

Chapter 11

Market–Segmentation Based on Level of Reduction of Risk of Misinforming via Adjusting Information

ABSTRACT

This chapter explores the problem of market segmentation from the point of view of misinforming. To reduce the negative outcomes of wrong purchase decisions, customers often need additional information. The cost of providing such additional details in reducing the risk of wrong decision caused by misinforming allows a justifiable way to split the population of potential clients into categories. This represents market segmentation based on the ability of potential customers to interpret provided information.

INTRODUCTION

This chapter proposes an approach for market segmentation based on how information is used and on reduction of misinforming risk according to different categories of human behavior as optimists, realists, and pessimists. The technique presented in the chapter is developed and published originally in Christozov D., Chukova S. & Mateev P. (2012).

The measures for quantifying the risk of misinforming developed in the previous part of the book are explored in the way to use them in market studies. The goal is to develop an approach allowing us to identify different clusters in the market of

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potential clients having a similar way to use the information provided. The proposed segmentation is based on the “cost” of the additional information an individual customer needs for the revision of her/his purchase decision, so that her/his initially wrong purchase decision is appropriately corrected.

The fundamental assumption is that the ability to make a conscious and realistic purchase decision is critical for the success of a market activities of both parties Producers and Sellers. Market segmentation, based on the specific information needs of the targeted group, and reducing the likelihood for clients in the group to make wrong purchase decision is essential for the success of marketing. The wrong purchase decision has a negative effect on the customer and can lead to a significant loss incurred by the seller as well. These losses could be of two types – based on missed sales or due to creating an unsatisfied customer. If the product is covered by a warranty of misinforming, an unsatisfied customer could cause direct financial losses to the Seller by making a legitimate warranty claim. This concept was introduced in Christozov, Chukova, Mateev (2006) and elaborated in the fourth part of the book. The “positive” and “negative” wrong purchase decisions were identified in Chapter 6 as well. The “positive” wrong purchase decision will generate conditions for legitimate warranty claim, whereas the “negative” wrong purchase decision will lead to a missed sale. Both risks are caused by the misunderstanding or misinterpretation of the message provided by the seller to the customers.

The risk of a wrong purchase decision is two-fold – to buy something that is not perfectly suitable or not to buy something which is perfectly suitable for a given customer. Additionally added or adjusted information may reduce either of those risks. If the cost of this additional information is calculated, then a marketing segmentation based on grouping customers by using this cost to define distance can be developed. This is the cost paid for adjusting buyer’s purchase decision regarding the buyer’s needed to accomplish activities with the product, over possible informing scenarios. Further, the cost for providing this additional information is used to define the distance between clients. This distance serves to identify clusters on population of buyers, and to identify market segments, or groups of customers with similar information needs. In general, this segmentation will allow us to define how to approach buyers in the given cluster, what information to provide, in a way to reduce or even minimize the probability of wrong purchase decisions and reduce the number of unsatisfied clients.

Producer’s cost of wrong decisions made by customers, as a result of the misinforming hazard, also has two sides. The first one includes direct losses. Missed sales by pessimists may remain unnoticed but claims from unsatisfied optimists, claiming reimbursement as direct compensation, are usually recorded. The second source of losses comes from the generated bad image. Negative opinion shared by unsatisfied optimistic customers may spread widely and erode the image of the

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