

Market Segmentation Analysis (Notes)

Step 1:

Market Segmentation

Strategic and Tactical Marketing:

- Market segmentation plays a crucial role in both strategic and tactical marketing decisions.
- Strategic marketing is about the long-term direction and goals of a company, where segmentation helps in defining target markets.
- Tactical marketing focuses on the short-term actions to reach these markets, where segmentation informs marketing mix decisions (product, price, place, promotion).
- Effective segmentation ensures that marketing efforts are directed toward the most promising and profitable customer groups.

Definitions of Market Segmentation:

- Market segmentation involves dividing a broad market into distinct subsets of consumers with common needs, characteristics, or behaviours.
- This process helps companies tailor their marketing strategies to specific segments rather than using a one-size-fits-all approach.
- Key criteria for segmentation can include demographic, geographic, psychographic, and behavioural factors.

The Benefits of Market Segmentation:

- Helps in identifying and targeting the most profitable market segments.
- Allows for more efficient use of marketing resources by focusing on specific customer needs.
- Enhances customer satisfaction and loyalty through more personalized marketing efforts.
- Enables better competitive positioning by differentiating products or services for different segments.

The Costs of Market Segmentation:

- Implementing market segmentation can be resource-intensive, requiring time, money, and data analysis.
- Over-segmentation might lead to fragmented efforts, where the focus becomes too narrow, missing out on broader opportunities.
- There's a risk of alienating customers who don't fit into the defined segments.

STEP -2

Market Segmentation Analysis

The Layers of Market Segmentation Analysis:

- Market segmentation analysis involves understanding the multiple layers of a market, from broad categories down to finer, more specific segments.
- It starts with broad market analysis and then drills down into more specific consumer needs and behaviours.
- Each layer of analysis provides deeper insights, helping in creating more targeted marketing strategies.

Approaches to Market Segmentation Analysis:

Based on Organisational Constraints:

- Segmentation strategies must align with the company's resources, capabilities, and strategic goals.
- Companies must assess their ability to effectively serve the identified segments, considering factors like budget, manpower, and expertise.

Based on the Choice of Segmentation Variable(s):

- The choice of segmentation variables (demographic, geographic, psychographic, etc.) greatly influences the outcome of the segmentation analysis.
- Different variables can lead to different segment profiles and selecting the right one(s) is crucial for the success of the segmentation strategy.

Data Structure and Data-Driven Market Segmentation Approaches:

- Data plays a critical role in market segmentation, with data-driven approaches becoming increasingly important.
- The structure and quality of the data determine the accuracy and effectiveness of the segmentation.
- Techniques like clustering and statistical analysis are often used to identify distinct market segments from large datasets.

Market Segmentation Analysis Step-by-Step:

- The process of segmentation analysis involves several steps:
- Defining the market and identifying potential segments.
- Gathering and analysing data on consumer characteristics and behaviours.
- Identifying distinct segments based on the chosen variables.
- Evaluating the attractiveness and viability of each segment.

- Selecting the target segments and developing tailored marketing strategies.

Step 3:

Step 1: Deciding (Not) to Segment

Implications of Committing to Market Segmentation:

- Deciding to segment the market can significantly impact a company's marketing strategy and resource allocation.
- Companies must be prepared to commit to the ongoing process of segmentation, including regular updates and adjustments.
- The decision to segment should be based on clear evidence that it will provide a competitive advantage and improve marketing effectiveness.

Implementation Barriers:

- There are several potential barriers to successful market segmentation, including:
- Insufficient data or poor data quality, which can lead to inaccurate segment identification.
- Resistance within the organization, especially if segmentation requires significant changes to existing processes.
- The complexity of managing multiple segments, which may require more sophisticated marketing strategies and tools.

Step 1 Checklist:

- Before committing to segmentation, we should consider the following:
- Do we have the necessary data and resources to effectively segment the market?
- Are the potential segments large enough to justify targeted marketing efforts?
- Is the organization prepared to adapt its strategy and operations to serve the identified segments?
- What are the potential risks and rewards of market segmentation for our business?

Additional Step

Step 5: Collecting Data

Segmentation Variables

- Empirical Data: Forms the basis for both commonsense and data-driven market segmentation.
- Segmentation Variable: Used to split the sample into market segments.
- Descriptor Variables: Describe segments in detail (e.g., age, number of vacations, benefits sought).
- Commonsense Segmentation: Uses a single characteristic (e.g., gender).
- Data-Driven Segmentation: Uses multiple segmentation variables to identify or create market segments.

