100,000 +
- **Occupation:** Professional and technical, managers, officials and proprietors, clerical, sales, craftsmen, foremen, operatives, farmers, retired, students, housewives, unemployed, other
- **Education:** Grade school or less, some high school, high school graduate, some college, college graduate, advanced degree
- **Religion:** Catholic, Protestant, Jewish, other
- **Race:** White, black, Chicano, oriental, other
- **Nationality:** American, British, French, German, Scandinavian, Italian, Latin American, Middle Eastern, Japanese, other

Geographic Segmentation divides a population into homogeneous groups based on location. This is used when consumer tastes vary by region. See Bases for Industrial and Business Market Segmentation (above) for typical breakdowns in geographic segmentation.

Psychographic Segmentation divides a population into homogeneous groups on the basis of behavioral and lifestyle profiles developed by analyzing consumer activities, opinions, and interests.
In this context, *lifestyle* refers to a person's mode of living – how an individual operates on a daily basis. It deals with activities, interests, opinions, needs, motives, and attitudes.

As a TV commercial pointed out, the light beer market can be separated into three motivational segments: those who are calorie-conscious, those who prefer less alcohol, and those who prefer a lighter taste. In fact, it is possible for one person to consume light beer on three separate occasions for three different reasons. Some psychographic dimensions with sample partitioning:

- **Social class**: Lower lowers, upper lowers, lower middles, upper middles, lower uppers, upper uppers
- **Lifestyle**: Straights, swingers, longhairs
- **Personality**: Compulsive, gregarious, authoritarian, ambitious
- **Activities**: Hunters, skiers, sailors, golfers, tennis players, fishermen, other
- **Political**: Liberal, conservative, libertarian, other
- **Self-orientation**: Principle-oriented (have set views), status-oriented (influenced by what others think), action-oriented (seek activity, variety, and adventure), other.

*Behavioral Segmentation* divides a population into homogeneous groups on the basis of their response to a product or service. Some behavioral dimensions with sample partitioning:

- **Use occasion**: Regular occasion, special occasion
- **User status**: Nonuser, ex-user, potential user, first-time user, regular user
- **Usage rate**: Light user, medium user, heavy user
- **Loyalty status**: None, medium, strong, absolute
- **Readiness stage**: Unaware, aware, informed, interested, desirous, intending to buy
- **Attitude toward**: Enthusiastic, positive, indifferent, negative, hostile

*Benefit Segmentation* divides a population into homogeneous groups on the basis of the benefits they expect to derive from a product or service. For example, people want to look younger, feel better, have more time to "smell the roses," feel safer, be perceived as intelligent, etc. Brand loyalty, as evidenced by frequent traveler programs, is based on benefit segmentation.

### 1.2 Partition each dimension into its components

Each dimension can be partitioned into *components*, to bring further understanding. In the partitioning it is important to include all possibilities, even if you have to name one of the components "Other."

For example, a computing environment dimension can have the following components:

* Laptop * Desktop * Small network * Large network * Small mainframe * Large mainframe, * Other.

The reason for this is that when you select components to be included in a dimension of a market segment you are actually excluding all the other components in that dimension. More on this in the discussion on Step 1.4 (below).
In this step the analyst should eliminate those components from each dimension that obviously do not fit. For example, if one were contemplating publishing an investment magazine, it would make sense to eliminate under 19 from the age dimension, and less than $25,000 from the family income dimension.

### 1.3 Create Market Segmentation Worksheet

I developed the market segmentation worksheet concept in the early 1990s when helping a client develop target markets for a line of computer tape library systems. As I thought about the problem I was amazed at the number of dimensions that I would have to grapple with. Up until that time I felt comfortable only in dealing with three dimensions. But with the computer tape library product I had to deal with some 10 dimensions if we were going to define target markets with the precision needed for effective marketing and sales. The challenge was not only to identify the dimensions but also to represent them in a way that facilitated the definition of candidate market segments. The reader will likely agree that market segment worksheets are powerful tools for target market definition.

