

Market Segmentation Analysis: Step 7 – Profiling Segments

The objective of profiling segments is to learn more about the segments which are extracted from previous step 6 ie extracting useful or important segments for the marketing mix.

Profiling segments involves conducting exploratory data analysis on extracted segments, extracted segments are of two types

1. commonsense market segments
2. data driven market segments

Common sense market segments : The profiles of segments are predefined and only one segmentation variable is used to extract common sense market segments

Data driven market segments: profiling is only required when data-driven market segmentation is used. Profiling consists of characterising the market segments individually, but also in comparison to other market segments.

Data driven market segments are difficult for managers to interpret. Profiling becomes necessary in data-driven segmentation because, until after the data has been analyzed, the defining characteristics of resulting market segments are unknown. This is in contrast to commonsense segmentation, where profiles of segments are predefined.

- **Aim of Profiling:** The aim of profiling is to characterize market segments individually and in comparison to other segments. It involves identifying defining characteristics with respect to segmentation variables.
- **Challenges in Data-Driven Segmentation:** Data-driven segmentation solutions are challenging to interpret. Managers often find it difficult to understand and interpret segmentation results, and they may perceive segmentation analysis as a black box.
- **Traditional Approaches to Profiling:** Traditional approaches involve presenting segmentation results in tables that provide exact percentages for each segmentation variable. However, such tables are hard to interpret, especially when comparing multiple alternative segmentation solutions.
- **Segment Profiling with Visualizations:** Visualizations, such as segment profile plots, are introduced as a more effective way to interpret segmentation results. Graphical representations make profiling less tedious and prone to misinterpretation.
- **Segment Separation Plot:** The chapter introduces a segment separation plot, which visually depicts the overlap of segments in the data space. This plot includes a scatter plot of observations colored by segment membership, cluster hulls, and a neighborhood graph indicating the similarity between segments.
- **Principal Components Analysis:** For high-dimensional data, principal components analysis (PCA) can be used to project the data onto a small number of dimensions. This projection helps create a segment separation plot that aids in the interpretation of segment separation.

Market segmentation analysis is a crucial process in understanding consumer behavior and identifying distinct target markets. In this article, we will delve into Step 6 of market segmentation analysis: profiling segments. Profiling segments involves inspecting and characterizing each market segment to gain insights into their unique characteristics. By doing so, businesses can make informed decisions about which segments to prioritize and tailor their marketing strategies accordingly.

What is Profiling Segments?

Profiling segments is the stage in market segmentation analysis where the segmentation team thoroughly examines the resulting market segments. It provides an opportunity for all team members to assess and understand the essence of each segment. By analyzing variables such as demographics, psychographics, and consumer behavior, businesses can gain a deeper understanding of their target audiences.

Traditional Approaches to Profiling Segments

Statistical Criteria and Pre-Selection

Segmentation solutions are often pre-selected based on statistical criteria. However, it is important to note that statistical criteria alone cannot fully substitute user assessment. While statistical methods provide valuable insights, user evaluation is essential to ensure accurate profiling of segments.

Essence of Each Segment

Traditional statistical approaches offer insights into the essence of each segment. By analyzing variables such as age, gender, income, and purchasing behavior, businesses can uncover key characteristics that define their target audiences. Understanding these traits enables businesses to develop marketing strategies that resonate with their customers.

Graphical Statistics

In addition to traditional statistical approaches, graphical statistics can also provide valuable insights into market segments. Techniques such as cluster analysis and multidimensional scaling allow businesses to visually represent the relationships between variables and segments. This visual representation helps in identifying patterns and understanding the unique characteristics of each segment.

The Process of Profiling Segments

Profiling segments involves a series of tasks that help businesses gain a comprehensive understanding of their target markets. Here is a checklist of tasks typically performed during this step:

1. **Data Analysis:** Analyze the collected data to identify relevant variables and segment the market.
2. **Variable Selection:** Select the most appropriate variables for profiling each segment.
3. **Demographic Profiling:** Examine demographic variables such as age, gender, and income to understand the composition of each segment.

4. **Psychographic Profiling:** Explore psychographic variables such as values, attitudes, and lifestyle to gain insights into the motivations and preferences of each segment.
5. **Behavioral Profiling:** Analyze behavioral variables such as purchase frequency, brand loyalty, and product usage to understand the buying behavior of each segment.
6. **Segment Descriptions:** Develop detailed descriptions of each segment, highlighting their unique characteristics and preferences.
7. **Segment Prioritization:** Prioritize segments based on their potential profitability and alignment with the business's objectives.
8. **Segment Naming:** Assign names or labels to each segment to facilitate communication and understanding within the organization.
9. **Segment Visualization:** Create visual representations, such as charts or diagrams, to visually communicate the characteristics of each segment.
10. **Segment Documentation:** Document all findings and insights related to each segment for future reference and decision-making.
11. **Segment Validation:** Validate the accuracy and reliability of the segment profiles through further analysis and user feedback.
12. **Segment Selection:** Decide which segment(s) to target and develop tailored marketing strategies to effectively reach and engage with the chosen segment.

