

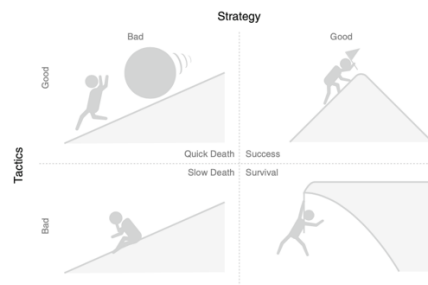
TASK 1

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SUMMARY

Strategic and Tactical Marketing

- The purpose of marketing is to match the genuine needs and desires of consumers with the offers of suppliers particularly suited to satisfy those needs and desires, A marketing plan consists of two components: a strategic and a tactical marketing plan.
- The strategic plan outlines the long-term direction of an organisation
- The tactical marketing plan does the opposite. It translates the long-term strategic plan into detailed instructions for short-term marketing action.
- A SWOT analysis explicitly states an organisation's strengths (*S*), weaknesses (*W*), opportunities (*O*), and threats (*T*).
- The SWOT analysis outlines one side of the matching process: what the supplier is particularly suitable to offer consumers. The other side of the matching process – consumer needs and desires – is typically investigated using market research.
- Two key decisions have to be made as part of the strategic marketing planning process: which consumers to focus on (segmentation and targeting), and which image of the organisation to create in the market (positioning).
- The tactical marketing cover four areas: the development and modification of the product in view of needs and desires of the target segment (Product), the determination of the price in view of cost, competition, and the willingness to pay of the target segment (Price), the selection of the most suitable distribution channels to reach the target segment (Place), and the communication and promotion of the offer in a way that is most appealing to the target segment (Promotion).



The importance of strategic and tactical marketing for organisational success is asymmetric. Good tactical marketing can never compensate for bad strategic marketing. Strategic marketing is the foundation of organisational success.

Market Segmentation

- For marketing managers to choose a target market for a product and create an effective marketing mix, market segmentation is a critical decision-making tool. According on customer criteria like age, gender, place of origin, or stage of family life, markets are divided into segments.
- It may also incorporate more general consumer traits like benefits sought, travel plans, environmental ideals, or spending habits. While diverse market strategies provide three telephones for each market segment and call for customisation of the marketing mix, concentrated market strategies concentrate on one market segment.
- The same marketing mix is used to sell the same product in undifferentiated marketing, as with the sale of white bread and petrol. Market segmentation offers chances for vital fresh perspectives and insights.

Benefits of market segmentation

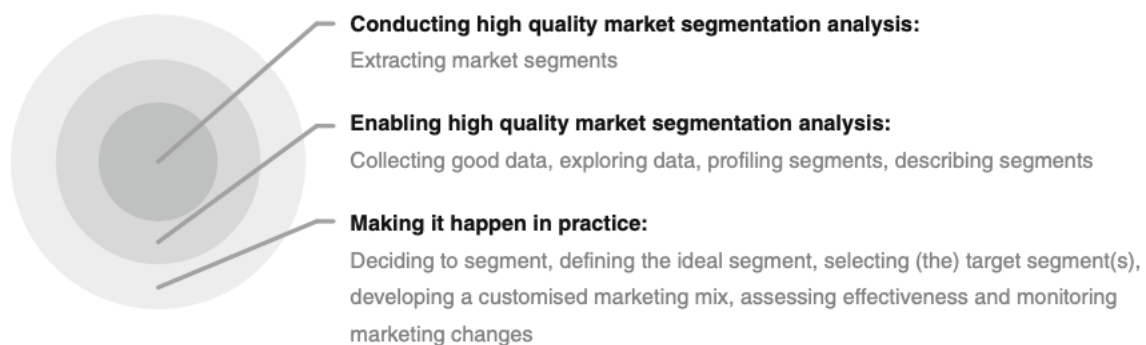
- Market segmentation benefits organizations by enabling them to understand consumer preferences and preferences, leading to better understanding of consumer needs and strengths.
- This can improve the match between an organization's strengths and consumer needs, forming a long-term competitive advantage in specific target segments. Market segmentation can also lead to micro marketing, hyper-segmentation, finer segmentation, and higher return on investment.
- It is effective in sales management, team building, and improving communication and information sharing across different organizational units.

