

Notes on steps 1,2,3,4,8,9

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Step 1: Deciding (not) to Segment

- Market segmentation needs long-term commitment from the company. It is not a short-term strategy.
- Doing segmentation is expensive. It includes costs for surveys, research, ads, and designing different products.
- A company should only do segmentation if the expected profit is more than the cost of doing it.
- It may require creating new products or changing existing ones to match the needs of different customer groups.
- The company might need to change its internal setup to focus on market segments instead of just products.
- The decision to go for market segmentation should be taken by top-level executives and shared clearly with all departments.
- Lack of support from top management is a big reason why segmentation plans fail.
- If the company does not give enough money or time for segmentation, it won't work well.
- If the company culture is not open to new ideas or customer needs, segmentation will be hard to apply.

Step 2: Specifying the Ideal Target Segment

- User input is needed not just at the start or end, but throughout the market segmentation process for it to be useful.
- After deciding to explore segmentation, the company must actively help with the analysis by giving ideas and setting clear criteria.
- The company needs to define two types of criteria: knock-out criteria (must-have features) and attractiveness criteria (nice-to-have features).
- Knock-out criteria remove segments that don't meet basic needs like being measurable, reachable, or large enough.
- Attractiveness criteria help compare the remaining segments and find out which ones are more suitable for targeting.

- Literature often mixes these two types of criteria, but the process works better if they are kept separate.
- Some examples of knock-out criteria are: segments must be similar inside, different from others, large enough, fit company strengths, and be easy to identify and reach.
- These basic knock-out criteria are strict and cannot be changed or ignored by the team.
- Attractiveness criteria are not strict; segments are scored based on how well they match each factor, like profit potential or market growth.
- These criteria vary by company and situation, so the team must choose and prioritize which ones to use.
- A popular method for judging segments is using a segment evaluation plot that compares segment attractiveness with company strength.
- Since segments aren't ready in Step 2, selecting the criteria early helps gather the right data and makes the final decision easier later.
- Choosing these criteria should be done by a team, then discussed and possibly revised with an advisory committee of people from different departments.
- Getting input from all departments is helpful because each one has a unique view, and the strategy will impact them all.
- Finally, about six attractiveness criteria should be selected, and the team should give each a weight (using a 100-point system) to show how important each is.

Step 3: Collecting Data

- Segmentation uses empirical data to divide a market into meaningful consumer groups.
- A **segmentation variable** splits consumers into groups (e.g., gender, age, behavior).
- A **descriptor variable** helps describe each segment in detail (e.g., vacation frequency, benefits sought).
- Commonsense segmentation usually uses one variable, while data-driven segmentation uses multiple.
- Data-driven segmentation aims to find naturally occurring or strategically useful customer segments.
- Describing segments allows marketers to design targeted strategies for product, price, promotion, and place.
- High-quality data is essential for accurately segmenting and describing consumers.
- Better data quality leads to better product offerings, pricing, communication, and distribution strategies.
- Empirical data sources include surveys, behavioral observations (e.g., loyalty cards), and experiments.
- Surveys may suffer from social desirability bias, especially for sensitive topics like vacation behavior.
- Segmentation variables are individual measurable values (like age), while segmentation criteria are broader concepts (like psychographics).
- Deciding on segmentation criteria is the first step in building useful market segments.
- Geographic segmentation uses consumer location to divide markets, which is easy to implement and target.
- Geographic segments can be based on regions, countries, or cities, often aligning with language or cultural differences.
- Socio-demographic segmentation includes age, gender, income, education, and occupation, which are easy to collect.
- Though easy to measure, socio-demographics often don't explain much about actual behavior (typically under 5% variance).
- Psychographic segmentation looks at values, attitudes, interests, lifestyles, and aspirations of consumers.
- It helps understand why consumers behave a certain way, though it's more difficult to measure and implement.
- Behavioural segmentation focuses on past behavior like purchases, brand choices, or product usage.

- Actual behavioral data provides the strongest segmentation, though it may miss potential future customers.

