

Why are market segments important to innovation and strategy?

Introduction

Anyone involved in marketing will understand how important market segments are in marketing terms, but it may be less obvious why they are important in an innovation or strategic context. This post aims to review market segments, and then briefly comment as to why they are important in these latter two contexts.

Market segments

In most markets, there is a wide diversity of customers' needs, so the concept of market segments can be useful in identifying similarities and differences between groups of users or customers. A market segment is a group of customers who have similar needs that are different from customer needs in other parts of the market.

Customer needs may vary for a variety of reasons, and it is necessary to consider which bases of segmentation are most important in any particular market. It may be necessary to look at consumer markets or industrial/organisational ones, depending upon your business.

Consumer Markets:

- Characteristics of people/organisations:
 - Age, sex, race
 - Income
 - Family size
 - Life-cycle stage
 - Location
 - Lifestyle
- Purchase use situation:
 - Size of purchase



- Brand loyalty
- Purpose of use
- Purchasing behaviour
- Importance of purchase
- Choice criteria
- Users' needs and preferences for product characteristics:
 - Product similarity
 - Price preference
 - Brand preferences
 - Desired features
 - Quality

Industrial/organisational markets:

- Characteristics of people/organisations:
 - Industry
 - Location
 - Size
 - Technology
 - Profitability
 - Management
- Purchase use situation:
 - Application
 - Importance of purchase
 - Volume
 - Frequency of purchase
 - Purchasing procedure
 - Choice criteria
 - Distribution channel
- Users' needs and preferences for product characteristics:



- Performance requirements
- Assistance from suppliers
- Brand preferences
- Desired features
- Quality
- Service requirements.

It is also important to understand relative market share. Organisations that have built up most experience in servicing a particular market segment should have lower costs and have built up relationships which may be difficult to break down. Smaller organisations may have to consider competing in a similar segment, but on a local level.

Why is segmentation important for strategy analysis?

It is readily apparent why it is important for marketing purposes, but it is also very beneficial for strategy and innovation (see below). For strategy it is relevant in aiding our understanding of what market the organisation is operating in and who its competitors are likely to be. The former is particularly important when preparing and analysing [strategic groups](#). This tool aids our understanding of where we are competing, and upon what basis. Understanding who your competitors are is critical for undertaking [competitor analysis](#). Furthermore, without understanding your market segment, it is virtually impossible to undertake an [industry analysis](#).

Why is segmentation important for innovation?

The answer to this question is less obvious than that for strategy. Understanding what market segment you operate in allows the innovative organisation to develop products, services and processes which address the needs of these segments in a better way than they are currently being served. This additional source of ideas feeds the creativity and idea generation aspect of innovation, which hopefully results in improved products and services, or lower costs.



Conclusion

As with all management tools, how you use them is critical to the success or otherwise of your venture. If you undertake an analysis of market segments, then do use them for other purposes than just marketing!