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## **SUMMARY – Market Segmentation**

### **Step 1: To Segment or Not to Segment**

1. **Long-Term Commitment:** Market segmentation requires the willing intent to undergo major realignment and a long-term commitment to develop new and change old products, strategies for pricing, distribution, and communication.
2. **Expenses:** Establishing a segmentation strategy requires several types of surveys beyond focus groups, research, and a range of marketing collateral, much of which costs money. These should all be justified by a projected improvement in revenues.
3. **Organizational Structure:** This means adapting internal structures so as to focus on the different needs of various market segments. In order to benefit completely, companies organize themselves more around market segments than products.
4. **Top-Level Decision:** Senior executives want to decide issues involving whether segmentation is to take place, as well as communicating that decision to all other organizational levels and departments.

### **Types of Implementation Hurdles:**

1. **Concerns regarding Leadership:** for successful implementation, a strong leadership must manage all actions that adopt proactive advocacy for it and commitment from senior management to internalize it. As it employs relatively few resources, such a process gets compromised with little senior management support.
2. **Office Politics:** Failure in the general office events like the lack of market orientation, resistance to change, poor communication may lead to failure in the implementation.
3. **No Training or Expertise:** Another failure reason can be the ignorance of market segmentation by top management and the segmentation team. The absence of a structured marketing department or expert personnel is also another barrier to success.
4. **Objective Constraints:** Critical funding and structural constraints can hamper the capacity of the organization to carry through the changes needed.

### **Step 1 Checklist:**

1. **Evaluate Market Orientation:** The organization needs to be willing to learn and be flexible while placing a strong focus on the market.
2. **Assess Communication and Resources:** A company will require adequate financial resources and good lines of communication between units.
3. **Secure Commitment:** Senior management commitment, with visible and active means, along with money, would have to be secured.

4. **Training and Understanding:** Through training, ensure that market segmentation and its implications are well understood in the whole organization.
5. **Team Assembly:** Assemble a focused segmentation team comprising data and marketing professionals.
6. **Organised Process:** There should be an organised procedure with clear goal setting, delegation of tasks, and enough allowance of time for performing the analysis without being rushed.

If these criteria are not available, perhaps it is wise to reconsider the strategy of market segmentation.

## **Step 2: Specifying the Ideal Target Segment:**

### **1. Segment Assessment Standards**

The company must thus actively involve itself in market segmentation study especially at step 2, which lays the groundwork for the succeeding phases. This entails establishing a dual criterion; the attractiveness criterion, which measures the relative appeal of segments, and the knock-out criteria; which are those important and non-negotiable points in targeting. There is a lot of segment evaluation criteria found in literatures that can be customized to suit company's needs.

### **2. Distinctive Features**

The use of knock-out criteria will help narrow down to market categories that deserve further investigation. Which are: homogeneity, size, Identifiability, reachability and organizational match.

### **3. Criteria for Attractiveness**

Each market category is rated against attractiveness criteria. Unlike knockout criteria, which evaluate segments on a continuum, beauty criteria are not binary. In Step 8, the segments that have been selected as target segments are determined by the overall attractiveness.

### **4. Establish Structured Process**

Segments can then be assessed as per their attractiveness and competitive performance by a structured process including, for instance, segment evaluation plot. A diverse team with different members from diverse organizational units should negotiate and determine the factors of the criteria. This early choice of attractiveness standards heightens the target segment selection in Step 8 and ensures rich data gathering in Step 3.

## Step 2 Checklist

1. Convene a segmentation team meeting.
2. Agree on knock-out criteria (homogeneity, distinctness, size, match, identifiability, reachability).
3. Present knock-out criteria to the advisory committee for review.
4. Review available criteria for segment attractiveness.
5. Agree on a subset of up to six attractiveness criteria with the segmentation team.
6. Distribute 100 points among the selected attractiveness criteria to reflect their relative importance.
7. Discuss and agree on the weightings with the segmentation team.
8. Present the criteria and weightings to the advisory committee for review and adjustment if necessary.

