McDonalds Case Study: https://github.com/Devam153/FeynnLabs-McDonalds-CaseStudy

Step 1: Deciding (not) to Segment

Implications of Committing to Market Segmentation

Market Segmentation is proved to be a key marketing strategy. However, in certain situations, it might not always be the best decision to pursue market segmentation.
Before diving into market segmentation analysis, it is imperative to lay out the implications of it as well. One key implication is commitment. Organisations must think of market segmentation as a long term project. The commitment to market segmentation goes hand in hand with the willingness and ability of the organisation to make substantial changes.

There are also costs required for performing research, fielding surveys, putting out advertisements, designing and communication channels. Thus, Segmenting a market is not free. One should only segment the market if and only if doing so comes with an expected increase in sales. Development of new products or modification of existing ones, changes in prices and distribution channels, and communication with the market are some potential changes required when pursuing market segmentation.
These changes are likely to influence the internal structure of the organisation.

It is recommended that in order to maximise the benefits, organisations need to organise around market segments instead of organising around products.
The decision of pursuing market segmentation must be made at the highest executive level due to the implications of such a long term commitment.

Implementation Barriers

There are a number of books on market segmentation focusing specifically on how it can be successfully implemented.
Barriers that impede a successful roll-out of market segmentation are -

1. Senior Management-

Lack of leadership, commitment and involvement can undermine the success of market segmentation. It is virtually impossible to successfully implement segmentation in a meaningful way if the chief executive is not on board with it. Lack of resources provided by the senior management either for initial analysis or for long term implementation, can also prevent successful launch of market segmentation.

2. Organizational culture-

This includes lack of market or consumer orientation and creative thinking, resistance to change, bad communication and sharing information across channels, not inviting new ideas, only thinking short term and unwillingness to change.

3. Lack of Training-

If the team tasked do not really understand the foundations of segmentation, or are unaware of the consequences, their attempt to introduce market segmentation will be more likely to fail. Closely linked to it is the lack of a formal marketing function or a qualified marketing expert. The higher the market diversity and larger the organization, the more important is a high degree of formalization. Lack of a qualified data manager or analyst can also prove to be difficult.

4. Restrictions faced-

Lack of financial resources, inability to make changes are some restrictions faced by an organization. Therefore, a company with limited resources must only pick the best opportunities.

5. Process based barriers-

These include not having clear objectives, lack of planning and a structured process to guide the team through the steps of market segmentation, lack of allocation of responsibilities and time pressure.

To make market segmentation analysis easy to understand and present results in a way that facilitates interpretation,using graphical visualizations can be of great help.
Most of the above barriers can be identified and then proactively removed. If not, then the objective of an organization to pursue market segmentation must be questioned. A resolute sense of purpose and dedication, tempered by patience and a willingness to appreciate the inevitable problems is required if going ahead with market segmentation analysis.

Step 2: Specifying the Ideal Target Segment

Segment Evaluation Criteria

The third layer of market segmentation analysis (illustrated in Fig. 2.1) depends primarily on user input. User input is an important factor when analysing market segments and it needs to be involved in most stages, rather than just the initial phases.
In this step, the organisation must evaluate 2 sets of segment evaluation criteria. They are-

1. Knock-Out Criteria-

These criteria are the essential, non-negotiable features of segments that the organisation would consider targeting. They are used to determine if a market segment is qualified to be accessed further using the attractiveness criteria. This includes substantiality, measurability and accessibility of the segment. Some additional criteria that fall into the knock out criteria include-

- The segment must be homogeneous.
- The segment must be distinct.
- The segment must be large enough.
- The segment must be matching the strengths of the organization.
- Members of the segment must be identifiable.
- The segment must be reachable.

The knock-out criteria must be understood by senior management, the segmentation team as well as the advisory committee.

