

Chapter 3

Step 1: Deciding (not) to Segment

3.1. Implications of Committing to Market Segmentation

- **Long-term Commitment:** Market segmentation requires a long-term commitment from the organization. It's like a marriage, not a short-term strategy
- **Costs and Investments:** Adopting market segmentation involves significant costs, such as research, surveys, product development, and specialized marketing efforts
- **Organizational Changes:** Implementing segmentation may require introducing new products, adjusting prices, and changing how the organization communicates with customers
- **Structural Adjustments:** Organizations may need to reorganize around market segments rather than products to maximize benefits
- **Executive Decision:** Committing to segmentation requires a strong decision from top executives and continuous support throughout the organization to ensure its success

3.2. Implementation Barriers

- **Senior Management Involvement:** Lack of leadership and support from senior management can hinder successful implementation
- **Resource Constraints:** Insufficient resources allocated for segmentation analysis and implementation can be a barrier
- **Organizational Culture:** Resistance to change within the organization, a lack of customer-focused mindset, and poor communication between departments can slow down or prevent successful implementation
- **Training and Expertise:** Lack of understanding and expertise in segmentation concepts among management and teams can lead to failure
- **Structural Limitations:** Financial constraints and inability to make necessary structural changes can limit implementation

Chapter 4

Step 2: Specifying the Ideal Target Segment

4.1. Segment Evaluation Criteria

- **User Involvement:** In market segmentation, it's crucial to involve users throughout the process, not just at the beginning or end. Their input guides decisions from gathering data to picking target segments
- **Step 2 Importance:** The organization must determine two sets of segment evaluation criteria: "knock-out criteria and "attractiveness criteria"

4.2. Knock-out Criteria

- These are essential, non-negotiable criteria that segments must meet to be considered further. Examples include homogeneity, distinctiveness, size, organizational fit, identifiability, and reachability

4.3. Attractiveness Criteria

- These are used to evaluate how attractive potential target segments are and include factors such as growth potential, competitive advantage, profitability, and compatibility with the company

4.4. Implementing a Structured Process

In market segmentation, using a structured process is widely seen as beneficial. One popular method involves creating a segment evaluation plot, which shows how attractive different market segments are and how well a company can compete in each segment. The criteria for attractiveness and competitiveness are determined by a team based on what matters most to their organization.

It's crucial to involve a diverse team in this process, including representatives from various parts of the organization. This ensures different viewpoints are considered

and that the segmentation strategy, once implemented, aligns with the goals of all organizational units.

Even though the segment evaluation plot is created after data collection (Step 3), defining attractiveness criteria early helps focus data collection efforts. By Step 8, the team should have about six key criteria for segment attractiveness, each weighted according to its importance to the organization. This weighting process involves team negotiation and ideally, approval from an advisory committee representing different organizational perspectives.

Chapter 5

Step 3: Collecting Data

5.1. Segmentation Variables

- Empirical data, whether it comes from surveys, observations like scanner data, or experimental studies, is used for both commonsense and data-driven market segmentation. In commonsense segmentation, one characteristic (like gender) is used to divide consumers into segments, while other factors (such as age or vacation preferences) describe these segments in more detail.

Data-driven segmentation, on the other hand, uses multiple variables to identify or create segments based on shared traits (for example, vacation benefits sought), which helps in creating more targeted marketing strategies. Having high-quality data is essential because it ensures that consumers are correctly grouped into segments and allows for effective customization of marketing approaches

5.2. Segmentation Criteria

- Before organizations can group consumers into segments, they need to choose a segmentation criterion. This criterion determines how they'll divide up their customers. There are four main types:

Geographic: This criterion uses location to group consumers. It's useful for targeting local markets or regions.

Socio-demographic: This criterion includes characteristics like age, income, gender, and education level. It helps understand basic traits of consumers.

Psychographic: This criterion focuses on beliefs, interests, lifestyles, and motivations of consumers. It's about understanding why people make certain choices.

Behavioral: This criterion looks at consumer actions, like purchase behavior, product usage, or brand loyalty. It's based on what people do rather than what they say

5.3. Data from Survey Studies

- Survey data is often used for market segmentation because it's cheap and easy to collect. However, survey data can have biases that affect segmentation accuracy compared to data based on actual behavior.

Here are the main points to consider:

Choosing Variables: Picking the right survey questions is crucial. Asking too many questions can tire respondents and confuse segmentation tools, making it harder to find accurate customer groups.