Benefits of Profiling Segments

Profiling segments offers several benefits to businesses aiming to optimize their marketing efforts. Some of the key advantages include:

1. **Targeted Marketing:** By understanding the unique characteristics and preferences of each segment, businesses can create personalized and targeted marketing campaigns. This increases the chances of resonating with consumers and driving higher conversion rates.
2. **Resource Allocation:** Profiling segments helps businesses allocate their resources effectively by focusing on the most profitable and promising segments. This ensures that marketing efforts are optimized for maximum return on investment.
3. **Competitive Advantage:** By gaining a deeper understanding of their target markets, businesses can differentiate themselves from competitors. Profiling segments enables businesses to tailor their products, services, and messaging to meet the specific needs and desires of each segment.
4. **Customer Satisfaction:** When businesses understand the preferences and motivations of their target audiences, they can deliver products and services that align with customer expectations. This leads to higher levels of customer satisfaction and loyalty.
5. **Market Expansion:** Profiling segments can also identify untapped market opportunities. By analyzing the characteristics of existing segments, businesses may discover new segments that have not been previously targeted. This opens up possibilities for market expansion and growth.

Conclusion

Profiling segments is a crucial step in market segmentation analysis. By thoroughly examining and characterizing each segment, businesses can gain valuable insights into their target markets. Through traditional and graphical statistics approaches, businesses can uncover the essence of each

segment and develop tailored strategies to effectively reach and engage with their target audiences. Profiling segments offers numerous benefits, including targeted marketing, resource allocation optimization, competitive advantage, customer satisfaction, and market expansion. By implementing this step effectively, businesses can enhance their understanding of consumer behavior and drive successful marketing initiatives.

Market Segmentation Analysis: Step 8 - Describing Segments

Market segmentation analysis plays a crucial role in understanding and targeting different customer segments. By dividing the market into distinct groups based on specific characteristics, businesses can tailor their marketing strategies to effectively reach and engage their target audience. In this article, we will explore the process of describing market segments, including the importance of segment profiling, the use of visualization techniques, statistical tests for segment differences, and predicting segments from descriptor variables.

1. Developing a Complete Picture of Market Segments

To fully understand market segments, it is essential to delve into the differences in segmentation variables across these segments. Segmentation variables are chosen early on in the market segmentation analysis process and form the basis for extracting market segments from empirical data. However, in the step of describing segments, additional information about segment members is used to provide a comprehensive picture of each segment. This additional information includes demographic, psychographic, socio-economic variables, media exposure, and specific product and brand attitudes or evaluations.

Segment profiling and description are crucial for gaining detailed insight into the nature of segments and developing a customized marketing mix. By thoroughly describing market segments, businesses can identify key characteristics, preferences, and behaviors of each segment. This knowledge allows for the creation of targeted marketing strategies that effectively resonate with the intended audience.

2. Using Visualizations to Describe Market Segments

Visualizations are powerful tools for describing differences between market segments. They simplify the interpretation of results and integrate information on the statistical significance of differences, avoiding the over-interpretation of insignificant differences. Two basic visualization approaches are commonly used for nominal and ordinal descriptor variables and metric descriptor variables.

2.1 Nominal and Ordinal Descriptor Variables

For nominal and ordinal descriptor variables, such as gender or level of education, cross-tabulations are commonly used to visualize differences between market segments. By creating a mosaic plot, the relative proportions of different categories within each segment can be easily compared. This visualization method provides a clear picture of the distribution of the nominal or ordinal variable across segments, allowing for an understanding of any significant associations or differences.

2.2 Metric Descriptor Variables

When dealing with metric descriptor variables like age or expenditure patterns, parallel boxplots and histograms are effective visualization techniques. Parallel boxplots display the distribution of the variable for each segment, allowing for visual comparison of the central tendency and spread of the data. Histograms provide a visual representation of the frequency distribution of the variable, providing insight into the shape of the data and any potential differences between segments.

3. Testing for Segment Differences in Descriptor Variables

Statistical tests can be employed to formally test for differences in descriptor variables across market segments. The most commonly used test for nominal and ordinal variables is the chi-squared test of independence. This test examines whether there is a significant association between the nominal or ordinal variable and segment membership. If the p-value is less than the predetermined significance level (typically 0.05), it indicates that there is a significant difference between segments in terms of the variable being tested.

For metric variables, analysis of variance (ANOVA) is commonly used to assess differences in means between different segments. ANOVA tests whether there are significant differences in the means of the variable across segments. If the p-value is less than the significance level, it indicates that at least one segment differs significantly from the others.

4. Predicting Segments from Descriptor Variables

Another approach to understanding market segments is to predict segment membership based on descriptor variables. This involves using regression models to determine the relationship between the independent variables and segment membership. By fitting a regression model with segment membership as the dependent variable and descriptor variables as independent variables, businesses can identify which variables are critical in predicting segment membership.

Linear regression models are commonly used for this purpose, assuming a linear relationship between the independent variables and the probability of segment membership. By examining the regression coefficients, businesses can identify the significance and direction of the relationship between each descriptor variable and segment membership.

Conclusion

Describing market segments is a crucial step in market segmentation analysis. By thoroughly understanding the characteristics and differences of each segment, businesses can develop tailored marketing strategies that effectively target their intended audience. Through the use of visualization techniques, statistical tests, and predictive models, businesses can gain valuable insights into their market segments and make informed decisions to drive their marketing efforts.