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Market segmentation – A Case Study

Chapter 1

This chapter explains the difference between strategic marketing and tactical marketing, using the analogy of planning a hiking expedition to make it easier to understand.

Key Concepts:

Purpose of Marketing:

- Marketing connects what people need or want with what businesses can offer.
- It benefits both customers who get what they need and businesses who grow by meeting those needs.

2. Marketing Plan:

1. Strategic Marketing Plan:

- Focuses on the big picture and long-term goals.
- Decides *where* the company wants to go and *why*.

2. Tactical Marketing Plan:

- Focuses on short-term actions

Steps in Strategic Marketing:

1. Understand the Situation:

- Use **SWOT Analysis** to evaluate:
 - **Strengths** “What the company is good at”
 - **Weaknesses** “What it needs to improve”
 - **Opportunities** “External chances to grow”
 - **Threats** “External risks or challenges”

2. Understand Consumer Needs:

- Conduct research to learn what people want, using:
 - Surveys

- Focus groups
- Observations and experiments

3. **Make Key Decisions:**

- **Segmentation and Targeting:** Decide which group of customers to focus on.
- **Positioning:** Decide how the company wants to be seen by its chosen customers.

4. **What is Market Segmentation?**

- Market segmentation is about breaking a diverse market into smaller, more specific groups (segments) of customers who share similar characteristics or needs.

Chapter 3

Step 1: Deciding (not) to Segment

1. **Commitment:** Market segmentation requires long-term organizational changes, investments, and alignment with strategic goals. The benefits must outweigh the costs.
2. **Barriers:**
 - **Leadership:** Lack of senior management commitment or resources can hinder success.
 - **Culture:** Resistance to change, poor communication, or lack of market focus can be obstacles.
 - **Expertise:** Absence of trained marketing or data experts affects implementation.
 - **Resources:** Financial or structural limitations may prevent adoption.
 - **Planning:** Clear objectives, structured processes, and sufficient time are crucial for success.

Chapter 4

Step 2: Specifying the Ideal Target Segment

1. Segment Evaluation Criteria:

- Knock-Out Criteria: Essential, non-negotiable requirements for segments like size, homogeneity, distinctiveness, identifiability, reachability, and alignment with organizational strengths. Segments failing these are eliminated.
- Attractiveness Criteria: Used to rate segments based on desirability. These are subjective and ranked based on importance.

2. Structured Process:

- Use a Segment Evaluation Plot: Evaluate segments on attractiveness and organizational competitiveness.
- Define up to six attractiveness criteria and assign weights to reflect their relative importance.

3. Implementation:

- Segmentation Team: Proposes and discusses criteria.
- Advisory Committee: Reviews and adjusts the proposals.
- This early specification ensures relevant data is collected in Step 3 and simplifies target segment selection in Step 8.

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Chapter 5:

Step 3 - Collecting Data

5.1 Segmentation Variables

- Empirical Data: Foundation for commonsense and data-driven market segmentation.
- Segmentation Variable: A single characteristic for e.g. gender used to divide consumers into segments.

Example: Gender-based segmentation

- **Descriptor Variables:** Additional characteristics for e.g. age, vacation habits used to describe segments in detail.
- **Data-Driven Segmentation:** Uses multiple variables for e.g. benefits sought like relaxation or culture to create segments.
- **Importance of Data Quality:** Accurate data ensures proper segment assignment and detailed descriptions for developing effective marketing strategies.
- **Data Sources:** Surveys, scanner data, loyalty programs, experimental studies, etc. Behavioral data is preferred over self-reported survey data due to reliability concerns.

