Market Segmentation

1.1 Strategic and Tactical Marketing

Strategic and tactical marketing play important roles in market segmentation. Let's first understand what market segmentation is, Market segmentation is the process of dividing a broad market into smaller, more manageable segments based on similar characteristics, needs, or behaviours of potential customers. By segmenting the market, businesses can better understand their customers, tailor their marketing efforts, and achieve higher levels of customer satisfaction and profitability.

Now, let's delve into the concepts of strategic and tactical marketing in the context of market segmentation:

Strategic Marketing:

Strategic marketing involves long-term planning and decision-making that sets the overall direction for a company's marketing activities. In the context of market segmentation, strategic marketing focuses on the following aspects:

•Target Market Selection: Strategic marketing involves selecting the most attractive market segments that align with the company's overall objectives, resources, and competitive advantages. This includes analyzing various segments based on factors such as size, growth potential, profitability, and compatibility with the company's capabilities.

•Positioning: Once the target segments are identified, strategic marketing determines how the company wants to position its products or services within each segment. Positioning involves creating a unique and favorable perception of the company's offerings compared to competitors, emphasizing the value proposition and key benefits that resonate with the specific needs and preferences of the target segment.

Resource Allocation: Strategic marketing also involves allocating resources effectively to reach and serve the chosen market segments. This includes decisions related to budget allocation, marketing channels, and resource allocation across different segments based on their strategic importance.

Tactical Marketing:

Tactical marketing focuses on the implementation of specific marketing initiatives to reach and engage with the target market segments. It involves executing the strategies formulated during the strategic planning process. In the context of market segmentation, tactical marketing entails:

•Message Customization: Each market segment has unique characteristics and needs. Tactical marketing involves tailoring marketing messages, content, and communication channels to effectively resonate with the specific segment. This customization ensures that the marketing efforts are relevant, compelling, and targeted to the segment's preferences and interests.

•Channel Selection: Tactical marketing involves selecting the appropriate marketing channels to reach the target segments. This could include traditional advertising, digital marketing, social media, direct mail, or a combination of multiple channels. The choice of channels should consider the segment's media consumption habits, preferred communication channels, and overall marketing objectives.

•Campaign Execution: Tactical marketing focuses on executing marketing campaigns, which include activities such as advertising, promotions, content creation, events, and public relations. These campaigns are designed to engage with the target segments, generate leads, drive sales, and build brand awareness and loyalty.

Performance Measurement: Tactical marketing also involves monitoring and measuring the performance of marketing initiatives to evaluate their effectiveness and make data-driven adjustments. Key performance indicators (KPIs) such as customer acquisition, conversion rates, customer satisfaction, and ROI are tracked to assess the success of the tactics and optimize future marketing efforts.

Step 1 Deciding (not) to Segment

Market segmentation is a powerful marketing strategy that is widely used by organizations. However, before deciding to pursue market segmentation, it is crucial to understand the implications and potential barriers associated with this strategy.

Step 2 SPECIFYING THE IDEAL TARGET SEGMENT

Knock-out criteria:

If market segments identified by the market segmentation analysis meet the requirements to be evaluated using segment attractiveness criteria, the segments are knocked out.

• The segment must be uniform; its participants must be comparable to one another.

• The segment must be distinct, and its members must be clearly distinguishable from those of other segments.

• For it to be worthwhile to invest extra money tailoring the marketing mix for them, the segment must be big enough and contain enough people.

• The segment must complement the organization's strengths, and the organization must be able to meet the needs of segment participants.

• The segment's participants must be recognisable and visible in the marketplace.

• To make the segment accessible to them with the customised marketing mix, the segment must be approachable; members of the segment must be contactable.

Attractiveness Criteria:

The definitions of attractiveness are not absolutes. Segments are not evaluated as meeting or not meeting beauty criteria. Each market segment is instead given a rating; depending on a particular criterion, it may be attractive. In Step 8 of the market segmentation study, a market segment is chosen as a target segment based on its attractiveness across all criteria.

