MODULE 2 · SESSION 2

Segmenting Markets and Researching Demand

How to define segments that can actually be acted on, and estimate how much demand sits behind them.

Theory session

Beginner

Running case: RouteRoot

ORIENTATION

Where this session sits

2.1 identified an opportunity; 2.2 asks who it covers and how many of them there are

MODULE 1
Founder Thinking
and Problem Framing

MODULE 2
Recognizing and
Investigating Opportunities

MODULE 3
Turning Insight
into Viable Ventures

SESSIONS IN THIS MODULE

2.1 Spotting Signals of Opportunity
Telling a real opportunity from an interesting observation

2.2 **Segmenting Markets and Researching Demand**
Defining actionable segments and sizing demand
YOU ARE HERE

2.3 Discovering Customers and Competitors
Evidence from behaviour, and the alternatives you compete with

SESSION OUTCOMES

What this session explains

Turning a broad market into distinctions that can guide a decision

01 **A segment must be actionable**
Five tests that separate a usable segment from a descriptive label.

02 **Behaviour beats description**
Why what people do predicts more than who they are.

03 **Start with a beachhead**
Why a deliberately narrow first market is faster than a broad one.

04 **Size demand honestly**
Top-down and bottom-up estimates, and what each one is good for.

Four ways to divide a market

Most teams reach for the first two because the data is easy to obtain

Basis	Divides by	Strength	Weakness
Demographic	Age, income, household size, firm size	Easy to obtain and to target with media.	Weak predictor of behaviour on its own.
Geographic	Country, city, density, climate	Matches how operations and logistics are organised.	Says nothing about why anyone buys.
Psychographic	Values, attitudes, lifestyle	Explains preference where products are similar.	Hard to measure reliably; easy to invent.
Behavioural	Occasion, usage rate, benefit sought, loyalty	Closest to the decision you are trying to influence.	Requires observing actual behaviour, not asking.

WHY THE FOURTH ROW MATTERS

Deliveroo's six archetypes were behavioural. That is what allowed the segmentation to inform recruitment and city-level decisions rather than only advertising.

When is a segment actually usable?

Five tests; failing any one makes the segment decorative

MEASURABLE	Can you estimate how many there are, and tell when someone belongs to it?
SUBSTANTIAL	Is it large enough to be worth serving differently from everyone else?
ACCESSIBLE	Can you actually reach these people through some channel you can afford?
DIFFERENTIABLE	Do they respond differently from other segments to the same offer?
ACTIONABLE	Can you design and deliver something specific for them?

Kotler, P. & Keller, K. (2016). Marketing Management (15th ed.). Boston: Pearson.

THE TEST MOST OFTEN FAILED

Differentiable

If two segments would respond identically to your offer, they are one segment wearing two names.

THE TEST MOST OFTEN SKIPPED

Accessible

A perfectly defined segment you cannot reach affordably is not a market you can serve.

NOTE

All five, or none

These are gates, not scores. One failure is enough to make the segment unusable.

Segmentation, targeting, positioning

Three decisions that are frequently collapsed into one

THE SEQUENCE

Segment: divide the market by behaviour	Target: choose which segment to serve first	Position: state why they should choose you	Deliver: build and message for that choice

THE STEP THAT IS SKIPPED

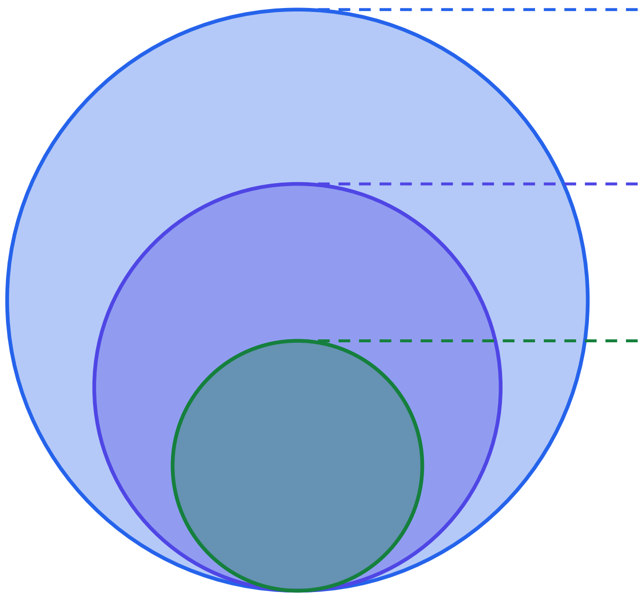
Segmentation describes the world; targeting is a commitment. Teams that segment without targeting produce a tidy map and no decision.

Smith, W. (1956). Product differentiation and market segmentation. Journal of Marketing, 21(1), 3–8.