Below is an example of a market segmentation worksheet for a sales automation system:

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**Market Segmentation Worksheet**

<table>
<thead>
<tr>
<th>Computing Environment Organization</th>
<th>Operating System</th>
<th>Number of Salespeople</th>
<th>Type of Business</th>
<th>Size of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laptop 500</td>
<td>DOS</td>
<td>&lt; 5</td>
<td>Manufacturing</td>
<td>Fortune</td>
</tr>
<tr>
<td>Desktop 1000</td>
<td>Windows</td>
<td>5 – 10</td>
<td>Distribution</td>
<td>Fortune</td>
</tr>
<tr>
<td>Small network business</td>
<td>Windows NT</td>
<td>10 – 20</td>
<td>Financial</td>
<td>Large</td>
</tr>
<tr>
<td>Large network business</td>
<td>SCO</td>
<td>20 – 50</td>
<td>Insurance</td>
<td>Medium</td>
</tr>
<tr>
<td>Small m-frame business</td>
<td>UNIX</td>
<td>50 – 100</td>
<td>Energy</td>
<td>Small</td>
</tr>
<tr>
<td>Large m-frame business</td>
<td>HP-UX</td>
<td>&gt; 100</td>
<td>Transportation</td>
<td>Other</td>
</tr>
<tr>
<td>Other</td>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This example represents 5 dimensions, each of which is partitioned into components. It is becoming clear why I say that market definition is multi-dimensional. It will become even clearer as we discuss the next step.
1.4 Identify Candidate Market Segments

In this step we identify market segments by selecting one or more components from each of several dimensions. The process is analogous to the old joke about ordering from a menu in a Chinese restaurant: “Choose one from column A, two from column B, etc.” The result is a meal that should be satisfying.

In the sample market segmentation worksheet, a candidate market segment is defined by selecting one or more components from each of the five dimensions. Bold type is used to indicate the selections.

### Market Segmentation Worksheet

<table>
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<tr>
<td>Other</td>
<td>Other</td>
<td></td>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

This market segment consists of
- small
- manufacturing companies
- with between 10 and 20 salespeople
- operating on a small network
- using the Windows operating system.

Other selections from each of the dimensions will yield additional candidate market segments. In this step the analyst should adjust the market segment definitions for size and reasonableness. This can be done by adding or subtracting components from each dimension used in the market segment definition.

Adding a component in any of the dimensions – say, adding "Medium-sized business" to the Size of Organization dimension of the segment just defined – increases the "size" of the market
segment, (where size means the number of potential buyers in the segment). The market segment definition would then appear as

- small and medium-sized
- manufacturing companies
- with between 10 and 20 salespeople
- operating on a small network
- using the Windows operating system.

Eliminating a dimension is equivalent to including all of the components of that dimension. So, if we eliminated the number of salespeople dimension, the market segment would appear as

- small and medium-sized
- manufacturing companies
- with any number of salespeople
- operating on a small network
- using the Windows operating system.

This could result in a market segment that is too broad for meaningful competitive analysis or effective target marketing. However, having too many dimensions, where they may not be meaningful, could lead to market segments that are too small to be of interest. If the total number of component selection options, across the dimensions, is quite large, the resulting number of candidate segments may be too large and result in loss of focus.

There may be other tests for reasonableness of market segment definitions other than size. Here are some criteria to be applied when defining segments:

- The segments should be measurable in terms of size and purchasing power, perhaps measured in dollars.
- The business should have a capability to promote and serve the segment.
- The number of segments should match the firm's capabilities.
- It should be possible to identify the competitors in the segment.

Note that the above market segment can be thought of as being part of the Manufacturing market sector, or the Small business sector, etc. The notion and value of sector will be explained when we discuss Step 2.0: Describe and Analyze Market Segments.

Market segmentation is not a one-time activity. The challenge is to anticipate, or at least notice, change, and understand how it affects the current definition of the segments.

Since we live in a 3-dimensional world, it might be difficult for the reader to visualize a market segmentation worksheet of 4-, 5-, or 6-dimensions. Figure 8 illustrates a market segmentation worksheet in 3 dimensions.
Advantages of the Multi-Dimensional Approach to Market Segmentation:

- First of all, it challenges planners to define each dimension with precision.
- This, in turn, leads to greater understanding of the segment, thus making it easier to decide on the target markets that should be pursued.
- A proliferation of target markets becomes obvious, and planners tend to focus on a few. This gives the business unit an opportunity to be an important, perhaps even a major, player in one or more of its target markets.
- It puts the business in a position to keep sales and advertising from straying to other segments.
- The greater precision gives more insight into positioning the offerings within target markets.
- This precision also helps in profiling the target markets; i.e., describing them in greater detail so sales, development, and other resources can be focused more effectively.
- Finally, it causes planners to do competitive analysis within the market segment and brings greater understanding to such issues as market share.

Another Approach to Defining Market Segments

The step-by-step approach presented above is a very efficient and effective way to define market segments.
Another way is to start with a market segmentation worksheet representation of one of the business unit's major target market segments and then define other segments by making changes in one or more of the dimensions. For example, suppose the business unit provides sales automation software and one of its major target markets is described by

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer environment:</td>
<td>Small network</td>
</tr>
<tr>
<td>Operating system:</td>
<td>Windows</td>
</tr>
<tr>
<td>Size of organization:</td>
<td>Small business</td>
</tr>
<tr>
<td>Number of salespeople:</td>
<td>Between 10 and 20 salespeople</td>
</tr>
<tr>
<td>Type of business:</td>
<td>Manufacturing</td>
</tr>
</tbody>
</table>

Fixing the Computer environment, Operating system, Size of organization, and Number of salespeople dimensions and changing the Type of business dimension will yield additional market segments, say, one with Distribution as the Type of business, another with Transportation, etc.