5.2 Segmentation Criteria

1. **Define:** Segmentation criteria define the nature of information used for segmentation broader than segmentation variables.
2. **Common Types:**
 - **Geographic Segmentation:**
 - Based on location e.g. country, language.
 - Easy to assign consumers to segments and target communications geographically.
 - **Limitation:** Geographic proximity doesn't always reflect shared preferences or behaviors.
 - **Socio-Demographic Segmentation:**
 - Based on attributes like age, gender, income, education.
 - Simple to determine but may not fully explain consumer behavior or preferences.
 - **Example:** Luxury goods income, baby products age.
 - **Psychographic Segmentation:**
 - Based on psychological traits for e.g. beliefs, interests, lifestyle.
 - Reflects deeper consumer motivations for e.g. travel motives for cultural vacations.
 - **Limitation:** Complex and relies on the validity of measures.
 - **Behavioral Segmentation:**

- Based on actual or reported behaviors for e.g. purchase frequency, spending patterns.
 - Advantage: Focuses directly on relevant consumer actions.
 - Limitation: Behavioral data may not always include potential customers.
- Select segmentation criteria that align with the marketing context, balancing simplicity with relevance.
 - Geographic and socio-demographic segmentation are straightforward but limited in insights.
 - Psychographic and behavioral approaches offer deeper understanding but are more complex and data-dependent.
 - Reliable, behavior-reflective data is critical for robust segmentation.

5.3 Data from Survey Studies

- Survey Data: Common, inexpensive, but prone to biases that can affect segmentation quality.
- Choice of Variables:
 - Include all relevant and unique variables; avoid unnecessary or redundant variables.
 - Redundant and noisy variables hinder algorithm performance.
 - Use qualitative research to identify critical variables.
- Response Options:
 - Use binary or metric scales for easier segmentation analysis.
 - Ordinal scales complicate distance-based measures.
 - Visual analogue scales generate metric data and are useful in surveys.
- Response Styles:
 - Biases like extreme responses, midpoint tendency, and acquiescence skew data.

- Segments affected by response styles require verification or exclusion.
- Sample Size:
 - Minimum size depends on segmentation variables.
 - Insufficient sample size reduces accuracy of segment identification.
 - Correlated variables hinder recovery of true segments even with large samples.

5.4 Data from Internal Sources

- Strengths: Reflect actual consumer behavior, free from memory or social desirability biases.
- Weaknesses:
 - Over-represents existing customers.
 - Lacks data on potential customers, leading to limited generalization.

5.5 Data from Experimental Studies

- Definition: Data from field/lab experiments, including response to advertisements or choice experiments.
- Applications:
 - Use choice preferences or attribute importance as segmentation criteria.
- Strength: Enables direct observation of responses to controlled stimuli.

Step 6 Chapter 8: Profiling Segments

8.1 Identifying Key Characteristics of Market Segments

Profiling Segments is about understanding and describing the market segments identified through data analysis.

1. Why Profiling Is Needed:
 - For data-driven segmentation: Unlike predefined groups like age groups, the characteristics of segments are not known in advance. For example, if a company segments customers based on the benefits they seek, the exact traits of each group will only become clear after analyzing the data.

- For predefined segmentation: Profiling isn't needed. If customers are divided by age for e.g. 18-25, 26-40, the segments are self-explanatory.

2. What Profiling Involves:

- Profiling is about describing each segment individually and in comparison to others. For example:
 - A segment of winter tourists in Austria may enjoy alpine skiing, but profiling asks: Do other segments also like skiing, or is this unique to one group?
- The goal is to identify what makes each segment unique.

3. Challenges with Profiling:

Managers often find data-driven segmentation hard to interpret. A survey of marketing managers found:

Reports are long and can contradict themselves.

Summaries are unclear.

Results often come as percentages and numbers without actionable insights.

Presentations may look fancy (e.g., PowerPoint) but lack meaningful interpretation.

Example:

Here's how profiling works:

a company selling sports equipment conducts a survey to segment its customers based on their preferred activities. Data Collection: Customers are asked about their favorite activities: running, swimming, or cycling.

1. Segmentation Analysis:

- Group 1: Likes running.
- Group 2: Likes swimming.
- Group 3: Likes cycling.