Cost of market segmentation

For investigation, development, and monitoring, market segmentation demands a large investment of money, time, and resources. Poor implementation may waste resources and deprive employees of their rights. Businesses must consider the possible benefits of market segmentation before deciding whether to pursue it.

The Layers of Market Segmentation Analysis

the process of grouping consumers into naturally existing or artificially created segments of consumers who share similar product preferences or characteristics.



a excellent market segmentation solution is meaningless unless users can convert such a solution into strategic marketing decisions and tactical marketing action.

Approaches to Market Segmentation Analysis

Based on Organisational Constraints

- The three approaches to market segmentation are segment revolution, segment evolution, and exploratory research. Segment revolution requires radical change, starting from zero, while segment evolution refines existing segments.
- The least radical approach is a random discovery, like a mutation, which can also yield benefits. Market segmentation analysis can be abandoned if organizations are unwilling or inability to change sufficiently.

- Less radical approaches, such as creating segments from targeted sectors, can be used to refine focus and adapt segmentation strategies.

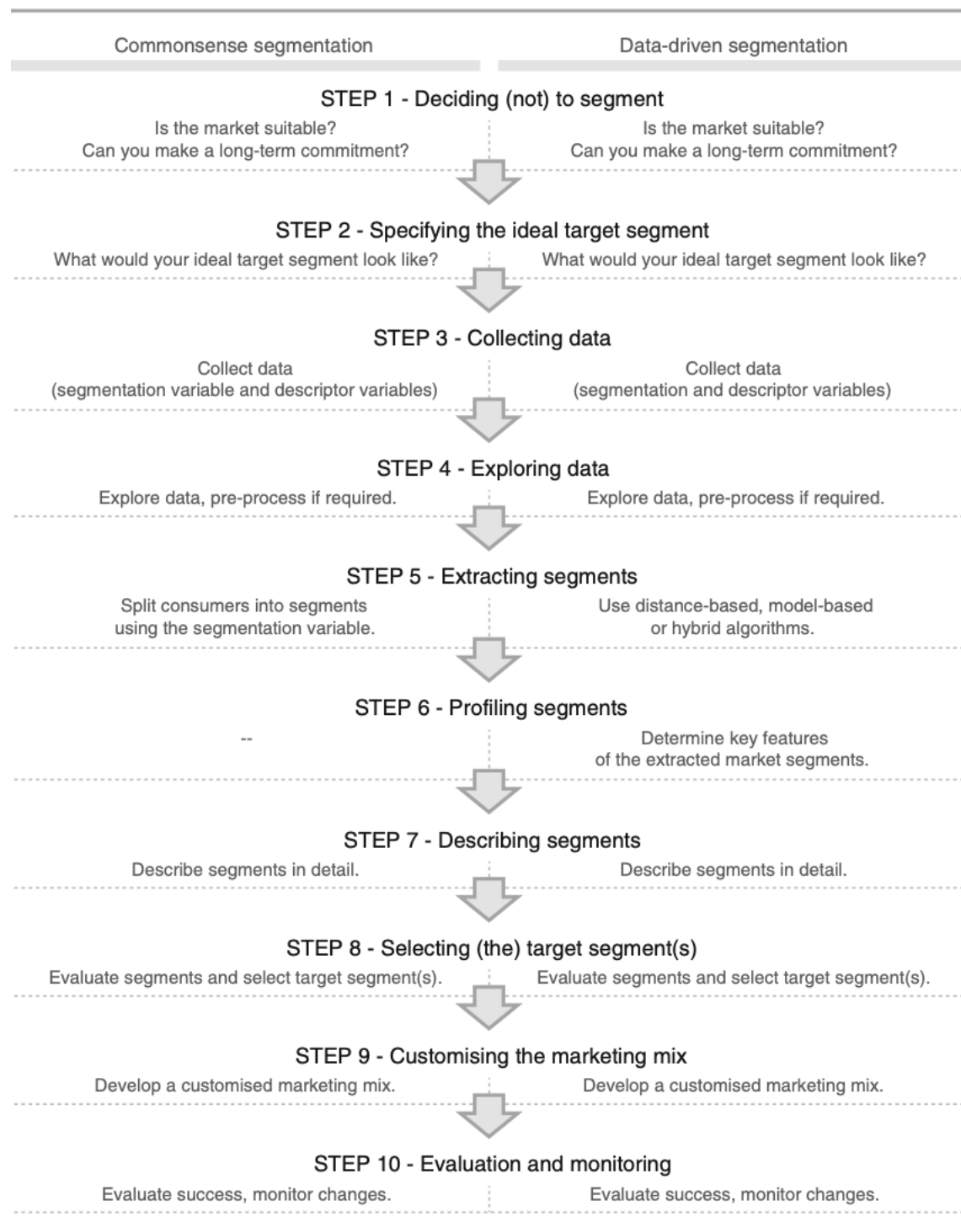
Based on the Choice of (the) Segmentation Variable(s)

