

Market Segmentation - A Case Study

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What is Market Segmentation:

Market Segmentation is the process of identifying segments of the target market and then dividing that target market into subgroups based on different factors such as demographics, needs, priorities, common interests, and other psychographic and/or behavioral criteria used to understand the target audience.

Why it is that important:

- Targeted Marketing: Reach the right audience with tailored messages.
- Increased Sales: Serve specific customer needs for higher revenue.
- Better Product Development: Create products that match segment preferences.
- Cost Efficiency: Allocate resources effectively, reducing waste.
- Competitive Advantage: Stand out by addressing niche markets.
- Customer Satisfaction: Meet unique needs for happier customers.
- Effective Communication: Resonate with customers through precise messaging.
- Market Expansion: Identify and enter new, underserved markets.
- Risk Mitigation: Diversify customer base for reduced business risk.
- Data-Driven Decisions: Use insights for informed strategic choices.
- Customized Offers: Personalize promotions for higher conversions.
- Adaptability: Stay agile by adjusting strategies to market changes.

Types of Market Segmentation:

Market segmentation involves dividing a larger market into smaller, more manageable segments based on certain characteristics or criteria. There are various types of market segmentation, including:

- **Demographic Segmentation:** Segments are based on demographic factors such as age, gender, income, education, marital status, and occupation. This is one of the most common forms of segmentation.
- **Psychographic Segmentation:** Here, segments are created based on lifestyle, values, attitudes, interests, and personality traits. It delves into the psychological aspects of consumer behavior.

- **Behavioral Segmentation:** This divides the market based on customer behavior, including usage patterns, brand loyalty, benefits sought, and purchase frequency. It's often used in the context of consumer products.
- **Geographic Segmentation:** Segmentation is based on geographic regions such as country, region, city size, climate, and population density. This is especially relevant for businesses with location-specific offerings.

Ten Steps of Market Segmentation Analysis:

Step 1: DECIDING (NOT) TO SEGMENT:

Before embarking on a market segmentation analysis, it's vital to understand the implications of pursuing this strategy. The key point is that an organization should be prepared for a long-term commitment. This commitment may necessitate the development of new products, adjustments to existing ones, and changes in pricing and distribution channels. The decision to explore market segmentation should originate at the highest executive level and be consistently communicated and upheld throughout the organization due to the substantial and far-reaching consequences of such a long-term commitment.

Potentially required changes are:

1. Development of new products.
2. Modification of existing products.
3. Changes in pricing and distribution channels.

Challenges in Implementation:

The initial set of obstacles pertains to market segmentation:

1. Absence of Strong Leadership: Insufficient presence of influential leaders.
2. Limited Proactive Advocacy: Inadequate proactive support and promotion.
3. Lack of Commitment: Shortcomings in terms of dedication and commitment.
4. Inadequate Senior Leadership Involvement: A lack of active engagement and participation from senior leadership hampers the effectiveness of the market segmentation process.

Additional Implementation Hurdles:

The second group and miscellaneous barriers associated with market segmentation include:

1. Training Deficiency: Insufficient training resources and programs.
2. Shortage of Qualified Data Management and Analysis: Inadequate presence of qualified professionals responsible for data management and analysis.
3. Financial Resource Limitations: Constraints in financial resources available for the segmentation process.
4. Absence of Structured Processes: Lack of well-defined and structured procedures.
5. Time Constraints for Market Segmentation Analysis: Limited time available for conducting market segmentation analysis without undue time pressure.

Step 2: Specifying the Ideal Target Segment:

Step 2 of market segmentation analysis involves specifying the ideal target segment. This step includes the identification and evaluation of segment criteria to determine which segments are suitable for targeting. The process requires input from the organization and collaboration among the segmentation team and advisory committee.

Segment Evaluation Criteria:

The evaluation criteria consist of two sets: knock-out criteria and attractiveness criteria.

Knock-out criteria:

Knock-out criteria are essential and non-negotiable features that must be met for a segment to be considered for targeting. These criteria include homogeneity, distinctness, size, match, identifiability, and reachability. If a segment fails to comply with these criteria, it will be automatically eliminated in later steps.

Attractiveness Criteria:

Attractiveness criteria, on the other hand, are used to assess the relative attractiveness of the remaining market segments. These criteria are not binary but are rated on a scale. The literature offers a variety of proposed attractiveness criteria, such as substantiality, measurability, accessibility, compatibility, profitability, and more. The segmentation team needs to select a subset of these criteria based on their relevance to the organization's specific situation. The importance or weight of each attractiveness criterion is also determined through discussions and negotiations among team members.

Step 3: Collecting Data:

Data gathering is a pivotal step within the market segmentation process, functioning as the bedrock for the identification of distinct customer segments and comprehension of their unique attributes. This procedure typically encompasses a range of techniques and resources to guarantee comprehensive and precise information.

One widely adopted avenue for data acquisition is primary research, a method involving the direct collection of data from the target market through surveys, interviews, focus groups, or observations. This approach empowers businesses to amass specific and tailored insights into customer preferences, requirements, behaviors, and demographics. Primary research offers firsthand perspectives and can be tailored to meet precise research objectives.