## **Step 3: Data Collection:**

### **1. The Variables in Segmentation**

The segmentation study is well known in literature by both data-driven and common sense approach. Its description is based on a single variable, for instance, gender, and describes the segments using descriptor variables, that is other personal characteristics. On the contrary to common sense segmentation, data segmentation will apply several characteristics (such vacation benefits) to slicing into segments that truly respond to some artificial design or external categorization. The construction of an empiric dimension that can classify groups properly and describe them can be worried for marketing strategy: product customization, price, distribution, and communication-in terms of very important marketing decisions.

### **2. Segmentation Basis**

These criteria include behavioral, psychographic, demographic, and geographic dimensions, which together shape how consumers are clustered to realize marketing objectives. For instance, if the marketers divide their market by geographical segmentation, the consumer will be segmented according to geography, which clearly makes it easy to implement specific and direct communication; however, it also misses other aspects of the customer because of such segmentation. Despite certain problems such as cultural bias created by survey data, geographic segmentation is very simple yet effective, especially when employed in a global environment.

### **3. Socio-Demographic Segmentation:**

Socio-demographic segmentation depends on age, gender, income, and education. It is extensively applied in industries like luxury goods, cosmetics, baby products, retirement towns, and tourism. These criteria identify segments with certain ease, and they sometimes prove to explain specific kinds of product choices (e.g. the choice of one family vacation over another based on whether the family has children), but as a whole, they explain only about 5% of variance in consumer behaviors. Some view value, tastes, and preferences as giving more weight than socio-demographics to segmentation decisions.

#### **4. Psychographic segmentation**

Psychographic segmentation is an approach towards segmenting individuals psychologically through beliefs, interests, preferences, aspirations, or advantages being pursued. It encompasses benefit segmentation (Haley, 1968) and lifestyle segmentation (Cahill, 2006). This differs from a geographic or a socio-demographic segmentation in that it is far more complicated and employs multiple variables often. It captures most of the underlying reasons behind consumer behavior; however, segment memberships are so difficult to determine and rely on valid and reliable measures.

#### **5. Behavioural segmentation**

Behavioural segmentation places people in similar categories based on the tendency of individuals like purchase frequency or amount spent. The benefits of it can be using real behaviour to pull segments directly from factors such as expenditures (Tsai and Chiu, 2004), as well as brand choice (Poulsen, 1990). This method faces challenges including absence of behavioral data for the new customers.

**Common Usage:** Primarily for dividing the market.

**Advantages:** Easy and cheap.

**Biases:** Quite easily it gets biased and it affects quality.

#### **Considerations :**

Choice of Variables: Only keep relevant ones to reduce noise and respondent fatigue.

Response Options: Prefer metric or binary; sometimes, the variation of options of measurement may complicate matters in trying to analyze.

Response Styles: Bias such as extreme answers misleads results.

Large sample sizes add to the segment accuracy; at least 60 times the segmentation variables (Dolnicar et al., 2014).

#### **Internal Sources:**

Examples: Scanner data, booking data.

Advantages: The direct behavioral change regarding actuals and does not become memory dependent or response dependent.

Challenges: Over-represent existing customers and miss data about new customers.

#### **Experimental Studies:**

Examples: Responses to advertisements, choice experiments.

Purpose: To understand how different attributes of products influence choices.

## **Step 5: Extracting Segments:-**

This step focuses on the methodology and considerations involved in extracting consumer segments from raw data. It emphasizes the exploratory nature of data-driven market segmentation analysis, highlighting the unstructured nature of consumer data sets, which often lack clearly defined groups.

### **1. Grouping Consumers:-**

- The segmentation methods are cluster analysis techniques to create segments as these correspond to clusters.
- There are two main factors affecting segmentation: The data underlying the segment and the method used to extract it.