- Segmentation approaches can be based on consumer characteristics to extract market segments. One segmentation variable can be unidimensional, like age, while multiple variables can be multidimensional, like expenditure patterns.
- Common sense market segmentation, which uses managerial intuition, secondary data sources, and internal databases, aims to gain deeper insight into the nature of the segments rather than identifying key defining characteristics. Examples include brand segmentation, which is efficient and simpler due to its focus on purchase behavior.

Data Structure and Data-Driven Market Segmentation Approaches

- Natural segmentation is the traditional view that distinct market segments exist in data, and the aim of market segmentation analysis is to find them.
- Reproducible segmentation refers to the case where natural market segments do not exist in data but contain some structure, allowing for the generation of the same segmentation solution repeatedly.
- makes data-driven segmentation studies less random and more reliable, providing a stronger basis for long-term strategic segmentation decisions.
- Constructive segmentation is the case where neither cluster structure nor other data structure exists, allowing data analysts to reproduce similar segmentation solutions across replications.
- While it is not necessary to segment such data, it is more promising to target subgroups of consumers, such as those who prefer multiple functions on mobile phones despite higher prices, rather than attempting to satisfy the entire range of consumer needs.

Market Segmentation Analysis Step-by-Step



Step 1: Deciding (not) to Segment

- The key implication is that the organisation needs to commit to the segmentation strategy on the long term. The commitment to market segmentation goes hand in hand with the willingness and ability of the organisation to make substantial investments.
- Although market segmentation has developed to be a key marketing strategy applied in many organisations, it is not always the best decision to pursue such a strategy.
- Before investing time and resources in a market segmentation analysis, it is important to understand the implications of pursuing a market segmentation strategy.
- Costs of research, surveys, focus groups, and designing multiple packages and advertisements are involved in segmentation strategies.
- Potential changes include new products, modifications, pricing, distribution channels, and market communications. These changes may affect the organization's internal structure and target multiple market segments.

Implementation Barriers

- Market segmentation is a crucial strategy for businesses to effectively implement and grow their market. However, several barriers can hinder its successful implementation in organizations.
- These include senior management's lack of leadership, commitment, and involvement, as well as insufficient resources for initial analysis and long-term strategy implementation.
- Organizational culture also plays a role in preventing market segmentation, with barriers such as market orientation, resistance to change, creative thinking, communication, short-term thinking, and office politics.
- Training and a formal marketing function or qualified expert are also essential for successful market segmentation implementation. Objective restrictions, such as financial resources or structural changes, can also hinder market segmentation.
- Process-related barriers include unclear objectives, poor planning, structured processes, responsibilities allocation, and time pressure.
- To counteract these challenges, it is essential to make market segmentation analysis easy to understand and present results in a way that facilitates interpretation by managers.