In a similar vein, freezing four other dimensions and varying the fifth yields still more market segments that may be of interest and provide insight to this most important component of analysis of the business environment.

Once you have defined a multi-dimensional market segment, examine the resulting multi-dimensional intersections, (e.g.: Does Windows "go" with a large network?), and redefine the components until the segments are clearly defined and bite-sized, i.e., not so small that they are too numerous and hard to target, and not so gross that you vitiate the advantage of focus. Look for relationships, if any, among market segments to see if they shed any light.

An example of companies that did not understand the dynamics of market segmentation are those in the Swiss watch industry in the late 1960s, when the Swiss, who were state-of-the-art in watch design, could not believe that a battery-powered, quartz watch, with digital readout and no moving parts, was the future in watches. The result was that their share of the world watch market plummeted from 64 to 18 percent.

An example of a company that does understand the dynamics of market segmentation is the Foot Locker shoe company. You will find in many large shopping centers several Foot Locker stores – Ladies Foot Locker, Children's Footlocker, and regular Foot Locker. Can a Geezer Foot Locker store, for old guys like the author, be on the horizon?

2.0 Describe and Analyze Market Segments

Figure 9. Methodology for Defining Target Markets: Top Level Flow

Once we are satisfied that the market segments are appropriate, they must be described, analyzed, and evaluated for inclusion in the target market.
Describing Market Segments

The following is a checklist of issues that can be addressed in describing a market segment, where they are relevant. Not all of these issues deserve its own paragraph. It some cases a single sentence might suffice.

- Number of prospects and their distribution
- Growth rate
- Number that can be expected to make purchases in a given time period
- Who they are
- Where they are
- What features they want
- What benefits they want
- What they need
- Their characteristics and expectations.
- Current penetration of the market by the products - how many, where,
- Buying influences, i.e. those who typically fill the following roles?
  - The decision maker (economic buyer) – one who judges offering on the basis of its impact on the bottom line?
  - User buyers – those who judge offering based on its impact on their job?
  - Technical buyers – those who judge the offering based on price, terms, language, and other technicalities?
  - Coach (inside salesperson) – one who guides salespersons to the sale.
- What is their response to the kinds of products we offer?
- Who are the major competitors in the segment?
- Which are the major competitive products in the segment?
- What is the distribution of market share among the major players in the market segment?
- What are the trends (social, political, economic, etc.)?
- Is there risk of a major change in trends because of the business cycle, government regulations, substitute products, or technologies, etc?
- What is the level of user understanding re what we offer?
- What are the perceptions and attitudes?
- What is the receptivity to change and willingness to be educated?
- Are there any mental obstacles?
- What is the typical buying cycle?
- What are the customary terms and conditions of a sale?

In most cases, it is more efficient and meaningful to ask the above questions relative to a market sector, rather than each market segment. For example, referring to the market segment example shown in the Step 1.4, above, you might find it more meaningful to ask the questions relative to the Type of Business = Manufacturing sector.

Analyzing Market Segments

Once market segments are defined, look for the following situations:

- Overcrowded market segment – existing competition is competent and entrenched.
- Market segment where there is little hope for differentiation and no way to build barriers to entry by competitors.
- Unmet needs.
- Market segments that are already large and growing rapidly.
The following is a checklist of other analysis issues that can be addressed where they are relevant. Not all of these issues deserve a separate paragraph. Some can be addressed in a single sentence.

- How the market segment has developed in the past.
- Major limitations on growth in the market.
- What influences demand.
- What we have to do to get their business.
- What the intensity of competition is.
- What the problems being experienced in the market are.
- What opportunities are stemming from these problems?
- How the business can provide solutions to those problems.
- What territories are not yielding their potential?
- Are there abnormal sales cycles?
- Do sales match previous forecasts?
- Related products/services that could impact the market segment demand.
- Outside forces that could impact the market.
- The necessity, relative to the offering contemplated, for substantial customer education to make the product understood.
- The demand in the market segment in terms of the characteristics and behaviors of buyers. What they buy? Who buys? Where they buy? Why they buy? How they buy? When they buy? How much they buy? Is the demand selective (i.e., a preference for brands), or is it primary? How will buyer behavior and characteristics change in the future?
- Within the segment, who are the competitors? What are their characteristics (market programs, competitive behavior, resources)? What are their strengths and weaknesses? What is the future competitive environment?