2. Attractiveness Criteria-

These criteria are used to evaluate the relative attractiveness of the remaining market segments – those in compliance with the knock-out criteria. Attractiveness criteria are not binary in nature. Segments are not assessed as either complying or not complying. Rather, each market segment is rated with respect to a specific criterion. The attractiveness across all criteria determines where a market segment is selected as a target in the further steps.

Implementing a Structured Process-

Following a structured process when accessing market segments has proved to be beneficial. For evaluating market segments, a segment evaluation plot can be useful, where segment attractiveness is along one axis, and organizational competitiveness along the other. Their values are determined by the segmentation team as there is no standard criteria set that can be used by all organizations.

Factors which constitute both segment attractiveness and organizational competitiveness need to be negotiated and agreed upon at first. This can be done by investing a large number of possible criteria and finding out which is the most important and suitable. It is recommended to use less than 6 factores as the basis for calculating these criteria.

Effective market segmentation requires a collaborative approach involving a core team and an advisory committee representing diverse organizational units.

By identifying and prioritizing segment attractiveness criteria upfront, the process becomes more efficient and ensures data collection aligns with organizational goals.
The core team, composed of two to three members, proposes an initial segmentation solution, which is then refined through discussions with the advisory committee.
This inclusive approach guarantees that the final segmentation strategy considers various perspectives and is widely accepted within the organization.

Step 3: Collecting Data

Segmentation Variables

Empirical data forms the basis of both commonsense and data-driven market segmentation and is used to identify and create market segments.
Segmentation variable refers to the variable in empirical data used in commonsense segmentation to split the sample into market segments such as gender. Other characteristics, such as age, vacation habits, and desired vacation benefits, are descriptor variables used to detail these segments, helping to develop effective marketing strategies.

In contrast, data-driven segmentation uses multiple variables to identify or create segments. The quality of empirical data is crucial for accurate segmentation and description. This ensures effective product development, pricing, distribution, and communication strategies. High-quality data is also vital for both commonsense and data-driven segmentation.

Data for segmentation studies can come from surveys, observations, or experiments. Ideally, it should reflect actual consumer behavior. However, surveys, although common, can be unreliable, especially for socially desirable behaviors like charity donations or eco-friendly actions. Thus, exploring various data sources is recommended and to prioritize those that best reflect true consumer behavior.

Segmentation criteria

Before extracting segments and collecting data, organizations must choose a segmentation criterion. Unlike segmentation variable, which refers to a specific measured value, a segmentation criterion is the type of information used for segmentation, such as geographic, sociodemographic, psychographic, or behavioral factors.

Selecting the right criterion requires market knowledge and can't be easily outsourced. With many criteria available, the best choice can be unclear. It is noted the lack of clear guidelines, but the simplest approach is often best. Use demographic or geographic segmentation if it suits your product or service. The most sophisticated method isn't always better; what matters is what works at the least cost.

Geographic Segmentation

Geographic segmentation, one of the earliest methods, uses consumer location as the sole basis for forming market segments.

Advantages:

- Easy to assign consumers to geographic units.
- Simplifies targeting and using local communication channels e.g, newspapers, radio, TV.

Disadvantages:

- Shared location doesn’t ensure shared characteristics or product preferences.
- Geographic segments may not reflect diverse consumer needs within the same area.

Despite limitations, geographic segmentation is gaining renewed interest in international market studies, which aim to identify segments across regions while addressing challenges like cultural biases in surveys.

Socio-Demographic Segmentation

Socio-demographic segmentation uses criteria such as age, gender, income, and education. This method is useful in industries like luxury goods (high income), cosmetics(gender-specific), baby products, retirement villages (age), and tourism resorts (families with children).

Advantages:

- Easy to determine segment membership.
- Sometimes explains product preferences for e.g., families preferring family vacation spots.

Disadvantages:

- Often doesn't explain product preferences; socio-demographic traits may not correlate strongly with consumer behavior.

