

Market Segmentation Analysis Summary

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Step 1: Deciding (not) to Segment

This step focuses on evaluating the implications and barriers associated with committing to market segmentation. It emphasizes that market segmentation isn't always the best strategy and requires a long-term commitment with significant organizational changes. The decision-making process involves assessing whether the organization is prepared for the substantial commitment required for successful implementation.

Implications of Committing to Market Segmentation:

- Market segmentation demands a long-term commitment, akin to a "marriage," requiring substantial organizational and financial investments.
- Implementing segmentation involves changes in product development, pricing, distribution channels, and communication strategies, influencing the internal organizational structure.
- Organizations must organize around market segments rather than products for effective segmentation.
- The decision to explore segmentation strategies should be made at the highest executive level and continuously communicated across all organizational levels.

Implementation Barriers:

- Barriers exist at senior management levels, such as lack of leadership, inadequate resource allocation, and resistance to change.
- Organizational culture barriers include a lack of market orientation, resistance to new ideas, and insufficient training.
- The absence of a formal marketing function or qualified experts can hinder successful implementation.
- Objective restrictions like financial limitations or structural changes required can pose obstacles.
- Process-related barriers include unclear objectives, poor planning, lack of structured processes, and time pressure.

Checklist (Knock-out Criteria):

- Organization's market-oriented culture
- Willingness to change
- Long-term perspective
- Openness to new ideas

- Effective communication across units
- Capability to make significant structural changes
- Sufficient financial resources
- Visible commitment from senior management

The checklist emphasizes key criteria that, if not met, should be seriously considered before proceeding with market segmentation. It also outlines tasks, team composition, and responsibilities for effective analysis.

Key Recommendations:

- Secure commitment and involvement of senior management.
- Ensure understanding of segmentation concepts through training.
- Form a capable team including marketing and data experts.
- Clearly define objectives and develop a structured process for analysis.
- Adequate time allocation without time pressure is crucial for successful analysis.

This step highlights the critical considerations and challenges organizations face when deciding whether to pursue market segmentation, stressing the need for thorough evaluation before committing to this strategy.

Step 2: Specifying the Ideal Target Segment

In Step 2 of market segmentation analysis, the focus shifts towards defining the criteria to evaluate and select the most suitable market segments. This stage involves determining both knock-out criteria and attractiveness criteria to guide the selection process.

Segment Evaluation Criteria:

- **Knock-Out Criteria:** These are essential non-negotiable features that market segments must possess to qualify for further assessment. Examples include homogeneity, distinctness, size, matching organizational strengths, identifiability, and reachability.
- **Attractiveness Criteria:** These criteria are used to evaluate the relative attractiveness of qualifying segments. The team selects a subset of criteria from a wide range listed in Table 4.1, considering each segment's attractiveness across these criteria.

Structured Process Implementation:

- A structured process is vital for evaluating market segments effectively.
- The use of a segment evaluation plot is recommended, depicting segment attractiveness against organizational competitiveness, determined by the segmentation team based on agreed-upon factors.

- The task of selecting criteria involves investigating numerous options, negotiating, and settling on no more than six key factors, ensuring alignment with the organization's goals.

Team Collaboration and Advisory Committee Involvement:

- Collaboration within a core team (2-3 members) is suggested for initial decisions, reporting to the advisory committee for broader discussion and modifications.
- Involving representatives from diverse organizational units in the process acknowledges varying perspectives and ensures stakeholder engagement.

Importance of Early Criteria Selection:

- Even though segments are not yet available for assessment, selecting attractiveness criteria early ensures that pertinent information is collected during data collection (Step 3) and simplifies the final segment selection process (Step 8).

Checklist:

- Convene a segmentation team meeting to discuss and agree on knock-out criteria.
- Present knock-out criteria to the advisory committee for discussion and potential adjustment.
- Study available criteria for segment attractiveness assessment and agree on a subset (up to six) with the segmentation team.
- Distribute 100 points across selected attractiveness criteria to reflect relative importance.
- Discuss and agree on weightings for these criteria within the team and present them to the advisory committee for discussion and potential adjustment.

This step emphasizes the importance of defining specific criteria for segment evaluation, ensuring thorough consideration of factors that influence segment attractiveness and organizational alignment. Collaboration, clear criteria selection, and stakeholder involvement are key for a successful outcome in this stage.

Step 3: Collecting Data

In the third step of market segmentation analysis, the focus shifts towards the collection of empirical data used to identify and describe market segments. This involves determining segmentation variables and various criteria, exploring different data sources, and considering biases in survey data collection.

Segmentation Variables:

- In common sense segmentation, a single characteristic like gender is used to split the sample into segments. Other characteristics become descriptor variables, aiding in segment description.
- Data-driven segmentation involves multiple variables as the starting point to identify naturally existing or artificially created market segments.

