Project - 2

Market Segmentation

Step 1: Deciding (not) to Segment :

Implications of Committing to Market Segmentation:

- The 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.
- The key implication is that the organisation needs to commit to the segmentation strategy on the long term.
- Cahill recommends not to segment unless the expected increase in sales is sufficient to justify implementing a segmentation strategy
- Because of the major implications of such a long-term organisational commitment, the decision to investigate the potential of a market segmentation strategy must be made at the highest executive level, and must be systematically and continuously communicated and reinforced at all organisational levels and across all organisational units.

Implementation Barriers :

- The first group of barriers relates to senior management. Lack of leadership, pro-active championing, commitment and involvement in the market segmentation process by senior leadership undermines the success of market segmentation.
- The second group of barriers relates to organisational culture. Lack of market or consumer orientation, resistance to change and new ideas, lack of creative thinking, bad communication and lack of sharing of information and insights across organisational units, short-term thinking, unwillingness to make changes and office politics have been identified as preventing the successful implementation of market segmentation
- Another potential problem is lack of training.
- Most of these barriers can be identified from the outset of a market segmentation study, and then proactively removed. If barriers cannot be removed, the option of abandoning the attempt of exploring market segmentation as a potential future strategy should be seriously considered.

Step 2: Specifying the Ideal Target Segment :

Segment Evaluation Criteria:

The third layer of market segmentation analysis depends primarily on user input. It is important to understand that – for a market segmentation analysis to produce results that are useful to an organisation – user input cannot be limited to either a briefing at the start of the process, or the development of a marketing mix at the end. Rather, the user needs to be involved in most stages, literally wrapping around the technical aspects of market segmentation analysis.

Knock-Out Criteria:

Knock-out criteria are used to determine if market segments resulting from the market segmentation analysis qualify to be assessed using segment attractiveness criteria. The first set of such criteria was suggested by Kotler and includes substantiality, measurability and accessibility

- 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 organisation;
- Members of the segment must be identifiable;
- The segment must be reachable;

Knock-out criteria must be understood by senior management, the segmentation team, and the advisory committee. Most of them do not require further specification, but some do.

Attractiveness Criteria :

- Segment attractiveness criteria available to the segmentation team to consider when deciding which attractiveness criteria are most useful to their specific situation.
- Attractiveness criteria are not binary in nature. Segments are not assessed as either complying or not complying with attractiveness criteria.

Implementing a Structured Process :

- The most popular structured approach for evaluating market segments in view of selecting them as target markets is the use of a segment evaluation plot
- The segment attractiveness and organisational competitiveness values are determined by the segmentation team. This is necessary because there is no standard set of criteria that could be used by all organisations.

Step 3: Collecting Data :

Segmentation Variables :

Empirical data forms the basis of both commonsense and data-driven market segmentation. Empirical data is used to identify or create market segments. the term segmentation variable to refer to the variable in the empirical data used in commonsense segmentation to split the sample into market segments.

The difference between commonsense and data-driven market segmentation is that data-driven market segmentation is based not on one, but on multiple segmentation variables. These segmentation variables serve as the starting point for identifying naturally existing, or artificially creating market segments useful to the organisation.

Segmentation Criteria :

The term segmentation criterion is used here in a broader sense than the term segmentation variable. The term segmentation variable refers to one measured value,

The term segmentation criterion relates to the nature of the information used for market segmentation. It can also relate to one specific construct, such as benefits sought.

The most common segmentation criteria are

- Geographic Segmentation
- Socio-Demographic Segmentation
- Psychographic Segmentation
- Behavioural Segmentation

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. But survey data – as opposed to data obtained from observing actual behaviour – can be contaminated by a wide range of biases. Such biases can, in turn, negatively affect the quality of solutions derived from market segmentation analysis

A few key aspects that need to be considered when using survey data

- Choice of Variables
- Response Options
- Response Styles
- Sample Size

Data from Internal Sources:

Increasingly organisations have access to substantial amounts of internal data that can be harvested for the purpose of market segmentation analysis. Typical examples are scanner data available to grocery stores

The strength of internal data lies in the fact that they represent actual behaviour of consumers, rather than statements of consumers about their behaviour or intentions

Another advantage is that such data are usually automatically generated and – if organisations are capable of storing data in a format that makes them easy to access – no extra effort is required to collect data.

