

MARKET SEGMENTATION ANALYSIS

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Step 1: Deciding (not) to Segment

- The key implication of Market Segmentation is the organization needs to commit to the segmentation strategy in the long term.
- Market segmentation involves costs for research, fielding surveys, and focus groups, designing multiple packages, and designing multiple advertisements and communication messages.
- Segmentation may changes in products, pricing, distribution, communication, and potentially affect the organization's internal structure.
- Successful market segmentation requires leadership, proactive championing, commitment, and involvement in the market segmentation process by senior leadership.
- Lack of market or consumer orientation, resistance to change and new ideas, lack of creative thinking, bad communication, short-term thinking, and lack of training are major barriers of market segmentation.
- Organizations must have sufficient financial resources, Clear objectives, structured processes, adequate time allocation, and the ability to make structural changes required for successful segmentation.
- Market Segmentation analysis must be presented in a way that is easy for management to understand and act upon, using graphical visualizations.

Step 2: Specifying the Ideal Target Segment

- Organizations must determine two sets of segment evaluation criteria: **knock-out criteria** (non-negotiable) and **attractiveness criteria** (relative attractiveness).
- **Knock-out criteria** are used to determine if market segments resulting from the market segmentation analysis qualify to be assessed using segment attractiveness criteria and must be understood by senior management, the segmentation team, and the advisory committee. Which includes homogeneity, distinctness, large enough size, match with organizational strengths, identifiability, and reachability.
- **Attractiveness Criteria** Evaluate the relative appeal of market segments, with factors like profitability, growth potential, and competitive advantage.
- Implementing a systematic approach, such as a segment evaluation plot, to assess segment attractiveness and organizational competitiveness. Factors that constitute both of these need to be negotiated and agreed upon.
- A core team proposes an initial solution and reports their choices to the advisory committee. The typical approach to weighting is to ask all team members to distribute 100 points across the segmentation criteria. The advisory committee reviews and approves the selected criteria and weightings, ensuring alignment with organizational goals.

Step 3: Collecting Data

- Empirical data is used to identify or create market segments.
- Segmentation variable refer to the variable in the empirical data used in commonsense segmentation to split the sample into market segments.
- Commonsense Segmentation uses one segmentation variable to create market segments by dividing the sample into groups.
- Data-driven segmentation involves multiple segmentation variables to identify naturally existing or artificially created market segments that are useful to the organization.
- Segmentation criteria refer to the overall approach used to segment a market, while segmentation variables are the specific data points used within that criterion. The choice of segmentation criterion is crucial and should be based on market knowledge. Simpler approaches are often recommended if they are effective for the product or service in question.
- **Types of Segmentation:**
 - ❖ **Geographic Segmentation:** This is the simplest form of segmentation, where consumers are grouped based on their location.
 - ❖ **Socio-Demographic Segmentation:** This involves grouping consumers based on factors like age, gender, income, and education.
 - ❖ **Psychographic Segmentation:** This involves grouping consumers based on psychological characteristics such as beliefs, interests, preferences, aspirations, or benefits sought when purchasing a product.
 - ❖ **Behavioral Segmentation:** This approach groups consumers based on their actual behavior, such as purchase history or frequency of use.

- Adequate sample size is crucial for accurate market segmentation analysis. Insufficient sample size makes it difficult to determine the correct number of market segments.

Formann's Rule (1984): At least 2^p ((better five times 2^p), where p is the number of segmentation variables.

Qiu and Joe's Rule (2015): For equal cluster sizes, use a sample size of at least ten times the number of segmentation variables times the number of segments in the data ($10 \cdot p \cdot k$ where p represents the number of segmentation variables and k represents the number of segments). If segments are unequally sized, the smallest segment should contain a sample of at least $10 \cdot p$.

Dolnicar et al. (2014): A sample size of at least $60 \cdot p$ is recommended. for more difficult data scenarios, a sample size of at least $70 \cdot p$.

- The number of market segments, segment size equality, segment overlap, Sampling error, response biases, low data quality, and correlation between variables affect the segment recovery. Increasing sample size may mitigate some of these issues, but not all (e.g., highly correlated variables remain problematic).

Step 6: Profiling Segments

- The aim of the Profiling step is to get to know the market segments resulting from the extraction step.
- Profiling characterizes each market segment individually and in comparison to others, identifying key characteristics based on segmentation variables.
- Profiling is crucial for correct interpretation of segments, which is essential for making informed strategic marketing decisions.
- Data-driven segmentation results are often difficult for managers to interpret, with many finding them confusing or unclear.
- Graphical statistics approaches make profiling less tedious, and thus less prone to misinterpretation.
- Data-driven segmentation solutions are usually presented to users in one of two ways: (1) high-level summaries simplifying segment characteristics to a point where they are misleadingly trivial. (2) large tables that provide, for each segment, exact percentages for each segmentation variable.
- Visualizations simplify the interpretation of segment profiles and help assess the usefulness of segmentation solutions.
- A segment profile plot visually compares how each market segment differs from the overall sample across all segmentation variables. Variables in the plot can be reordered for better visualization, such as by similarity of answer patterns using hierarchical clustering.
- Segment profile plots required less cognitive effort and a smaller surface area to find answers, indicating that well-designed graphs facilitate easier interpretation.

- Segment Separation Plot Visualizes the overlap of segments across relevant dimensions. These are very simple if the number of segmentation variables is low, but become complex as the number of segmentation variables increases.
- The segment separation plot consists of a **scatter plot** of the (projected) observations colored by segment membership and the (projected) **cluster hulls**, and a **neighborhood graph**.

Step 9: Customising the Marketing Mix

- Segmentation-Targeting-Positioning (STP) Approach:
 - Segmentation: Extracting, profiling, and describing segments.
 - Targeting: Assessing and selecting target segments.
 - Positioning: Differentiating the product to align with target segment needs.
 - Iterative Process: This may require revisiting segmentation and targeting steps before committing to a segment.
- 4Ps model of the marketing mix:
 - **Product:** This may require new designs, modifications, or rebranding to suit the target segment.
 - **Price:** Adjustments in pricing or discount structures may be necessary.
 - **Place:** Selection of suitable distribution channels based on target segment preferences.
 - **Promotion:** Development of new communication messages and promotional strategies tailored to the target segment.
- If the segmentation analysis is undertaken to inform **Pricing decisions**, Use segmentation variables like price sensitivity and deal proneness.

If the segmentation analysis is undertaken to inform **Advertising Decisions**, Consider benefits sought, lifestyle, and psychographic segmentation variables.

If the market segmentation analysis is conducted for the purpose of informing **Distribution decisions**, store loyalty, store patronage, and benefits sought when selecting a store may represent valuable segmentation variables.

- **Product dimension** of the marketing mix decisions includes naming the product, packaging it, offering or not offering warranties, and after-sales support services.
- **The price dimension** of the marketing mix includes setting the price for a product and deciding on discounts to be offered.
- 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.

Github link for the McDonald Case Study: [Mcdonalds_Case_Study](#)