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Market Segmentation

Step 1:

* Assess whether market segmentation supports the company's long-term goals. Segmentation should align with the overall business strategy to ensure sustainability and growth
* Consider the resources (financial, human, and technological) required to execute and maintain a segmentation strategy. If the resources are insufficient, segmentation may fail or be less effective.
* Analyze the external market environment. Segmentation may be more effective in diverse markets with clear differences in customer needs
* Identify potential obstacles that could hinder the implementation of a segmentation strategy,
* If competitors are successfully segmenting the market, it might be necessary to adopt segmentation
* Understand if the market is mature or evolving

Step2

* Identify a clear set of criteria to evaluate segments, such as size, purchasing power, growth potential, and accessibility. These criteria help prioritize which segments to pursue.
* Define criteria that would immediately eliminate a segment from consideration, such as regulatory issues, unprofitability, or misalignment with the brand's core values.
* Assess whether the organization has the necessary resources (budget, expertise, and technology) to effectively target the segment.
* Consider risks associated with each segment, such as changing consumer preferences or economic instability. Weigh these risks against the potential benefits.
* Use a systematic, data-driven approach to ensure that segments are evaluated objectively and consistently. This avoids biases or arbitrary decisions in the selection process.
* Rank potential segments based on their attractiveness and feasibility. This allows for a more focused approach, selecting segments that offer the best balance of opportunity and alignment with company capabilities.
* This step concludes with a checklist that includes the essential aspects of defining and evaluating target segments, ensuring a structured and thorough process.

Step 3

* Identify the variables that will be used to segment the market, such as geographic, demographic, psychographic, or behavioural data.
* **Geographic**: Segmenting based on location, such as countries, regions, or cities.
* **Demographic**: Factors like age, gender, income, education, and occupation.
* **Psychographic**: Based on lifestyle, values, personality, and social class.
* **Behavioural**: Focuses on consumer behaviours, such as purchase history, brand loyalty, or usage rates.
* Surveys are a common method to collect segmentation data. Design the survey to capture relevant segmentation variables,
* Be mindful of response bias, such as socially desirable answers, acquiescence, or extreme responding, and take measures to minimize these biases for cleaner data.
* Emphasize the importance of high-quality data. Incomplete, inaccurate, or biased data can lead to poor segmentation and suboptimal targeting.

Step 4

* Review data structure and identify potential issues using basic statistics and visualizations.
* Handle missing values, outliers, and inconsistencies to improve data quality.
* Perform a more detailed analysis of individual variables (both categorical and numerical) to summarize their distribution and relationship with potential segmentation outcomes.
* Encode categorical variables and normalize numerical data for algorithm compatibility.
* Apply PCA to reduce the dimensionality of the dataset by transforming the variables into principal components.
* Decide which variables are most relevant for segmentation. Eliminate irrelevant or redundant variables to reduce noise and improve the efficiency and accuracy of the segmentation process.

Step 5

* Identify homogeneous groups (segments) using statistical methods to divide consumers based on chosen variables.
* **Distance-Based Methods**: Apply techniques like **k-means** and **hierarchical clustering** that rely on distance measures (e.g., Euclidean, Manhattan) to form segments.
* Combine distance-based and model-based methods for more refined segmentation.
* **Model-Based Methods**: Use probabilistic models (e.g., finite mixtures of distributions) to classify consumers into segments.
* **Algorithm Selection**: Choose the right algorithm based on data type, the number of segments, and the business context.
* **Cluster Validation**: Validate the extracted segments using measures like the **silhouette score** or **intra-cluster variance** to ensure meaningful segmentation.
* **Stability Analysis**: Check segment stability across different runs and methods to ensure consistent groupings.

Step 6

* **Identifying Key Characteristics**: Determine the unique traits of each segment, such as demographic, behavioural, or psychographic factors.
* Use summary statistics like means and percentages to describe the segments.
* Employ visual tools like bar charts, box plots, and scatter plots to illustrate key segment differences. Highlight the most defining features of each segment, focusing on traits that distinguish them from others.
* **Assessing Segment Separation**: Use visualizations and metrics to ensure segments are distinct from one another, enhancing their practical use. Align the profiles with business objectives to ensure the segmentation will be useful in targeting and strategy.
* Compare the characteristics of different segments to identify similarities and differences.