Data from Experimental Studies :

Another possible source of data that can form the basis of market segmentation analysis is experimental data. Experimental data can result from field or laboratory experiments. For example, they can be the result of tests how people respond to certain advertisements

Experimental data can also result from choice experiments or conjoint analyses. Conjoint studies and choice experiments result in information about the extent to which each attribute and attribute level affects choice. This information can also be used as a segmentation criterion

Step 5: Extracting Segments :

Key Points :

The aim of this chapter is to provide an overview of the most popular extraction methods used in market segmentation, and point out their specific tendencies of imposing structure on the extracted segments

This chapter focuses on the task of grouping consumers and, in so doing, revealing naturally existing or creating artificial market segments. The chapter covers algorithms falling into three categories: distance-based methods, model-based methods, and algorithms integrating variable selection with the task of extracting market segments. In addition, data structure analysis is introduced. Data structure analysis provides insight into whether the resulting market segments are naturally occurring in the market; created but stable; or created and unstable across repeated calculations.

Grouping Consumers :

Grouping Consumers in Market segmentation is determined as much by the underlying data as it is by the extraction algorithm chosen. Segmentation methods shape the segmentation solution.

So-called distance-based methods are described first. Distance-based methods use a particular notion of similarity or distance between observations (consumers), and try to find groups of similar observations (market segments). So-called modelbased methods are described second. These methods formulate a concise stochastic model for the market segments

Distance-Based Methods:

- Market segmentation aims at grouping consumers into groups with similar needs or behaviour
- Distance Measures is used represent as a Matrix, Each row represents an observation (in this case a tourist), and every column represents a variable (in this case a vacation activity). Mathematically, this can be represented as an n × p matrix where n stands for the number of observations (rows) and p for the number of variables (columns)
- Hierarchical clustering methods are the most intuitive way of grouping data because they mimic how a human would approach the task of dividing a set of n observations (consumers) into k groups (segments). Hierarchical clustering methods are particularly well suited for the analysis of small data sets with up to a few hundred observations.
- Partitioning Methods is well suited for Larger Dataset, For data sets containing more than 1000 observations (consumers), clustering methods creating a single partition are more suitable than a nested sequence of partitions.

Hybrid approaches is the combine hierarchical and partitioning algorithms in an attempt to compensate the weaknesses of one method with the strengths of the other.some of the hybrid approaches are

- Two-Step Clustering
- Bagged Clustering

Model-Based Methods:

According to Wedel and Kamakura – the pioneers of modelbased methods in market segmentation analysis – mixture methodologies have attracted great interest from applied marketing researchers and consultants.

Some of the Model Based Methods are

- Finite Mixtures of Distributions
- Finite Mixtures of Regressions
- Extensions and Variations

Algorithms with Integrated Variable Selection :

Most algorithms focus only on extracting segments from data. These algorithms assume that each of the segmentation variables makes a contribution to determining the segmentation solution. But this is not always the case. Sometimes, segmentation variables were not carefully selected, and contain redundant or noisy variables. Preprocessing methods can identify them.

Integrated Variable Selection Algorithms are

- Biclustering Algorithms
- Variable Selection Procedure for Clustering Binary Data (VSBD)
- Variable Reduction: Factor-Cluster Analysis

Data Structure Analysis :

Data structure analysis provides valuable insights into the properties of the data. These insights guide subsequent methodological decisions. Most importantly, stability-based data structure analysis provides an indication of whether natural, distinct, and well-separated market segments exist in the data or not. If they do, they can be revealed easily. If they do not, users and data analysts need to explore a large number of alternative solutions to identify the most useful segment(s) for the organisation. If there is structure in the data, be it cluster

structure or structure of a different kind, data structure analysis can also help to choose a suitable number of segments to extract

There are four different approaches to data structure analysis:

- cluster indices,
- gorge plots,
- global stability analysis,
- segment level stability analysis.

Market Segmentation:

McDonalds case study code replication: Follow the given Link:

https://github.com/Iamthulasiraman/Mcdonald-s_Market_segmentation

(OR)

CLICK HERE
