While both customer segmentation and product design are complex, data-intensive processes and therefore well suited to analytical methods, in practice they are still based primarily on managerial judgment and intuition. Yet RM managers are beginning to test analytical tools to support product design and to understand customer segments and preferences. Here we describe a few simple models and one such tool, conjoint analysis.

11.1.1 Segmentation

As mentioned, the goals of a segmentation analysis are to understand which customers are buying, how they buy, what they value, and how much they are willing to pay. Its aim is to uncover correlations between willingness to pay and segment characteristics and to exploit this segment behavior in some practical way that increases revenues. Toward this end, the following six criteria are widely used to evaluate a segmentation strategy [193, 558]:

- **Identifiability** Is it possible to identify customers as belonging to a segment, either prepurchase or postpurchase? If not, the segmentation, though perhaps conceptually valid, cannot be operationalized.

- **Substantiality** How large is the segment? If segments are too small, the costs of segmentation may not justify the benefits, though for some online channels the cost of customizing can be quite low.

- **Reachability** Can a segment be targeted by marketing techniques or product design? Or can the segment be induced to self-select their targeted product? If not, it may be impossible to reach the segment.

- **Stability** Do the segments change rapidly over time? If they do, it may be difficult to identify and estimate the characteristics of the segment. Stability is also necessary if a firm needs to design relatively static products.[1]

- **Responsiveness** Do customers in the same segment respond similarly to a product or marketing campaign? That is, are customers in each segment approximately homogenous in terms of their preferences and market response? If not, the resulting response from segmentation my be unpredictable or ineffective.

[1]Note that stability is not the same as saying a particular customer's behavior does not change: A customer who travels for both business and pleasure is one whose behavior changes depending on the occasion of purchase. However, his behavior fits either that of a business segment or leisure segment, and the behavior of the segment itself does not change.