Step 2: Specifying the Ideal Target Segment

- The third layer of market segmentation analysis relies on user input, as it is crucial for the analysis to yield useful results.
- User input should be involved in most stages, covering the technical aspects of market segmentation analysis.
- The organization must determine two sets of segment evaluation criteria: knock-out criteria, which are essential, non-negotiable features of segments considered for targeting, and attractiveness criteria, which evaluate the relative attractiveness of remaining market segments.
- The literature does not generally distinguish between these two types of criteria, but proposes a wide array of possible segment evaluation criteria at different levels of detail. Table 4.1 contains a selection of proposed criteria.
- The two headings discuss knock-out and attractiveness criteria for target segment selection. Knock-out criteria are essential, while attractiveness criteria are a shopping list for the team.
- The team must select which criteria to use and assess their importance to the organization. Knock-out criteria eliminate market segments, while attractiveness criteria are negotiated.

Knock-Out Criteria

- Knock-out criteria are used to assess market segments based on market segmentation analysis.
- Additional criteria have been suggested, including homogeneity, distinctness, size, matching organizational strengths, identifying members, and reachability.
- These criteria must be understood by senior management, the segmentation team, and the advisory committee.

- While most criteria do not require further specification, some do, such as specifying the exact minimum viable target segment size.
- Understanding these criteria is crucial for successful market segmentation and marketing strategies.

Attractiveness Criteria

Attractiveness criteria are not binary, as each market segment is rated based on a specific criterion. The attractiveness across all criteria determines whether a market segment is selected as a target in Step of market segmentation analysis.

Step 3: Collecting Data

Segmentation Variables

- Empirical data is the foundation of commonsense and data-driven market segmentation. In commonsense segmentation, the segmentation variable is a single characteristic of the sample, such as gender, which is used to create market segments.
- Descriptor variables, such as age, vacation duration, and benefits sought, are used to describe the segments in detail.
- These descriptor variables, such as socio-demographics and media behavior, help marketers develop effective marketing mixes targeting specific segments. Data-driven market segmentation, on the other hand, uses multiple segmentation variables to identify naturally existing or artificially created market segments.
- In data-driven market segmentation, the quality of empirical data is crucial for developing valid solutions. Data quality is essential for assigning each person to the correct market segment and accurately describing the segments.
- Good market segmentation analysis requires good empirical data, which can come from survey studies, observations, scanner data, or experimental studies.
- Optimally, data should reflect consumer behavior, as survey data can be unreliable when socially desirable, such as donating money to charity or environmentally friendly behavior. Instead, explore a range of possible sources, focusing on the source that provides data most closely reflecting actual consumer behavior.

Segmentation Criteria

- Before extracting segments, organizations must decide on a segmentation criterion, which refers to the nature of market segmentation information or a specific construct like benefits sought.
- This decision is crucial for effective segmentation and data collection.
- The choice of segmentation criterion is difficult to outsource to consultants or data analysts due to the need for prior market knowledge.
Common criteria include geographic, socio-demographic, psychographic, and behavioral. Factors such as profitability, bargaining power, preferences, barriers to choose, and consumer interaction effects are crucial. Generally, the best approach is to use the simplest possible approach, such as using demographic or geographic segmentation for a product or service that appeals to specific regions.
- Psychographic segmentation is not necessarily better, but rather the most effective at the least possible cost.

Geographic Segmentation

- Geographic information is the primary segmentation criterion used in market segmentation, often focusing on a consumer's location of residence.
- This approach allows for easy targeting of communication messages and selecting communication channels.
- However, it may not always account for differences in product preferences or preferences, as people from different countries may have different preferences.

- International market segmentation studies have revived the location aspect, but it is challenging due to the need for meaningful variables and cultural biases.

Socio-Demographic Segmentation

- Socio-demographic segmentation criteria, such as age, gender, income, and education, can be useful in certain industries like luxury goods, cosmetics, baby products, retirement villages, and tourism resorts.
- However, demographics may not provide sufficient market insight for optimal segmentation decisions, and values, tastes, and preferences are more influential.