Implementing a Structured Process

The segmentation literature generally agrees that it is advantageous to use a structured procedure when evaluating market segments. Examine each of the relevant factors for determining a market segment's attractiveness. Together, the segmentation team members should decide

on a subset of no more than six criteria after discussing the criteria. Each segment attractiveness criterion should receive 100 points, as determined by the segmentation team. Distribute them such that each beauty criterion is given weights that represent them relative relevance. Decide on a weighting after discussing weightings with the other segmentation team members. Present the advisory committee with the chosen segment attractiveness criteria and the proposed weights allocated to each of them for debate and (if necessary) revision.

Step 3 Collecting Data

Data collection is a critical process in market segmentation that involves gathering relevant information about potential customers and the market. It serves as the foundation for identifying distinct customer segments and understanding their unique characteristics. The data collection process typically involves multiple methods and sources to ensure comprehensive and accurate information.

One common approach to data collection is primary research, which involves collecting data directly from the target market through surveys, interviews, focus groups, or observations. This allows businesses to obtain specific and tailored information about customer preferences, needs, behaviours, and demographics. Primary research provides firsthand insights and can be customized to address specific research objectives.

Secondary research is another important data collection method. It involves gathering existing data from various sources such as industry reports, government publications, market studies, and academic research. Secondary research provides a broader perspective on the market, industry trends, and customer segments. It helps to validate and supplement the findings from primary research and provides a benchmark for comparison.

To ensure data quality and reliability, it is crucial to establish proper data collection protocols and methodologies. This includes developing clear research objectives, designing well-structured questionnaires or interview guides, employing appropriate sampling techniques, and ensuring data privacy and ethical considerations.

Step 7 Describing Segments

7.1 Developing a Complete Picture of Market Segments:

1.Segment Profiling: Segment profiling involves understanding the differences in segmentation variables across market segments. These variables are chosen during the early stages of market segmentation analysis, both conceptually and empirically. They form the basis for extracting market segments from data. The goal of segment profiling is to investigate the variations in segmentation variables among different segments and gain a deeper understanding of their characteristics.

2.Segment Description: Segment description, which is like segment profiling, focuses on providing additional information about market segments using variables that were not used for extracting the segments. This additional information can include demographic, psychographic, socio-economic variables, media exposure, and specific product and brand attitudes or evaluations. Describing market segments helps to create a comprehensive picture of each segment and facilitates the development of a customized marketing mix.

3.Importance of Market Segment Descriptions: Detailed market segment descriptions are crucial for gaining insights into the nature of segments and developing a customized marketing strategy. By understanding the unique characteristics of each segment, marketers can tailor their messaging, communication channels, and offerings to effectively reach and engage with the target audience. Descriptions of market segments also help identify specific opportunities and challenges associated with each segment, allowing for more informed decision-making.

7.2 Using Vizualisations to Describe Market Segments:

Visualizations play a vital role in describing market segments as they simplify the interpretation of results for both analysts and users. They provide a graphical representation of differences in descriptor variables and

can integrate information on the statistical significance of these differences. Visualizations not only enhance the understanding of market segment characteristics but also help avoid over-interpretation of insignificant differences. Graphical displays are often preferred by marketing managers for their intuitive and efficient presentation of research results.

7.2.1 Nominal and Ordinal Descriptor Variables:

When describing differences between market segments in nominal or ordinal descriptor variables (such as gender or level of education), cross-tabulation is a commonly used method. This involves creating a table that shows the distribution of segment membership across the descriptor variable categories. Visualizations, such as stacked bar charts or mosaic plots, can be used to represent these crosstabulations. They provide a clear view of segment sizes and allow for easy comparison of proportions across segments.

Benefits of Visualizing Nominal and Ordinal Descriptor Variables:

Visualizing nominal and ordinal descriptor variables help simplify the interpretation of results and enables a quick understanding of segment differences. It allows marketers to identify any distinct patterns or variations in segment characteristics, such as gender distribution, educational backgrounds, or country of origin. By visually representing these differences, marketers can make informed decisions about targeting specific segments and developing tailored marketing strategies to effectively engage with each segment's unique characteristics.