### **2. Algorithmic Influence on Segmentation:-**

- Each algorithm has its own affinity structure to segmentation solutions. For example, in k-means clustering, spirals cannot be formed due to grouping of similar distances for compact placement.

### **3. Overview of Segmentation Methods:-**

- Distance-based methods: Use similarity or distance measures to group consumers into clusters.
- Model-based methods: Employ stochastic models to find the different market segments.
- Some algorithms implement the variable selection with segment extraction, thus giving a more customized segmentation.

### **4. Choosing the Right Method:-**

- A successful segmentation approach necessitates trying several methods and then comparing the outputs.
- Table 7.1 gives a range of responses from data set size to levels of variable scales and special characteristics concerning methods.

### **5. Align Algorithm with Segment Trait at the Stop:-**

- The segmenting process has already cited its expectations through its earlier step. This should guide the algorithm selection to ensure the appropriate alignment.

It outlines the end of this step, which emphasizes the importance of realizing the methodological underpinnings and implications across a range of separate segmentation techniques, since each has its own application and no single technique is ideal for all scenarios.

### **Step 8: Selecting the Target Segment(s):-**

This step explains the important decision-making process of selecting which market segment to target, as it includes the strategy of this decision.

1. The Targeting Decision:
  - The decision of selecting target segments represents a long-term strategic commitment with impacts on performance at the organizational level.
  - After identifying and profiling segments (Steps 5-7), a last step, Step 8, consists of applying criteria for the final selection of target segments.
2. Knock-out as well as Attractiveness Criteria:
  - Knock-out criteria contain minimum thresholds on the segment size, homogeneity, distinctness, and reachability.
  - Attractiveness criteria will determine on the grounds of strategic value of the segments and the ability of the organization to satisfy their wants.
3. Assessment Process:
  - Segments are judged on a scoring model that weights attractive features and competitiveness of the organization.
  - A Visual Segment Evaluation Plot aids the preliminary and final selections.
4. Compatibility while Multiple Segments Targeted:
  - When targeting multiple segments, there must be some compatibility among them so that strategies do not get conflicted with each other.
5. Checklist for Decision Making:
  - A comprehensive checklist will ensure that every criterion is considered and thoroughly deliberated which encourages well-informed decision making.

This step shows the need for a structured approach to ensure targeting strategy effective alignment with the organization's goals and realities in the market.

## **Step 9: Customising the Marketing Mix:-**

This step links segmentation of markets to greater strategic marketing. It points out that it focuses on how the segmentation-targeting-positioning (STP) framework is integrated into the marketing mix.

### **1. Segmentation as Part of Strategic Marketing:-**

- Market Segmentation goes with Positioning and Competition Strategy.
- Directs organizations from segmentation, targeting to position through STP framework.

### **2. Marketing Mix Customizations:-**

- The classic 4P approach: that is, Product, Price, Place, and Promotion; will form a foundation upon which the marketing mix would be developed to fit a certain segment.
- Thus, each organization must customize every particular component to meet the needs and the characteristics of the target segment.

### **3. Examples of customization:-**

- Product- developing or altering products depending on the target segment.
- Pricing strategies that adjust to segment sensitivities.
- Place: choose the distribution channels resonant to the segment.
- Promotion: communication strategies that fit with the segment preference.

### **4. Dynamic Interaction Between Segmentation and Mix:-**

- The iterative nature of the STP process implies that it might be necessary at times to go back to the segmentation from the perspectives gained during the development perhaps of the marketing mix.

### **5. Checklist for Marketing Mix Decisions:-**

- A checklist ensures all areas of the mix are incorporated into segment needs to allow strategic coherence through a process.

The step largely emphasizes the need to translate the engaged segmentation knowledge into practicable marketing actions: put strategy in place to ensure real value adding.

**GitHub:-** <https://github.com/Jivesh01/McDonalds-Case-study>