Step4: Exploring Data

- Exploratory data analysis helps clean and understand the data, making it easier to choose the right segmentation method.
- The data used is from 1000 Australians, who answered questions about 20 travel motives related to their last vacation.
- The dataset is loaded into R using `read.csv`, and care is taken to keep the original column names unchanged.
- The dataset has 32 columns, including demographic details like Gender, Age, and Income, along with travel-related motives.
- A quick summary shows that the dataset includes 488 females and 512 males, with ages ranging from 18 to 105.
- Two income variables exist: one detailed (`Income`) and one simplified (`Income2`), but both have 66 missing entries.
- Data cleaning involves checking for errors like out-of-range values (e.g., age above 110) and ensuring labels are consistent.
- Categorical data, like `Income2`, needs to be reordered manually because R reads them in alphabetical order by default.
- The reordering is verified using a cross-tabulation, which confirms that each original value maps correctly to the new one.
- All data cleaning steps are done with code for full reproducibility, making future updates or replications easy and reliable.
- R provides numeric and visual tools like `summary()`, histograms, and boxplots to explore and understand data, showing distributions, central values, and potential outliers.
- Histograms reveal the shape of numeric distributions and allow control over bin sizes; finer bins can show patterns like bimodal age distributions among tourists.
- Boxplots summarize data using quartiles and highlight outliers; R limits whisker length to reduce outlier distortion, making the plots more interpretable.
- For categorical variables, bar plots and mosaic plots help visualize frequencies and associations; dot charts are used to compare percentages across categories.
- A dot chart of travel motives shows wide variation in what tourists value, supporting segmentation—most care about rest and relaxation, while few prioritize creativity.
- Categorical variables are the variables that are divided into categories like yes or no, 1 or 0

- Numerical variables are the variables that are continuous values

Step 8: Selecting the target Segments

- Step 8 is the stage where the organization decides which market segments to target, making it a crucial long-term decision.
- Segments considered in this step should already have passed the knock-out criteria, such as being large, distinct, reachable, and relevant to the organization's offerings.
- It's still important to double-check knock-out criteria at this step to ensure only viable segments are being evaluated.
- The two main questions to answer are: which segment does the organization want to target, and which segment is likely to choose the organization over competitors.
- A decision matrix is commonly used to evaluate and compare segments based on their attractiveness and the organization's competitiveness.
- Segment attractiveness refers to how desirable the segment is to the organization, while competitiveness refers to how appealing the organization is to that segment.
- Segments are plotted on a graph with attractiveness on the x-axis and competitiveness on the y-axis, and the size of each circle can represent other factors like potential revenue.
- Segment attractiveness is calculated by assigning scores to each segment based on defined criteria and multiplying these by their respective weights.
- The same process is used to assess organizational competitiveness by evaluating how well the organization meets the needs of each segment.
- The best target segments are those with high scores in both attractiveness and competitiveness, typically found in the upper-right area of the decision matrix.

Step 9: Customising the Marketing Mix

- The marketing mix originally included 12 elements (e.g., product planning, pricing, advertising), but is now commonly simplified to the 4Ps: Product, Price, Place, and Promotion.
- Market segmentation is not a standalone strategy; it is part of the broader STP (Segmentation, Targeting, Positioning) framework, where each stage informs the next.
- The marketing mix must be customized based on the chosen target segment, integrating with competition and positioning strategies.

- Product decisions may involve creating new offerings or modifying existing ones to match the needs and preferences of the target segment.
- Price decisions include setting prices and discount strategies, which must align with the target segment's spending behavior and willingness to pay.
- Place decisions involve selecting distribution channels suited to how the target segment prefers to access products or services.
- Promotion strategies should be tailored to appeal to the target segment, using relevant messages and media channels.
- Segmentation can also be done with a specific "P" in mind, like using price sensitivity for pricing or psychographics for advertising.
- An example of a product tailored for Segment 3 tourists (interested in museums and culture) is the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" pass.
- Segment 3 tourists were found to spend more per day, indicating that premium pricing can be used, rather than offering discounts, to maximize revenue.
- Segment 3 tourists prefer booking accommodation online more than the average tourist.
- The product must be made available through online booking channels to match Segment 3's preferences.
- Multiple booking methods are used by Segment 3, including phone, travel agents, and at the destination, but internet use is dominant.
- Booking behavior insights can guide the selection of distribution channels for the product.
- Additional data should be collected on how Segment 3 books other services to refine distribution strategies.
- Segment 3 relies heavily on tourist information centres when choosing destinations.
- Promotional materials should be available both physically at tourist centres and online via their websites.
- Segment 3 tourists show a strong preference for TV Channel 7.
- Advertising campaigns should prioritize Channel 7 for higher engagement with Segment 3.
- Media and distribution strategies should be customized using segment-specific insights to improve reach and effectiveness.

