

Step 8: Selecting the Target Segment(s)

8.1 The Targeting Decision

In Step 8 of the marketing process, the critical decision of selecting the market segment to target takes center stage. Market segmentation, a strategic marketing tool, involves choosing one or more target segments, which is a long-term decision that significantly impacts the organization's future performance. It's akin to moving from the flirtatious and exploratory phase to making a committed choice, like buying a ring, proposing, and entering into a serious relationship.

After a global market segmentation solution is determined in Step 5, various segments are available for detailed analysis in Steps 6 and 7. In Step 8, the task is to choose one or more of these market segments for targeting. This decision builds upon the criteria established in Step 2, including knockout criteria that eliminate unsuitable segments.

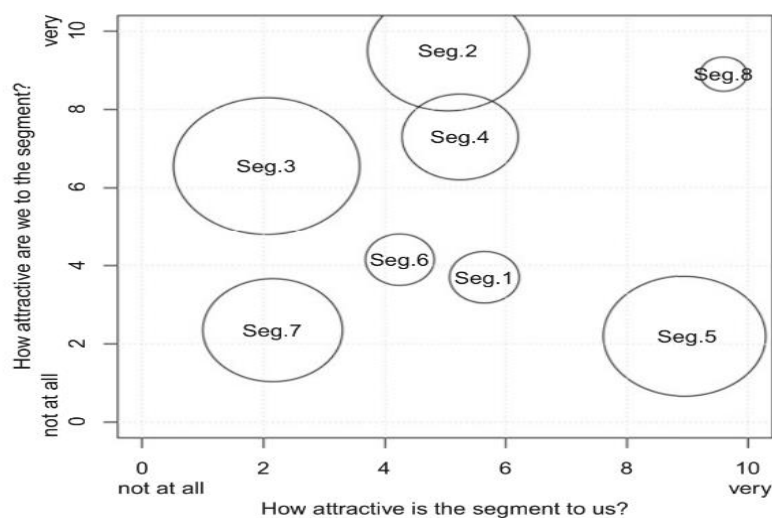
Ideally, the knockout criteria have already been applied in previous steps, ensuring that the remaining segments meet essential requirements. However, it's wise to double-check. The first task in Step 8 is to confirm that all potential target segments meet the knockout criteria.

Once this is established, the focus shifts to evaluating the attractiveness of the remaining segments and the organization's competitive advantage in each. The segmentation team must consider two key questions: 1) Which segment aligns best with the organization's goals and values? 2) How likely is it that customers in each segment would choose the organization's offerings over competitors? These considerations form the foundation for the final target segment decision.

8.2 Market Segment Evaluation

In the context of market segment evaluation, various decision matrices are commonly recommended to visualize the relative attractiveness of market segments and the organization's competitiveness within them. These matrices go by different names, including the Boston matrix, General Electric/McKinsey matrix, directional policy matrix, McDonald four-box directional policy matrix, and market attractiveness-business strength matrix. Their purpose is to facilitate the evaluation of alternative market segments, aiding in the selection of one or a few for targeting.

These decision matrices typically involve two key criteria plotted on the axes: segment attractiveness and relative organizational competitiveness specific to each segment. Segment attractiveness can be likened to the question of whether an organization would want to "marry" this segment among all available options, while relative organizational competitiveness is akin to whether the segment would choose to "marry" the organization.



To illustrate segment evaluation, a generic segment evaluation plot is used, labelling the axes as "How attractive is the segment to us?" and "How attractive are we to the segment?" Segments are represented as circles, with circle size often reflecting additional criteria like contribution to turnover or loyalty.

The specific measures of segment attractiveness and relative organizational competitiveness can vary based on the organization's preferences, which should be defined in Step 2 of the market segmentation analysis. In Step 8, these criteria are crucial, but the exact values for each segment's attractiveness criteria are determined through grouping, profiling, and description in Steps 6 and 7. These values are calculated by multiplying the weight assigned to each attractiveness criterion with the value assigned to each segment for that criterion. This process results in weighted values for each criterion and segment, representing their overall attractiveness.