The form shown below, for a hypothetical company that sells sales process automation systems, is an example of how you might document each candidate target market.

**Where do you get the information to address these issues?**

If you look at the list of issues under "Describing market segments" and "Analyzing market segments," you will conclude that answering that question takes a lot of work, work that can be called market research. In my career I have found the information in a great variety of sources – the US Census, US Census of Manufacturers, Department of Labor data, other government publications, commercially available databases, trade associations, Dun's Marketing Services, Sales and Marketing Management magazine, Google, and elsewhere.

To discuss where the information comes from would have lengthened the paper by quite a bit.

Two of the basic questions that I usually discuss under Territory Management are

- **How big are the market segments?** This helps determine what sales resources are needed.
- **Where are there concentrations of prospects?** This helps in allocating sales and marketing resources to markets where prospective customers are concentrated.
Sales Process Automation, Inc.  
**END USER MARKET SEGMENT DESCRIPTION.**

<table>
<thead>
<tr>
<th>Segment Identifier:</th>
<th>Organization Size:</th>
<th>Number of Salespeople:</th>
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<table>
<thead>
<tr>
<th>Computer Environment:</th>
<th>Operating System:</th>
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<table>
<thead>
<tr>
<th>Type of Business:</th>
<th>Management Discipline:</th>
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<tr>
<th>Urgency of Need:</th>
<th>Geography:</th>
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Number of prospects fitting profile: ____________________________ Growth rate: _______%

What influences demand? ____________________________

Limitations on growth: _______________________________________

Specific organization examples: ____________________________________________

Number expected to buy: In 3 mths: ______ In 6 mths: ______ In 1 Year: ______
(Not just from SPA, Inc. but from competitors as well)

What are their needs and expectations?
Features: Benefits:

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Service/Support: Pricing:

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Current penetration by SPA Inc. products - How many? ______ Market share

<table>
<thead>
<tr>
<th>Major competitors:</th>
<th>Major competitive products:</th>
<th>Market</th>
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<tbody>
<tr>
<td>Share:</td>
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Intensity of competition:

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Sales Process Automation, Inc

END USER MARKET SEGMENT DESCRIPTION.

Characteristics of key competitors (strategies, competitive behavior, resources, strengths, weaknesses)?

Market Segment Trends (Social, political, technical, economic, etc.):

Risks of major changes in trends because of the business cycle, substitute products, or technologies, etc.

Buying Participants, i.e., who typically fills the following roles relative to desktop multimedia?

The decision-maker (judges impact on the bottom line):

User buyers (judge impact on their job):

Technical buyers (judge technology, price, terms, etc.):

Coach (inside salesperson) (guides salespersons to the sale):

From whom do they buy, i.e., through what channels?

What is the receptivity to change and willingness to be educated?

What is the typical buying cycle?

How crowded is the segment (w. entrenched competitors)?

The necessity, relative to SPA products, for substantial customer education to make the product understood.

Related products/services that could impact the market segment demand.

In most cases, it is more efficient and meaningful to ask the questions above relative to a market sector, rather than each market segment. For example, ask the questions relative to the type of business sector.
3.0 Select Candidate Target Markets

This is the step where we identify the alternative target markets from which the actual target markets will be chosen. We want each alternative to be meaningful in the sense that if the answers to the following questions are not all “yes,” then the market segment is not meaningful enough to be a target market.

- Is there a characteristic that distinguishes the segment?
- Is the market potential of adequate size?
- Is the segment accessible?
- Will the market segment respond favorably to a specialized marketing mix?

Here are some other questions and issues to address in determining selecting candidate target markets:

- Who needs the products and services that the business unit provides?
- What percent of the market does the business now hold?
- What percent does it expect to capture?
- What is the market growth potential?
- What will happen to the market share of the business as the market grows?
- What are current sales/market shares by customer types, sales region, etc.?
- What is our product/company image among customers, distributors, and public?
- Where is there a large market potential?
- Where is there an opportunity to be the first player?
- Are there market segments where we can leverage our presence?
- Are there market segments where there is an opportunity to differentiate?
- What is the relationship between our ambitions and our resources to achieve them?
- Can we sell more to existing customers?
- In which geographical areas are there concentrations of prospects?
- What is the profile of companies that have purchased from us?
- Are the market segments being considered quantifiable and findable?
- What new markets will be penetrated? Why? When?
- What market segments will be abandoned? Why? When?
4.0 Choose Target Markets

This is the step where we specify the target markets and create the profiles of companies that we want to sell to?

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