1. Gender Distribution Across Market Segments

2. Income Variation Among Market Segments

3.Association Between Travel Motives and Environmental Obligation

7.2.2 Metric Descriptor Variables

The R package lattice provides conditional plots for visualizing differences between market segments using metric descriptor variables. These plots allow for the comparison of segment profiles, such as age distribution or moral obligation scores, across different segments. Histograms and parallel box-and-whisker plots are commonly used for this purpose. However, assessing differences between segments solely

based on these plots can be challenging. To gain further insights, a parallel box-and-whisker plot is created for age by market segment. The median age is lower for segment 5 and higher for segment 6. Statistical testing can be applied to validate these visual observations. In a modified version of the parallel box-and-whisker plot, box widths can be made proportional to segment sizes, and 95% confidence intervals for medians can be included. Significant differences can be inferred if the notches for different segments do not overlap. Another visualization, the segment level stability across solutions (SLSA) plot, can trace the value of a metric descriptor variable over multiple segmentation solutions. These visualizations provide insights into segment differences and help guide further statistical analysis.

7.3 Testing for Segment Differences in Descriptor Variables:

Statistical tests can be used to formally test for differences in descriptor variables across market segments. The chi-square test can be used to test for independence between a nominal segment membership variable and another nominal or ordinal variable. The results of the test can be visualized using a mosaic plot. For metric variables, such as age or dollars spent on accommodation, analysis of variance (ANOVA) is commonly used to test for significant differences in means between multiple market segments. The F-test is performed, and if the pvalue is smaller than 0.05, it indicates that at least two segments differ in their means. Pairwise comparisons between segments can provide more detailed information about which segments differ significantly from each other. Tukey's honest significant differences test can be used to visualize and interpret these pairwise comparisons. Additionally, p-values should be adjusted for multiple testing to control the overall error rate. Bonferroni correction and methods such as Holm's procedure or the false discovery rate procedure can be used for this purpose.

7.4 Predicting Segments from Descriptor Variables:

In this approach, we use regression models to predict market segment membership based on descriptor variables. The regression model treats segment membership as the categorical dependent variable and the descriptor variables as independent variables. This allows us to simultaneously test the differences in all descriptor variables in relation to segment membership. The prediction performance of the regression model indicates how well we can identify members of a market segment based on the descriptor variables. Additionally, we can determine which descriptor variables are critical in identifying

segment membership, especially if variable selection methods are used. The basic regression model is the linear regression model, which assumes that the dependent variable can be predicted using the independent variables. It assumes a linear relationship between the dependent variable and the independent variables and assumes that the dependent variable follows a normal distribution with a mean determined by the independent variables. In R, the lm() function is commonly used to fit a linear regression model. The formula interface in R allows us to specify the dependent variable and independent variables. In the case of categorical variables, such as segment membership, they are appropriately coded as factors. The text further discusses the interpretation of the intercept in binary logistic regression, which represents the value of the linear predictor when all independent variables are zero. By applying the inverse logit function to the intercept, one can obtain the predicted probability of belonging to a certain segment for a specific combination of predictor values. Additionally, the text mentions model selection techniques to address the inclusion of irrelevant variables and potential overfitting. The "step" function in R is highlighted as an example of a stepwise procedure that evaluates the improvement in model fit based on the AIC criterion and iteratively adds or drops variables to optimize the model's performance. Finally, the text briefly touches on the assessment of predictive performance using the "predict()" function in R. By obtaining predicted probabilities for each observation and comparing the distributions of predicted probabilities for members and non-members of a segment, one can evaluate how well the model distinguishes between the two groups. In summary, the text provides an overview of binary logistic regression in the context of GLMs, explains the interpretation of coefficients, describes the use of the glm() function and the "effects" package in R, mentions model selection techniques, and briefly discusses the assessment of predictive performance. 7.4.2 Multinomial Logistic Regression: Multinomial logistic regression is used when the dependent variable has more than two categories. Overall, multinomial logistic regression allows for the simultaneous prediction of multiple categories and provides insights into the relationship between independent variables and the probability of belonging to each category.