Psychographic Segmentation

Psychographic segmentation groups people by psychological criteria such as beliefs, interests, and benefits sought. It includes benefit segmentation and lifestyle segmentation, based on activities, opinions, and interests.

Advantages:

- Reflects underlying reasons for consumer behavior.
- Commonly used in tourism to segment by travel motives.

Disadvantages:

- More complex to determine segment memberships.
- Depends heavily on the reliability and validity of empirical measures.

Behavioral Segmentation

Behavioral segmentation focuses on actual or reported behaviors, such as product use, purchase frequency, and spending habits. It directly groups consumers by relevant behavior.

Advantages:

- Uses actual behavior, providing a clear basis for segment extraction.
- Avoids the need for psychological measure development.

Disadvantages:

- Behavioral data may not always be available, especially for potential customers.

Choice of Variables

Choosing the right variables is critical. In data-driven segmentation, all relevant variables must be included, while unnecessary ones should be avoided to prevent respondent fatigue and to keep the segmentation problem manageable. Unnecessary variables can lead to noisy or masking variables, which hinder the identification of optimal segments.

Response Options

The response options in surveys determine the scale of the data and affect subsequent analyses. Here are the types of data scales:

1. *Binary (Dichotomous) Data:* Respondents choose between two options (e.g., yes/no), resulting in clearly defined distances between responses. Suitable for segmentation analysis.
2. *Nominal Data:* Respondents select from unordered categories (e.g., occupation). These can be converted to binary variables.
3. *Metric Data:* Respondents provide numerical values (e.g., age), allowing for any statistical procedure. Ideal for segmentation analysis.
4. *Ordinal Data*: Respondents rank their answers on a scale (e.g., agreement levels). Distances between options are not clearly defined, complicating distance measurement.

Binary or metric response options are preferred to avoid complications in segmentation analysis. For fine nuances, visual analogue scales (slider scales) can be used, assuming metric data.

Response Style

Survey data is prone to biases, such as:

- *Extreme Responses:* Tendency to choose strong agreement/disagreement.
- *Midpoint Responses*: Preference for neutral options.
- *Acquiescence Bias:* Tendency to agree with all statements.

Response styles can distort segmentation results, making it crucial to minimize biases during data collection. If biases are detected, additional analyses are required to ensure accurate segmentation.

Data from Internal Sources

Internal data, like scanner data from grocery stores or booking data from loyalty programs, reflects actual consumer behavior and is readily available. However, it may over-represent existing customers, missing potential new customers.

Data from Experimental Studies

Experimental data from field or lab experiments, such as responses to advertisements or conjoint analysis, can be used for segmentation. These studies provide insights into how specific attributes influence consumer choices, offering valuable segmentation criteria.

Step 8: Selecting the Target Segment(s)

The Targeting Decision

In Step 8, one or more of those market segments need to be selected for targeting.
Here, the all important question is asked:
Which of the many possible market segments will be selected for targeting?
The answer to this question will significantly affect the future performance of the organisation as the selection of one or more market segments is a long term decision. All the market segments under consideration in this step should already comply with the knock out criteria as mentioned in step 2.
After that the attractiveness of the remaining segments and the relative competitiveness for these segments needs to be evaluated.

In other words, the segmentation team has to ask a number of questions which fall into two broad categories:

1. Which of the market segments would the organisation most like to target? Which segment would the organisation like to commit to?
2. Which of the organisations offering the same product would each of the segments most like to buy from? How likely is it that our organisation would be chosen? How likely is it that each segment would commit to us?

Answering these two questions forms the basis of the target segment decision.

Market Segment Evaluation

to visualise relative segment attractiveness and relative organisational competitiveness for each market segment, a decision matrix is used.Many various decision matrices have been proposed over the year such as Boston Matrix, General electric/McKinsey matrix, directional policy matrix, and market attractiveness-business strength matrix. The aim of all these decision matrices along with their visualisations is to make it easier for the organisation to evaluate alternative market segments, and select one or a small number for targeting. Then it is up to the market segmentation team to decide which variation of decision matrix is best for them.

