

Task 2

Submitted by:- Jatin

Market Segmentation

Market segmentation is a strategic process that involves dividing a broad market into smaller groups of consumers who share similar needs, wants, and behaviors. This enables businesses to effectively target their marketing efforts. By identifying their target market, businesses can develop tailored marketing strategies to meet the specific needs of each group. For instance, a clothing retailer may focus on young adults by creating a hip and trendy marketing campaign, while a retirement home provider may cater to older adults with a more dignified and serene marketing approach.

Market segmentation analysis

Market segmentation analysis is a process used by organizations to divide a broad market into smaller, more manageable segments. These segments consist of consumers who share similar characteristics, needs, and behaviors. The purpose of market segmentation analysis is to identify distinct groups within the market, understand their specific requirements, and develop targeted marketing strategies to effectively reach and serve each segment.

Steps of Market Segmentation Analysis

Step 1: Deciding (not) to Segment

The initial step in market segmentation is determining whether or not to segment the market. Several factors come into play during this decision-making process, including the market's size, customer diversity, available resources, and company objectives.

In some cases, it may be viable for companies not to segment their market. This choice is typically made when the market is small, the customer base lacks diversity, or the company lacks the necessary resources to invest in segmentation. However, for most businesses, market segmentation is a valuable tool that helps them achieve their marketing goals.

1.1 Implications of committing to market segmentation

Committing to market segmentation comes with specific implications. Firstly, organizations need to allocate time and resources to conduct thorough market research. This includes gathering relevant data and insights about the target segments. Secondly, market segmentation requires organizations to be flexible and adaptable in their approach to accommodate the varying needs of different segments.

1.2 Implementation barriers

There are two primary categories of barriers that can hinder the successful implementation of market segmentation. The first category pertains to senior management and includes factors such as a lack of leadership, pro-active

championing, commitment, and involvement in the market segmentation process. When senior leadership fails to support and guide the segmentation efforts, it undermines the overall success of the process.

The second category of barriers relates to organizational culture. This includes factors such as a lack of market or consumer orientation, resistance to change and new ideas, limited creative thinking, poor communication, insufficient sharing of information and insights across different organizational units, short-term thinking, resistance to making necessary changes, and internal office politics. These cultural barriers can impede the effective implementation of market segmentation strategies.

Step 2: Specifying the Ideal Target Segment

This step focuses on specifying the ideal target segment based on certain criteria that are crucial to the organization. The criteria help in selecting the target market that aligns with the organization's goals and objectives. Some commonly considered criteria include the segment's size, growth potential, profitability, the organization's ability to reach and serve the segment, and the compatibility between the segment's needs and the organization's capabilities.

Once the criteria have been identified, the organization can evaluate each potential segment and determine which ones meet the specified criteria. Based on this evaluation, the organization can select one or more segments to target. By identifying the ideal target segment, the organization increases the likelihood of success in the marketplace.

2.1 Segment evaluation criteria

Segment evaluation criteria can be categorized into two main groups:

Knock-out criteria: These are essential criteria that must be met for a segment to be considered for targeting. If a segment fails to meet any of the knock-out criteria, it will not be further considered for targeting.

Attractiveness criteria: These criteria are used to assess the relative attractiveness of segments that meet the knock-out criteria. The organization selects segments that score the highest on the attractiveness criteria.

2.2 Knock-out criteria

Here are some examples of knock-out criteria:

- **Homogeneity:** The segment must exhibit a degree of homogeneity in terms of its characteristics and needs.
- **Profitability:** The segment should be large enough to generate sufficient profits for the organization.
- **Reachability:** The organization must have the means to effectively reach and serve the segment.

- Compatibility: The segment's needs should align with the organization's capabilities and offerings.

2.3 Attractiveness criteria

Unlike knock-out criteria, attractiveness criteria are not binary in nature. They are used to evaluate and compare segments based on their attractiveness. Examples of attractiveness criteria include:

- Customer loyalty: Assessing the level of loyalty exhibited by customers in the segment.
- Purchase frequency: Evaluating how frequently customers in the segment make purchases.
- Purchase size: Analyzing the average size of purchases made by customers in the segment.

Step 3: Collecting Data

Collecting data is a crucial step in market segmentation analysis. It involves gathering relevant information about the target market, including demographics, psychographics, and behavior patterns. Data collection can be accomplished through various methods such as surveys, interviews, focus groups, and observation.

The data collected in this step is utilized to create a comprehensive profile of the target market. This profile helps the organization understand the needs, wants, and buying behavior of the target market. It also aids in identifying the most effective ways to reach and communicate with the target market.