A similar process is followed for assessing relative organizational competitiveness. The choice of criteria for this assessment depends on what consumers use to select between alternative offers in the market, which may include product attractiveness, pricing, distribution channels, brand awareness, and image.

Additionally, bubble size on the evaluation plot is often used to represent profit potential or other relevant factors. This information serves as a basis for discussions within the segmentation team, helping to identify the most suitable target segments based on their attractiveness and profitability.

To create such a plot in R, we can use the "MSA" library and specific commands for plotting the decision matrix, customizing it to your organization's criteria and priorities.

Step 9: Customising the Marketing Mix

9.1 Implications for Marketing Mix Decisions

Marketing has historically been viewed as a toolbox for enhancing product sales, where marketers blend various elements to achieve optimal results. Early marketing concepts introduced the idea of 12 ingredients in this toolbox, including product planning, packaging, distribution channels, pricing, personal selling, and advertising. Over time, the marketing mix concept has evolved, with the widely accepted 4Ps model featuring Product, Price, Promotion, and Place (McCarthy 1960).

Market segmentation is not an isolated marketing strategy but rather aligns with other strategic aspects, especially positioning and competition. It is often considered part of the segmentation-targeting-positioning (STP) approach, which involves a sequential process: market segmentation (segment extraction, profiling, and description), targeting (segment assessment and selection), and positioning (strategies to differentiate the product and meet segment needs).

While the STP approach suggests a linear progression, it is important not to rigidly adhere to this sequence. It may be necessary to revisit the segmentation and targeting stages before committing to specific target segments.



Figure illustrates how the target segment decision, integrated with competition and positioning considerations, influences the development of the marketing mix. The traditional 4Ps model (Product, Price, Place, and Promotion) serves as the foundation for this discussion. Each of these elements must be thoroughly evaluated once the target segment(s) is selected.

To maximize the benefits of a market segmentation strategy, customizing the marketing mix to the target segment is crucial. This customization may involve designing new products, adjusting pricing structures, selecting appropriate distribution channels, and creating communication messages and promotions that resonate with the chosen target segment.

Organizations also have the option to structure their entire market segmentation analysis around one of the 4Ps. For instance, if the analysis informs pricing decisions, variables like price sensitivity and deal proneness are relevant. If it guides advertising decisions, benefits sought and psychographic segmentation variables come into play. And if it informs distribution decisions, variables like store loyalty and store patronage are valuable.

Typically, market segmentation analysis isn't conducted solely for one of the 4Ps but rather to gain insights into the target segment, which then guides the organization in developing or adjusting the marketing mix to cater effectively to that segment.

9.2 Product

In the context of the product dimension within the marketing mix, organizations face crucial decisions regarding how to tailor their products to meet customer needs. This often involves modifying existing products rather than creating entirely new ones. Additionally, decisions related to the product dimension encompass naming the product, packaging it, deciding on warranties, and providing after-sales support services.

To illustrate how target segment selection influences product design or modification, consider the market segments derived from the Australian vacation activities dataset using biclustering, as depicted. Let's imagine a scenario where an organization is situated in a destination with a rich cultural heritage and has chosen to target segment 3.

Segment 3 members have distinctive preferences for vacation activities, such as visiting museums, monuments, and gardens, as well as enjoying scenic walks and exploring markets, which they share with some other market segments. They also exhibit typical tourist interests like relaxation, dining out, shopping, and sightseeing.

To cater to this target segment effectively, product measures may include the development of a new product. For instance, the organization could create a "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product accompanied by an activities pass. This product would help segment 3 members locate and access the activities they are interested in, streamlining their vacation planning process.

Another opportunity is to proactively promote the destination's gardens as a unique attraction, thereby appealing to the specific interests of this segment. This example demonstrates how product design or modification can be directly influenced by the characteristics and preferences of the chosen target segment.