Additionally, secondary research constitutes another vital data collection approach. It entails the compilation of pre-existing data from various sources, such as industry reports, government publications, market studies, and academic research. Secondary research supplies a more expansive view of the market, industry trends, and customer segments. It serves to corroborate and complement the discoveries derived from primary research and offers a benchmark for comparative analysis.

My Assigned Work:

Step 6: Profiling Segments:

Identifying Key Characteristics of Market Segments:

The purpose of the profiling stage is to gain insights into the market segments generated through the data extraction process. Profiling becomes necessary when employing data-driven market segmentation methods. In contrast, for common-sense segmentation, segment profiles are predefined.

For instance, in common-sense segmentation, if age serves as the key variable, it's evident that the resulting segments will align with different age groups. During the profiling phase, we explore several alternative market segmentation solutions. This becomes particularly crucial when the data does not naturally exhibit distinct segments, necessitating the adoption of either a reproducible or a constructive approach to market segmentation.

Traditional Approaches to Profiling Market Segments:

Interpreting Data-Driven Segmentation Solutions:

Data-driven segmentation solutions are typically presented to users, such as clients and managers, in one of two ways:

1.High-Level Summaries: These summaries simplify segment characteristics to a degree where they may appear overly simplistic, potentially providing misleadingly trivial insights.

2.Large Tables: Alternatively, data-driven solutions can be presented in the form of extensive tables that outline precise percentages for each segmentation variable within each segment. However, such tables can be challenging to interpret and make it difficult to quickly grasp key insights.

To illustrate, using a table-based approach to interpret segments, we can discern the defining characteristics of a particular segment, such as Segment 2:

- **Motivated by Rest and Relaxation:** Members of Segment 2 are primarily motivated by the desire for rest and relaxation during their travels.
- **Budget-Conscious:** They tend not to exceed their planned travel budget.
- **Preference for Change of Surrounding:** Many within this segment value a change of surroundings but do not prioritize cultural offerings, intense nature experiences, price considerations, health and beauty amenities, or creative pursuits.

Sometimes – to deal with the size of this task – information is provided about the statistical significance of the difference between segments for each of the segmentation variables. This approach, however, is not statistically correct. Segment membership is directly derived from the segmentation variables, and segments are created in a way that makes them maximally different, thus not allowing to use standard statistical tests to assess the significance of differences.

Table 8.1 Six segments computed with the neural gas algorithm for the Australian travel motives data set. All numbers are percentages of people in the segment or in the total sample agreeing to the motives

	Seg. 1	Seg. 2	Seg. 3	Seg. 4	Seg. 5	Seg. 6	Total
Rest and relax	83	96	89	82	98	96	90
Change of surroundings	27	82	73	82	87	77	67
Fun and entertainment	7	71	81	60	95	37	53
Free-and-easy-going	12	65	58	45	87	75	52
Not exceed planned budget	23	100	2	49	84	73	51
Life style of the local people	9	29	30	90	75	80	46
Good company	14	59	40	58	77	55	46
Excitement, a challenge	9	17	39	57	76	36	33
Maintain unspoilt surroundings	9	10	16	7	67	95	30
Cultural offers	4	2	5	96	62	38	28
Luxury / be spoilt	19	24	39	13	89	6	28
Unspoilt nature/natural landscape	10	10	13	15	69	64	26
Intense experience of nature	6	8	9	21	50	58	22
Cosiness/familiar atmosphere	11	24	12	7	49	25	19
Entertainment facilities	5	25	30	14	53	6	19
Not care about prices	8	7	43	19	29	10	18
Everything organised	7	21	15	12	46	9	16
Do sports	8	12	13	10	46	7	14
Health and beauty	5	8	10	8	49	16	12
Realise creativity	2	2	3	8	29	14	8

Segment Profiling with Visualizations:

Neither the highly simplified, nor the very complex tabular representation typically used to present market segmentation solutions make much use of graphics, although data visualization using graphics is an integral part of statistical data analysis. Graphics are particularly important in exploratory statistical analysis (like cluster analysis) because they provide insights into the complex relationships between variables. In addition, in times of big and increasingly bigger data, visualization offers a simple way of monitoring developments over time.

Visualizations are useful in the data-driven market segmentation process to inspect, for each segmentation solution, one or more segments in detail. Statistical graphs facilitate the interpretation of segment profiles. They also make it easier to assess the usefulness of a market segmentation solution. The process of segmenting data always leads to many alternative solutions. Selecting one of the possible solutions is a critical decision. Visualizations of solutions assist the data analyst and user with this task.

Identifying Defining Characteristics of Market Segments:

A good way to understand the defining characteristics of each segment is to produce a segment profile plot. The segment profile plot shows – for all segmentation variables – how each market segment differs from the overall sample. The segment profile plot is the direct visual translation of tables such as Table 8.1. The `t()` around the data matrix vacmot transposes the matrix such that distances between columns rather than rows are computed. Next, hierarchical clustering of the variables is conducted using Ward's method. Figure 8.1 shows the result. Argument which specifies the variables to be included, and their order of presentation. Here, all variables are shown in the order suggested by hierarchical clustering of variables. `shade = TRUE` identifies so-called marker variables and depicts them in color. These variables are particularly characteristic for a segment