Psychographic Segmentation

- Psychographic segmentation involves grouping people based on psychological criteria, such as beliefs, interests, preferences, aspirations, or benefits sought.
- This approach is more complex than geographic or socio-demographic criteria, and relies on various variables like travel motives and perceived risks.
- However, it has limitations, such as increased complexity and dependencies on empirical measures.

Behavioural Segmentation

- Segment extraction involves searching for similarities in behavior, such as prior experience, frequency of purchase, and information search behavior.
- Behavioral approaches group people by the most significant similarity, avoiding the need for psychological constructs.
- However, behavioural data may not always be readily available, especially for excluding potential customers.

Data from Survey Studies

Most market segmentation analyses are based on survey data. Survey data is cheap and easy to collect, making it a feasible approach for any organisation.

Choice of Variables

- Selecting appropriate segmentation variables is crucial for market segmentation solutions. Data-driven segmentation requires all relevant constructs, while unnecessary variables can cause fatigue and increase dimensionality.
- Unnecessary variables, called noisy or masking variables, divert attention from optimal segment extraction, hindering algorithm identification.
- Noisy variables in market segmentation analysis can hinder algorithm performance. To avoid this, ask unique, necessary questions and avoid redundant ones.
- Conduct exploratory or qualitative research to gather insights about people's beliefs, categorize them, and include them in a questionnaire.

Response Options

- Survey response options determine the data available for analysis. Some options are binary or dichotomous, allowing respondents to answer in only one way, nominal variables, or metric data.

- Metric data allows for statistical procedures, while ordinal data has a limited number of ordered options larger than two.
- Using binary or metric response options prevents complications related to distance measures in data-driven segmentation analysis.
- Visual analogue scales can be used to capture fine nuances without compromising response styles.

Response Styles

- Survey data can be prone to capturing biases, such as response biases, which are consistent over time and independently of the questions asked.
- Response styles, such as extreme answer options, midpoints, and agreeing with all statements, can affect segmentation results.
- To minimize this risk, additional analyses or removal of respondents affected by response styles is necessary

Sample Size

- Market segmentation analysis faces challenges when the sample size is insufficient. Formann recommends a sample size of at least $2p$ for goodness-of-fit testing in latent class analysis.
- Qiu and Joe suggest a sample size of at least ten times the number of segmentation variables and the number of segments in the data.
- Dolnicar et al. conducted simulation studies with artificial data to test the sample size requirement for algorithms to correctly identify true segments.
- The adjusted Rand index measures the congruence between two segmentation solutions, with higher values indicating better alignment.
- The higher the effect, the better the algorithm identified the correct market segmentation solution.
- Increased sample size improves segment accuracy, but small samples yield the biggest improvement.
- A sample size of $60 \cdot p$ is recommended, while $70 \cdot p$ is recommended for complex artificial data scenarios. Market characteristics, such as unequal segments and overlapping segments, also affect segment recovery.
- Data should contain all necessary items, no unnecessary items, correlated items, high-quality responses, be binary or metric, free of response styles, include responses from a suitable sample, and have a sufficient sample size (100 times the number of variables).

Data from Internal Sources

- Organizations increasingly have access to internal data for market segmentation analysis, such as scanner data, booking data, and online purchase data.
- These data represent actual consumer behavior, avoiding imperfect memory and response biases. They are usually automatically generated and require no extra effort to collect.
- However, internal data can be systematically biased, missing information about future customers who may differ from current customers in consumption patterns.

Data from Experimental Studies

- Experimental data can be used for market segmentation analysis, derived from field or laboratory experiments, choice experiments, or conjoint analyses.
- These studies present consumers with stimuli with specific product attributes, allowing them to indicate their preferred products.
- The extent to which each attribute affects choice can also be used as a segmentation criterion.

McDonalds Case study python replication:

Link: <https://github.com/Hariharan1202/Feynnlabs-internship/blob/070e7530a70134f4393780b211b90ee16088be0d/Task-1/Mcdonalds%20case%20study.pdf>