9.3 Price

When considering the pricing aspect of the marketing mix, organizations face decisions such as determining the price for a product and deciding on discount strategies. To illustrate how these decisions can be influenced by target segment selection, we examine a scenario involving a destination aiming to market to segment 3, which emerged from a biclustering analysis of the Australian vacation activities dataset.

First, the bicluster solution obtained in the analysis is loaded to compare segment 3 members with tourists not in segment 3. A binary vector is constructed to represent segment membership for each consumer, using information from the bicluster solution.

```
R> data("ausActiv", package = "MSA")
R> cl12 <- rep(NA, nrow(ausActiv))
R> for (k in seq_along(bcn)) {
+   cl12[bcn[[k]]$Rows] <- k
+ }
```

The resulting segment membership vector contains numbers 1 to 12, corresponding to the 12 clusters extracted by biclustering, as well as missing values because not all consumers are assigned to a cluster. Based on this vector, a binary variable is created to indicate if a consumer is assigned to segment 3 or not.

```
R> table(cl12, exclude = NULL)

cl12
  1    2    3    4    5    6    7    8    9   10   11   12
50   57   67   73   61   83   52   65   51   53   80   60
<NA>
251
```

Additional consumer information is available in the data frame "ausActivDesc." A boxplot is generated to display the variable "SPEND PER PERSON PER DAY" split by membership in segment 3. The boxplot includes confidence intervals for median estimates, variable box widths reflecting group sizes, a logarithmic y-axis scale due to right-skewed data, and a specific label for the y-axis.

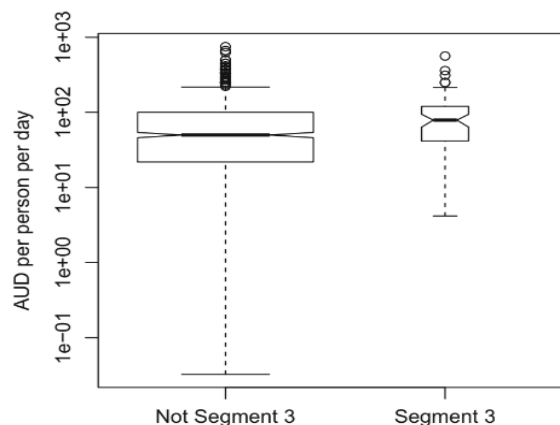


Figure presents the expenditures of segment 3 members on the right side and those of all other consumers on the left side. Segment 3 members exhibit higher vacation expenditures per person per day compared to other tourists. This information is valuable as it demonstrates how the pricing dimension can be leveraged in a targeted marketing approach.

In this context, the data in Figure suggests that the destination targeting segment 3 doesn't necessarily need to offer the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product at a discounted price. Instead, there may be potential to attach a premium price to this product, given the higher spending patterns of segment 3 members.

9.4 Place

In the context of the place dimension in the marketing mix, the key decision pertains to how the product is distributed to customers. This includes considerations such as whether the product should be available for purchase online, offline, or both, whether the manufacturer should sell directly to customers, or if wholesalers and retailers should be involved in the distribution process.

Using the example of segment 3 members and the destination with a rich cultural heritage, the survey used for market segmentation also gathered data on how respondents booked their accommodation during their last domestic holiday. This information is valuable for ensuring that the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product is accessible through the preferred distribution channels of segment 3 members.

The "propBarchart" function from the "flexclust" package is utilized to visualize stated booking behavior. This function is applied to the "ausActivDesc" data with specified arguments, including segment membership ("g = cl12.3") and columns related to booking behavior (selected using regular expressions).