CONCEPT 4 · SIZING

TAM, SAM and SOM

Three nested estimates that answer three different questions



TAM — total addressable market

Everyone with the need, if you could serve them all.

SAM — serviceable available market

The part your model and geography can actually reach.

SOM — serviceable obtainable market

What you could realistically win in a defined period.

Bottom-up sizing is the form investors expect to see defended; see Aulet, B. (2013), Disciplined Entrepreneurship.

TOP-DOWN

From a published total

Take an industry figure and narrow it. Fast, and almost always flattering.

BOTTOM-UP

From units and prices

Count reachable customers × frequency × price. Slower, and defensible because each input can be challenged.

THE RULE

Do both; explain the gap

Where the two disagree is exactly where your assumptions are weakest.

Which research answers which question

Method follows the question, not the other way round

QUALITATIVE

Why and how

GOOD FOR

Discovering what the problem is, what language people use, and which alternatives exist.

METHODS

Interviews, observation, diary studies, shadowing.

LIMIT

Small samples cannot tell you how common anything is.

QUANTITATIVE

How many and how much

GOOD FOR

Estimating size, frequency and the relative weight of things you already know exist.

METHODS

Surveys, transaction and platform data, published statistics.

LIMIT

Only measures the options you thought to include — it cannot discover a new one.

SEQUENCE MATTERS

Doing them in the wrong order is the common error: a survey written before any interviews measures the team's assumptions with impressive precision.

Why the first segment should be narrow

A deliberately small first market is a speed decision, not a modesty one

Learning is faster

One segment has one set of expectations. Feedback from a broad market averages out the signal you need.

Word of mouth works

People in a narrow segment talk to each other. Across a broad market, they do not.

Credibility transfers

A reference customer only persuades people who see themselves in that customer.

Moore, G. (1991). Crossing the Chasm. · Aulet, B. (2013). Disciplined Entrepreneurship, on beachhead selection.

CASE STUDY

Deliveroo

A takeaway market segmented by behaviour — and a method that then travelled to an entirely different audience.

Segments that could be acted on

Behavioural archetypes that travelled from one market to another

WHAT WAS DONE

Behaviour over demographics

THE COMMISSION

Savanta ran an in-depth segmentation of the UK takeaway market.

THE OUTPUT

Six customer archetypes defined by ordering behaviour, not by age or postcode.

WHY THAT MATTERS

Behavioural distinctions can be acted on; descriptive ones usually cannot.

WHAT IT ENABLED

One method, two markets

IT CROSSED OVER

The same approach was applied to the rider market, not only the consumer market.

OPERATIONAL USE

Insight fed recruitment — the approach was intended to help recruit around 100,000 riders.

CITY-LEVEL DECISIONS

Segments became a shared language for deciding what to investigate in each city.

READING THE CASE

The value was not the labels. It was that behavioural segments gave separate teams one way to decide what to examine next.

Drawn from the session case pack.

APPLICATION

Bringing the theory to RouteRoot

From an opportunity to a first market worth serving

Step	What you decide	RouteRoot example
Choose a basis	Divide by behaviour, not description.	Couriers by delivery type, not by age or vehicle.
Name candidate segments	Two or three, no more.	Apartment-block rounds; retail drop-offs; office deliveries.
Apply the five tests	Drop any segment that fails one of them.	Office drop-offs fail differentiable — the same offer would serve them.
Pick a beachhead	Narrow enough that feedback is consistent.	Apartment rounds in two boroughs, reachable via existing depots.
Size it bottom-up	Reachable customers × frequency × price.	Couriers per depot × failed deliveries per week × value of time saved.

WHAT COMES NEXT

Session 2.3 tests whether the people in that segment behave the way the estimate assumes.

SUMMARY

What to carry out of this session

1. **Segment by behaviour, not description.**
   What people do in a situation predicts far more than who they are.

2. **A segment must pass all five tests.**
   Measurable, substantial, accessible, differentiable and actionable — one failure makes it decorative.

3. **Targeting is the decision; segmentation is only the map.**
   A segmentation with no commitment attached changes nothing.

4. **Size bottom-up, then sanity-check top-down.**
   The gap between the two is where your weakest assumption lives.

5. **Narrow first markets are faster, not smaller ambitions.**
   Consistent feedback and transferable credibility are what a beachhead buys.

FURTHER READING

Sources for this session

Primary references behind each concept

FOUNDATIONS	Smith, W. (1956). Product differentiation and market segmentation. *Journal of Marketing*, 21(1), 3–8.
SEGMENTATION	Kotler, P. & Keller, K. (2016). *Marketing Management* (15th ed.). Boston: Pearson.
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RESEARCH METHOD	Ries, E. (2011). *The Lean Startup*. New York: Crown Business.
SURVEY DESIGN	Groves, R. et al. (2009). *Survey Methodology* (2nd ed.). Hoboken: Wiley.