Segmentation Criteria:

Organizations must decide on segmentation criteria, considering geographic, socio-demographic, psychographic, and behavioral aspects.

1. **Geographic Segmentation:** Location-based criteria can be effective, considering language differences or specific regional preferences.
2. **Socio-Demographic Segmentation:** Age, gender, income, and education are examples that can be crucial in various industries.
3. **Psychographic Segmentation:** Involves psychological criteria like beliefs, interests, benefits sought, or lifestyle preferences.
4. **Behavioral Segmentation:** Focuses on behaviors or reported behavior such as prior experience, frequency of purchase, or information search behavior.

Survey Data Considerations:

- **Choice of Variables:** Selecting variables crucially impacts segmentation quality.
- **Response Options:** Survey response options influence data scale and suitability for analysis.
- **Sample Size:** Adequate sample size is crucial for effective segmentation analysis; insufficient samples can misrepresent segmentation outcomes.

Data Sources:

Organizations can utilize various data sources:

1. **Survey Studies:** Commonly used due to affordability but susceptible to biases.
2. **Internal Sources:** Leveraging actual behavior data from internal records like scanner data or online purchases.
3. **Experimental Studies:** Obtained from field/lab experiments, assessing responses to stimuli like advertisements or choice experiments.

Checklist:

- Convene a market segmentation team meeting to discuss potential segmentation variables and descriptor variables.
- Determine the data collection strategy to capture segmentation and descriptor variables accurately.
- Carefully design data collection to minimize biases and systematic errors.
- Collect data from chosen sources to proceed with segmentation analysis.

This step emphasizes the critical nature of data collection, outlining various approaches and considerations for selecting segmentation variables, criteria, and data sources. Careful planning and execution of data collection processes are essential for generating accurate and valuable insights during market segmentation analysis.

Step 4: Data Cleaning, Exploration, and Pre-Processing

The fourth step in market segmentation analysis involves several key processes: data cleaning, descriptive analysis, pre-processing, and potentially using Principal Components Analysis (PCA) to transform the data for better interpretation and analysis. This step ensures that the collected data is properly prepared and explored to extract meaningful market segments.

A First Glimpse at the Data

- **Exploratory Data Analysis:** Identifies measurement levels, investigates univariate distributions, and assesses dependencies between variables.
- **Data Pre-processing:** Cleans and prepares data for further analysis, ensuring suitability for segmentation algorithms.

Data Cleaning

- **Validation:** Ensures data accuracy by checking for correct values and consistent labels in categorical variables.
- **Plausibility Check:** Verifies ranges of metric variables for implausible values (e.g., age between 0 and 110).

Descriptive Analysis

- **Statistical Summary:** Utilizes tools like `summary()` in R to gather numeric summaries and frequency counts for variables.
- **Visual Representations:** Uses histograms, boxplots, scatter plots, bar plots, and mosaic plots to understand data distribution and associations.

Pre-Processing

- **Categorical Variables:** Merges categorical levels or converts them into numeric values when applicable.
- **Numeric Variables:** Standardizes variables to balance their influence in segmentation algorithms, especially in distance-based methods.

Principal Components Analysis (PCA)

- **Purpose:** Transforms multivariate data into uncorrelated variables ordered by importance.
- **Use of PCA:** Provides a different perspective on data structure, often used for dimensionality reduction and visualization.

Checklist:

- **Data Examination:** Explore for inconsistencies or systematic errors; clean and pre-process data if needed.
- **Preparation:** Ensure the number of segmentation variables aligns with the available sample size.
- **Variable Selection:** Consider selecting a subset of variables if too numerous or correlated.
- **Passing On:** Hand over cleaned and pre-processed data for segmentation extraction in Step 5.

This step focuses on ensuring data quality, understanding the data distribution, handling inconsistencies, and preparing the data for subsequent segmentation analysis, ensuring the generation of meaningful market segments.

Step 8: Selecting the Target Segment(s)

In the market segmentation process, Step 8 marks a critical decision-making phase where specific target segments are chosen for strategic focus. This step involves evaluating potential market segments based on their attractiveness and the organization's competitiveness.

The Targeting Decision

- **Strategic Significance:** Selection of target segments significantly impacts the organization's future performance.
- **Previous Steps' Impact:** The knock-out criteria and segment attractiveness criteria defined in earlier steps guide the evaluation of market segments.
- **Segment Suitability Check:** Ensures remaining segments meet established criteria for size, homogeneity, distinctness, match, identifiability, and reachability.

