Pricing Tool Guide

MAADA CONSULTING & ANALYTICS

Determining Segments Targets

Background:

Once one has defined one's business and marketing goals, one needs to decide where to focus within the total market in order to most efficiently achieve them. This is the role of targeting – the process of prioritizing where to invest marketing resources and, as importantly, where not to.   A tool that helps to guide discussions as to how to do this is the Targeting Map. The output for this tool could look like the following:

Targeting Map

Dimension 2 Attributes	Dimension 1 Attributes			
	A	B	C	D
AA	Brand X	Brand X	Brand Y	Brand Z
BB	Brand X	Brand X	Brand Y	Brand Z
CC	Brand X	Brand X	Brand Y	Brand Z
DD	Brand X	Brand X	Brand Y	Brand Z
EE	Brand X	Brand Z	Brand Y	Brand Z
FF	Brand Z	Brand Z	Brand Y	Brand Z
GG	Brand Z	Brand Z	Brand Y	Brand Z
HH	Brand Z	Brand Z	Brand Y	Brand Z

How to Create:

1. **Collect the data that is needed.** This includes the management input on business and marketing priorities, such as those developed with the use of the Business Triangles or the Driver Tree exercises, but also includes those from other insight sources such as might come from market research for product development, and brand equity surveys. Business intelligence regarding competitors in the market is also important.
2. **Frame the market which the map will represent.** This market definition would ideally align with the Driver Tree exercise.
3. **Rank the priorities for the scoring the segments.** While not directly comparable, the results of the business objectives can inform this exercise. Allocating 100 points among size, growth, and profit based upon the needs expressed in the forecast for growth and profitability.
4. **Define and select the dimensions to be used in the segmentation and the attributes within those dimensions.** There are potentially a great many dimensions – attitudinal, behavioral, occasions, product form, and value. There are

also potentially more than two dimensions, but more dimensions adds exponential complexity in strategy development and in implementation. If price discrimination is expected across segments, then the ability to maintain price fences between different segments should also be a consideration.

5. **Identify the competitors:** List the name of the key competitors across all of the segments.

6. **Score the segments from an external perspective.** Size and growth measures are at the segment level. Profitability reflects the current expected level of profit margins by those in the each segment. To create differentiation, give the segment with the highest score a 7 and those with the lowest score a 1, and then interpolate for the rest. Do this separately for the three objectives of growth, size, and profit. How the size and growth rates are known for each segment is the subject of another guide. The result is a weighted average score across all segments.

7. **Score the segments from an internal profit perspective**. Using the external map as information, rescore the segments from an internal perspective of achieving forecasts profit goals. This will capture the assumptions behind the forecast in terms of size of markets, growth, and margin. The difference between the internal and the external perspective could be significant here. For instance, if a segment size is large but brand penetration is low, then it could get more credit for growth than it should at this stage (there is an opportunity to consider brand growth later). Similarly, margins for the evaluator in a segment may not be as great as for those currently in the segment (there is also an opportunity to adjust for this later as well). Similar as before, one should start out with assigning 7s to the highest scoring segment and 1s to the lowest f=before interpolating.
   Consider overrides for strategic importance. It is very possible that a segment may get a low score based upon size, growth, and/or profitability, but it is of strategic importance to the total portfolio. Point of entry segments or brand image segments may be some of these. These could get an overriding score at this point, but only after a review of the trade-offs for doing so vs. business and marketing objectives.

8. **Identify the leader in each segment**. Use the list of competitors to assign a leader for each segment from the drop down menus.

9. **Set thresholds for scores to divide results into 4 levels of interest**. Assign numbers between 1 and 7.

10. **Analyze the map to check results and verify results before finalizing target selection.** It is the discussion at this point that is the richest and will be summarized in subsequent pricing recommendations.