2. Profiling Each Group:

- Group 1: Mostly aged 25-40, buys running shoes and track pants, prefers urban parks.

- Group 2: Mostly aged 30-50, buys swimsuits and goggles, visits community pools.
- Group 3: Mostly aged 20-35, buys bikes and helmets, prefers scenic trails.

3. Insights From Profiling:

- Group 1 needs products for city running.
- Group 2 could be targeted with ads for swim memberships.
- Group 3 might be interested in biking vacations.

How Profiling Is Done:

1. Traditional Statistics:

- Use tables and percentages to describe groups. Example: "80% of Group 1 prefers Nike shoes."

2. Graphical Statistics:

- Use charts and visuals to make profiling clearer. Example: Pie charts to show the age distribution or bar graphs comparing spending habits.

Profiling is essential for understanding market segments and making strategic decisions. It helps businesses know their customers better, identify unique traits of each segment, and create targeted marketing strategies.

8.2 Traditional Approaches to Profiling Market Segments

What is being discussed? This section talks about the challenges in describing market segments (profiling) using traditional methods. How complex and time-consuming it can be to analyze the characteristics of different groups when segmentation is based on large datasets.

1. Data Overview:

- A survey collected data about people's travel preferences .
- Groups were created using a data-driven algorithm .
- Each group has percentages showing how important certain travel motives are for its members.

2. Challenges of Traditional Profiling:

- Users need to compare lots of numbers to find out what makes each segment unique.

- If you have 6 segments and 20 travel motives, you need to make multiple comparisons just for one segmentation solution.

Why is this a problem?

- It's tedious and overwhelming, making it hard to quickly understand the insights.

3. Why Statistical Significance Doesn't Work:

- Segments are created to maximize differences between groups, so using typical statistical tests isn't valid.
- It's like trying to prove that apples and oranges are different after you've already grouped them based on differences.

Traditional profiling requires carefully comparing many numbers to identify what makes each group unique. While it works it's time consuming and can overwhelm decision makers.

8.3 Segment Profiling with Visualisations:

It's explains how visualizations make it easier to understand market segmentation compared to tables. Segmentation is the process of dividing people into segments based on shared characteristics or preferences. Instead of using just numbers in tables, creating graphs helps to interpret the data faster and more effectively.

1. Why Visualizations Matter:

- Traditional tables are hard to understand because you need to compare lots of numbers.
- Visualizations are easier to understand at a glance.
- They help identify key differences between segments faster, with less effort.

2. What is a Segment Profile Plot?

- It is a graph that shows how each segment differs from the overall sample.
- Segments are shown in separate panels, with bars representing their preferences compared to the average.
- Characteristics unique to a segment are highlighted in color, making them stand out.

4. How Marker Variables Work:

- Marker variables are characteristics that make a segment unique.

- A variable becomes a marker if its segment value deviates significantly from the average.

5. Heat Maps and Cognitive Effort:

- A study used heat maps to compare how much effort people need to interpret tables versus graphs.
- Output:
 - People spent more time looking at tables, covering a larger area, to understand them.
 - Graphs required less effort and were quicker to interpret..

Visualizations like segment profile plots save time, reduce effort, and make it easier for decision-makers to understand market segmentation. This is important because good segmentation insights help businesses make better long-term strategies with confidence.

8.3.2 Assessing Segment Separation:

Segment separation helps us visualize how distinct or overlapping different segments are within data. A common way to see this is through segment separation plots. These plots use dimensions of data to illustrate how the segments differ and where they overlap.

It's a graph that shows:

- Data points: Represent individual observations .
- Cluster hulls: Enclosed areas representing the spread of a group.
- Connections: Black lines show relationships or similarity between groups.

Segment separation plots are tools to assess how distinct or blended market groups are. They simplify complex data and highlight meaningful patterns for decision-making. While perfect separation is rare, these plots offer valuable insights into group characteristics, enabling tailored strategies.