Segmentation Criteria

- Segmentation Criterion: Broader than segmentation variable; relates to the nature of information used for segmentation.
- Common Criteria: Geographic, socio-demographic, psychographic, and behavioural.
- Decision Making: Requires market knowledge; cannot be easily outsourced.

Geographic Segmentation

- Original Criterion: Based on consumer's location of residence.
- Advantages: Easy to assign consumers to geographic units; effective for targeting communication.
- Disadvantages: Location may not correlate with product preferences.

Socio-Demographic Segmentation

- Common Criteria: Age, gender, income, education.
- Advantages: Easy to determine segment membership; sometimes explains product preferences.
- Disadvantages: Often not the cause of product preferences; limited market insight.

Psychographic Segmentation

- Criteria: Beliefs, interests, preferences, aspirations, benefits sought.
- Popular Approaches: Benefit segmentation, lifestyle segmentation.

Behavioural Segmentation

- Approach: Searches for similarities in actual or reported behaviour.
- Possible Behaviours: Prior experience, purchase frequency, amount spent, information search behaviour.
- Advantages:
 - Uses actual behaviour as the basis for segment extraction.
 - Groups people by the most relevant similarities.
 - Avoids the need for developing valid measures for psychological constructs.
- Disadvantages:
 - Behavioural data may not always be available.
 - Difficult to include potential customers who have not previously purchased the product.

Data from Survey Studies

- Common Approach: Most market segmentation analyses are based on survey data.
- Advantages:
 - Cheap and easy to collect.
 - Feasible for any organization.
- Disadvantages:
 - Can be contaminated by biases.
 - Biases can negatively affect the quality of segmentation analysis.

Choice of Variables

- Importance: Critical to the quality of market segmentation solutions.
- Data-Driven Segmentation:
 - Include all relevant variables.
 - Avoid unnecessary variables to prevent respondent fatigue and lower quality responses.
 - Unnecessary variables increase dimensionality without adding relevant information.
 - Noisy or masking variables can prevent correct segmentation solutions.

Response Options

- Impact on Data: Determines the scale of data available for analysis.
- **Binary/Dichotomous Data:**
 - Generated by options allowing only two responses.
 - Represented by 0s and 1s.
 - Clear distance between 0 and 1, suitable for segmentation analysis.
- **Nominal Variables:**
 - Generated by options allowing selection from unordered categories.
 - Can be transformed into binary data.
- **Metric Data:**
 - Generated by options allowing respondents to indicate a number.
 - Suitable for any statistical procedure, including distance measurement.
- **Ordinal Data:**
 - Generated by options with ordered answer choices (e.g., agreement scales).
 - Distance between options is not clearly defined, complicating distance measures.
- **Preferred Response Options:**
 - Metric or binary options are preferable for segmentation analysis.
 - Prevent complications related to distance measures.
- **Visual Analogue Scales:**
 - Allow respondents to indicate a position along a continuous line.
 - Data can be assumed to be metric.
 - Popular in online surveys, often referred to as slider scales.
- **Binary Response Options:**
 - Often outperform ordinal options.
 - Effective when formulated in a level-free way.

Response Styles

- Response Bias: Systematic tendency to respond based on factors other than item content.
- Response Style: Consistent bias over time, independent of survey questions.
- **Impact on Segmentation:**
 - Algorithms can't differentiate between true beliefs and response styles.
 - Can lead to misinterpretation of market segments.
- Example: High agreement with all vacation spending items could indicate a high-spending segment or just a response style.
- **Mitigation:**
 - Minimize risk of capturing response styles during data collection.
 - Conduct additional analyses to exclude response style influence.
 - Remove respondents with strong response styles before targeting segments.

Sample Size

- Importance: Critical for accurate market segmentation analysis.
- **Challenges:**
 - Insufficient sample size makes it difficult to determine the correct number of segments.
 - Even simple segmentation problems require adequate sample sizes.

Data from Internal Sources

- Availability: Organizations have access to substantial internal data (e.g., scanner data, booking data, online purchase data).
- **Advantages:**
 - Represents actual consumer behaviour.
 - Automatically generated, requiring no extra effort if stored properly.
- **Challenges:**
 - May be biased by over-representing existing customers.
 - Lacks information about potential future customers who may differ from current ones.

Data from Experimental Studies

- Sources: Field or laboratory experiments, including tests on advertisement responses, choice experiments, and conjoint analyses.
- **Purpose:**
 - Present consumers with stimuli of specific product attributes.
 - Determine preferences based on different combinations of attribute levels.
- **Outcome:**
 - Provides information on how each attribute and level affects choice.
 - Can be used as a segmentation criterion.