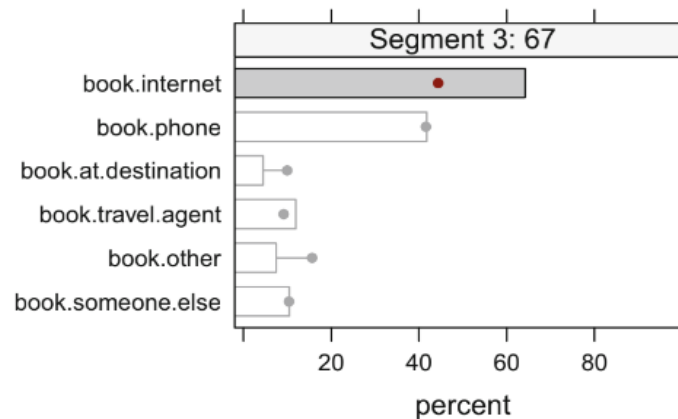


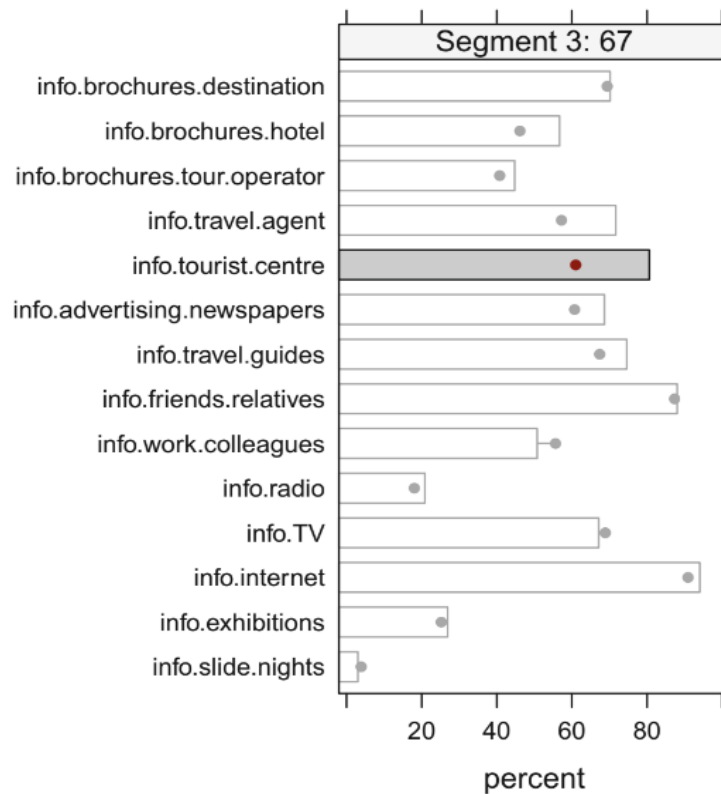
Figure highlights that segment 3 members differ from other tourists in terms of how they booked their hotel during their last domestic vacation. They tend to book hotels online more frequently than the average tourist. This insight has direct implications for the place dimension of the marketing mix, suggesting the necessity of providing an online booking option for hotels. Additionally, it may be beneficial to collect further information about how segment 3 members book other products, services, and activities to understand the extent of their online booking behavior beyond accommodations.

9.5 Promotion

In the context of the promotion dimension within the marketing mix, typical decisions revolve around crafting an advertising message that resonates with the target market and determining the most effective means of delivering this message. Other promotional tools include public relations, personal selling, and sponsorship.

Focusing on segment 3 once more, the goal is to identify the most effective information sources for reaching these members and informing them about the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product. This is accomplished by comparing their usage of information sources for their last domestic holiday and investigating their preferred TV stations.

A plot comparing the utilization of various information sources when choosing a destination for their last domestic holiday is generated. Members of segment 3 are found to rely more frequently on information provided by tourist centers compared to other tourists. This distinct preference suggests an opportunity to design the promotional component of the marketing mix by offering specific information packs about the product both in hard copy at local tourist information centers and online through the tourist information center's website.



Another insight is revealed through a mosaic plot depicting TV channel preferences. Segment 3 members show a preference for Channel 7, setting them apart from other tourists. This information can guide the destination in creating a media plan that maximizes exposure of segment 3 members to targeted communications, such as promoting the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product.