Response Types: Different ways of answering surveys (like yes/no, categories, scales) affect how well data can be used for segmentation. Binary and straightforward scales work best for analysis.

Answer Patterns: People may have habits like always agreeing or choosing the middle option. These patterns can make it harder to see real customer groups, so it's important to manage them carefully.

Number of People: Having enough survey responses is key. A larger sample size gives better results, showing more about customer groups without making mistakes

5.4. Data from Experimental Studies

- Experimental data, from both field and laboratory studies, can be used for market segmentation. For example, experiments can test how people react to ads or choose between products with different features. Data from choice experiments and conjoint analyses provide insights into how specific product attributes influence consumer choices, which can be used to segment markets based on preferences and behaviors

Chapter 9

Step 7: Describing Segments

9.1. Developing a Complete Picture of Market Segments

- In market segmentation, segment profiling involves understanding differences in segmentation variables among different market segments. These variables are chosen early in the analysis process and used to extract segments from data. In Step 7, segments are described using additional information about segment members, like demographics and behaviors. This helps customize marketing strategies effectively. Segment descriptions are crucial for developing tailored marketing approaches, such as understanding what media they prefer or their spending habits. This process uses statistical analysis and visualizations to highlight differences between segments effectively

9.2. Using Visualizations to Describe Market Segments

- Using visualizations to describe market segments involves using various charts to illustrate differences in descriptor variables. For nominal or ordinal variables (like gender or education level) and metric variables (such as age or spending habits), different graphical approaches are used. Visualizations simplify data interpretation for analysts and users, integrating statistical significance to prevent over-interpretation of minor differences. Managers find graphical formats intuitive and efficient, enhancing the communication of marketing research findings

9.3. Testing for Segment Differences in Descriptor Variables

- Testing for segment differences in descriptor variables involves using simple statistical tests to formally assess differences across market segments. Nominal segment membership can be treated like any other nominal variable.

For nominal or ordinal descriptor variables (like gender or education level), a χ^2 -test can determine if there are significant differences. Visualizations like mosaic plots help interpret these tests visually.

For metric variables (such as age or spending), ANOVA tests the significance of differences in means across multiple segments. Post hoc tests, like pairwise t-tests or Tukey's HSD, pinpoint specific segment differences. Adjusting p-values controls for multiple tests, ensuring reliable conclusions about segment distinctions. Visualizations, such as boxplots and Tukey's plot, enhance understanding by showing mean differences and their confidence intervals clearly.

9.4. Predicting Segments from Descriptor Variables

- To predict market segments using descriptor variables, we use regression models where segment membership is the main focus. These models treat segment membership as a category that we predict based on various descriptors, like age or consumer habits. This differs from cluster analysis, which groups similar data points together based on their descriptors.

In regression, we analyze all descriptors at once to see how well they predict segment membership. We use statistical methods or machine learning to find out which descriptors are most important for predicting each segment accurately.

Regression models assume a straightforward relationship between what we're trying to predict (like segment membership) and the factors we're looking at (like age or income). For cases where outcomes are categorical, generalized linear models come into play. These models are flexible, using different mathematical approaches to predict things like market segments accurately.

Multinomial logistic regression is a more specialized version that lets us predict several segments at once. It builds on simpler logistic regression, which focuses on predicting just two outcomes.

For another approach, tree-based methods like CART offer a different way to predict segments. They're good at picking out which factors matter most and how they interact. But they can sometimes give different results if we change the data a little.

Overall, these methods help us understand market segments better by predicting who's likely to belong to which segment based on the information we have

9.5. Step 7 Checklist

- Bringing over one or a few selected market segmentation solutions from Step 6 based on attractive profiles.
- Selecting descriptor variables not used in segment extraction.
- Using visualizations like mosaic plots for categorical/ordinal variables and box-and-whisker plots for metric variables to understand segment differences.
- Testing descriptor variables for statistical significance and correcting for multiple testing if necessary.
- Introducing each market segment to team members to ensure comprehensive understanding.
- Identifying if additional insights are needed to fully develop understanding of certain segments.

Market Segmentation Case Study on McDonalds Dataset

Kindly refer to any of the following GitHub links for the complete code implementation.

Name: Abinash Bora

Link:

<https://github.com/Abinashbora1/Internship/tree/16bc470ca1d044890a1f195f800e62aaf5d3f08a/Project%202>