In a decision matrix, 2 criteria are used along the 2 axis: segment attractiveness (x-axis), and relative organisational competitiveness (y-axis).
segment attractiveness asks the question: How attractive is the segment to us?
relative organisational competitiveness. Asks the question: How attractive are we (the organisation) to the segment? And Which criteria do consumers use to select between alternative offers in the market?

The result of the graph is a weighted value for each segment attractiveness criterion for each segment. Those values are added up, and represent a segment's overall attractiveness.
Each segment is given a rating from 1 to 10 with 1 representing the worst and 10 representing the best value. Next ,the rating is multiplied with the weight, and all weighted attractiveness values are added.
Segments appear as circles. The size of the circles in the evaluation plot typically represents profit potential, which combines segment size and spending.

There is no single best measure of segment attractiveness or relative organisational competitiveness. It is therefore necessary for users to return to their specifications of what an ideal target segment looks like for them.
Segments with high profit potential but low attractiveness to the organization might be reconsidered.

Segments that are highly attractive to the organization and have decent profit potential could be prioritized, even if the segment's attractiveness to the organization isn't as high.

Step 9: Customising the Marketing Mix

Implications for Marketing Mix Decisions

Marketing was originally seen as a toolbox to assist in selling products.
It is mentioned that in the early days of marketing, the marketers had 12 ingredients at their disposal which include product planning, handling, distribution channels, pricing, advertising, servicing, analysis, etc. The marketing mix is understood to consist of only 4Ps: Product, Price, Promotion and Place.

Market segmentation is not a standalone marketing strategy; it is closely integrated with positioning and competition within strategic marketing. This integration is often described by the segmentation-targeting-positioning (STP) approach where-

1. *Segmentation:* Identifying, profiling, and describing distinct market segments.
2. *Targeting:* Assessing these segments and selecting one or more to focus on.
3. *Positioning:* Implementing measures to ensure the product is perceived as uniquely different from competitors' offerings and aligns with the needs of the chosen segments.

In the STP approach, Viewing market segmentation is useful at first since it ensures that segmentation is not seen as independent from other strategic decisions
One does not have to adhere strictly to the STP approach. We can move backward and forward as needed.

To best ensure maximising the benefits of a market segmentation strategy, it is important to customise the marketing mix to the target segment.
The selection of one or more specific target segments may require the following-

1. *Product:* Designing new products or modifying/rebranding existing ones.
2. *Price:* Adjusting pricing strategies or discount structures.
3. *Place:* Choosing appropriate distribution channels.
4. *Promotion:* Developing new communication messages and promotion strategies to appeal to the target segment.

An organisation may focus to structure their entire market segmentation analysis around one of the 4Ps. This affects the choice of segmentation variables.
In lieu of advertising decisions, benefits sought, lifestyle segmentation variables, and psychographic segmentation variables are particularly useful.

Similarly for the purpose of informing distribution decisions, store loyalty, store patronage, and benefits sought when selecting a store may represent valuable segmentation variables.

Product

The organisation has to make sure to develop a product in view of the customer needs. Often implies modifying an existing product rather than creating a whole new one. Other decisions that fall under product dimension include product naming, packaging, related warranties, and after sales support services.

Price

Typical decisions that fall under price dimensions include setting the price for a product, and deciding on discounts to be offered.

Place

The key decision relating to the place dimension of the marketing mix is how to distribute the product to the customers. This includes answering questions such as: should the product be made available for purchase online or offline only or both? ; should the manufacturer sell directly to customers ?; or should a wholesaler or a retailer or both be used ?

Promotion

Typical promotion decisions include: developing an advertising message that will resonate with the target market, and identifying the most effective way of communicating this message. Other tools in the promotion category of the marketing mix include public relations, personal selling, and sponsorship.