Market Segment Evaluation

- **Decision Matrix:** Various types of matrices (e.g., Boston matrix, General Electric/McKinsey matrix) assist in visualizing segment attractiveness and organizational competitiveness.
- **Evaluation Criteria:** Two-dimensional assessment of segment attractiveness to the organization and organizational attractiveness to the segment.
- **Calculating Segment Values:** Multiplying weights assigned to attractiveness criteria by the actual values derived from segment profiles and descriptions.
- **Creating Segment Evaluation Plot:** Visualization of segment attractiveness and organizational competitiveness to identify preferable segments.

The decision matrix serves as a visual representation that aids in segment selection based on attractiveness and competitiveness. It involves assigning values to each criterion for each segment, computing overall attractiveness, and plotting this information on the decision matrix.

Checklist:

- **Team Meeting:** Convene a team meeting to discuss and finalize the target segment selection.
- **Segment Identification:** Determine potential target segments based on Step 6 (segment profiling) and Step 7 (segment description).
- **Compliance Check:** Verify if the remaining segments comply with knock-out criteria; eliminate non-compliant segments.
- **Value Assignment:** Agree on values for segment attractiveness and organizational competitiveness for each segment.
- **Calculate Segment Values:** Multiply values by weights for criteria, sum them up to derive overall attractiveness and competitiveness for each segment.
- **Plotting the Decision Matrix:** Visualize the segment values on a plot for preliminary selection.
- **Compatibility Check:** Ensure compatibility among selected target segments if intending to target multiple segments.
- **Presentation to Committee:** Present selected segments to the advisory committee for discussion and potential reconsideration.

This step involves a comprehensive evaluation process to strategically choose the most suitable target segments based on their attractiveness and the organization's capability to compete effectively within those segments.

Step 9: Customizing the Marketing Mix

Implications for Marketing Mix Decisions

The original marketing concept was akin to a toolbox utilized by marketers to enhance product sales by skilfully blending various elements. Early marketing theories, proposed by Borden (1964), enumerated 12 ingredients in this toolbox, encompassing diverse aspects like product planning, distribution channels, pricing, branding, and more. While multiple versions of this marketing mix emerged, the most prevalent is the 4Ps model: Product, Price, Promotion, and Place (McCarthy, 1960).

Integration with Strategic Marketing:

- Market segmentation doesn't function in isolation within marketing strategy. Instead, it complements other critical strategic areas, particularly positioning and competition. This process often aligns with the Segmentation-Targeting-Positioning (STP) approach (Lilien and Rangaswamy, 2003). STP involves segmentation (segment extraction, profiling, and description), targeting (assessment of segments and selecting a target segment), and positioning (developing measures for product differentiation in line with segment needs).

Segmentation in Coordination with Marketing Mix Development:

- Fig. 11.1 illustrates how the target segment decision intertwines with other strategic areas like competition and positioning, affecting the development of the marketing mix. While discussing the traditional 4Ps model—Product, Price, Place, and Promotion—it's vital to review each element after selecting the target segment(s).

Customizing the Marketing Mix for Target Segments:

- To maximize the benefits of market segmentation, customizing the marketing mix according to the target segment becomes pivotal. This involves designing new or modifying existing products (Product), adjusting pricing structures (Price), selecting suitable distribution channels (Place), and devising appealing communication strategies (Promotion) tailored to the chosen segment(s).

In the subsequent sections, specific dimensions of the marketing mix are discussed:

Product:

- Tailoring products to meet customer needs is crucial. It might involve modifying existing products or creating new ones that align with segment preferences. For instance, a destination targeting a segment keen on cultural activities might develop products highlighting museums, monuments, and gardens.

Price:

- Pricing decisions, such as setting prices or offering discounts, need to resonate with the target segment's spending behavior. For instance, a segment with higher vacation expenditures per person per day may not require discounted prices for certain products or services.

Place:

- Distributing products to customers is essential. Information about how the target segment books accommodations, for example, helps the destination ensure that suitable distribution channels align with the segment's preferences.

Promotion:

- Crafting advertising messages and identifying effective communication channels are vital for promotion. Understanding preferred information sources and media habits of the target segment enables targeted communication strategies.

Checklist:

- Convene a segmentation team meeting.
- Revisit the profile and detailed description of the target segment.
- Design or modify product, price, place, and promotion-related aspects to cater to the target segment.
- Review the entire marketing mix.
- Repeat steps for each target segment if targeting multiple segments.
- Present the proposed marketing mix outline to the advisory committee for discussion and modification if needed.

Understanding and customizing each element of the marketing mix to the specifics of the chosen target segment(s) ensures a more effective and tailored marketing strategy.

Case Study: Fast Food

GitHub Link for code translated from R language to Python -
https://github.com/Ashish-chauhan08/Feynn-Lab-Internship/blob/main/Fast_Food_Case_Study.ipynb