By collecting data about the target market, organizations gain a deeper understanding of the market dynamics and can develop more precise and effective marketing strategies.

3.1 Segmentation Variables and Criteria

Segmentation variables play a vital role in market segmentation analysis. Some commonly used variables include:

- Geographical variables: These variables consider the consumer's location of residence as a criterion for forming market segments.
- Socio-demographic variables: Variables such as age, gender, income, education, and location are used to segment the market.
- Psychographic variables: These variables focus on aspects such as personality, lifestyle, values, and interests.
- Behavioral variables: Variables like purchase behavior, usage rate, and loyalty are taken into account.

The choice of segmentation variables depends on the specific market and the objectives of the segmentation analysis. For example, a company targeting a new product at young professionals might consider age, income, and education as key segmentation variables.

Segmentation criteria refer to the rules used to select the most appropriate segmentation variables based on their relevance and effectiveness.

3.2 Data from Survey Studies, Internal Sources, and Experimental Studies

Various sources can be utilized to collect data for market segmentation analysis, including:

- Survey studies: Surveys conducted online, by phone, or in person are effective ways to collect data about the target market.
- Internal sources: Internal data sources such as sales data, customer feedback, and website traffic data provide valuable insights into the target market's trends and patterns.
- Experimental studies: Controlled experiments involve exposing different groups of people to distinct marketing messages and measuring their responses.

Data collected from these sources is instrumental in creating a comprehensive profile of the target market, which, in turn, enables the development of tailored marketing strategies that meet specific segment needs.

Step 4: Exploring Data

Data exploration is a vital step in market segmentation analysis as it helps gain a better understanding of the data and identify any potential issues or inconsistencies. Some common methods employed during data exploration include:

- Initial data review: This involves obtaining a general overview of the data by examining its structure, such as the number of variables and observations, and the types of variables. Analyzing the distribution of data, including mean, standard deviation, and range, is also helpful.
- Data cleaning: In this step, errors or inconsistencies in the data are identified and removed, ensuring data accuracy and reliability.
- Descriptive analysis: The data is described in detail using statistical techniques such as means, standard deviations, and ranges. This analysis aids in understanding the data and identifying patterns or trends.
- Pre-processing: Data transformation or outlier removal can be performed during pre-processing to enhance

the accuracy and effectiveness of the segmentation process.

- Principal Components Analysis (PCA): PCA is a statistical technique used to reduce the dimensionality of the data, making it easier to interpret, especially when dealing with a large number of variables. PCA can also identify clusters within the data, which is valuable for market segmentation.

Step 5: Extracting Segments

Extracting segments involves grouping consumers together based on their similarities. Various methods can be used for segment extraction, including:

- Grouping consumers: Common characteristics among consumers are identified, and they are grouped together based on those characteristics. Examples include grouping consumers by age, gender, income, or location.
- Distance-based methods: These methods utilize the distance between consumers to identify clusters of similar consumers. The popular k-means clustering method minimizes the distance between consumers within the same cluster.
- Model-based methods: Statistical models are employed to identify segments. Latent class analysis is a commonly used model-based method that estimates the probability of a consumer belonging to each segment.
- Algorithms with integrated variable selection: Algorithms are used to select the variables that are most important for segmenting consumers. Recursive partitioning, for instance, recursively splits the data into smaller groups based on variable values.
- Data structure analysis: Patterns in the data are identified to detect segments. Cluster analysis can be employed to identify clusters of consumers with similar purchasing patterns.

The choice of segment extraction method depends on the available data and the goals of the market segmentation analysis. For example, if the goal is to identify segments likely to respond to a marketing campaign, model-based methods such as latent class analysis may be preferred. If the objective is to identify segments with similar needs and wants, distance-based methods like k-means clustering may be more suitable.

Step 6: Profiling Segments

Profiling segments involves describing the characteristics of each segment in detail. This step helps ensure that segments are well understood and enables the development of successful marketing strategies. Some approaches to profiling segments include:

- Describing demographic characteristics: This includes age, gender, income, and education level of each segment.
- Describing psychographic characteristics: This includes the values, attitudes, and interests of consumers within each segment.
- Describing behavioral characteristics: This includes the buying habits, media preferences, and product usage patterns of consumers within each segment.

- Describing the needs and wants: This entails identifying the specific product or service requirements of each segment.
- Assessing the potential of each segment: This includes evaluating the size, growth rate, and profitability of each segment.

By profiling segments, organizations gain a deeper understanding of their target market, facilitating the development of tailored marketing strategies that effectively address the needs and preferences of each segment.