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| Market Segmentation Analysis  Lakshminarayan Shrivas | | |
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|  | Market Segmentation  Market segmentation is crucial because it aligns the genuine needs and desires of consumers with tailored offerings from suppliers. It forms the cornerstone of an organization's marketing planning process, comprising strategic and tactical components. The strategic plan defines long-term organizational direction, while the tactical plan translates this strategy into detailed short-term actions.  In essence, market segmentation ensures that marketing efforts are targeted and aligned with consumer demands, guiding the organization in effectively reaching its goals and satisfying both consumer needs and business objectives. | |  | |

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| Step 1: Deciding (not) to Segment Here, we explore the critical considerations before committing to market segmentation as a strategy. It emphasizes that although market segmentation is widely utilized, it's not always the optimal approach. The decision to pursue market segmentation demands a long-term commitment from an organization. This strategy isn't just a fleeting venture; it requires substantial investments and readiness for considerable changes, encompassing product development, pricing alterations, distribution channel shifts, and communication adaptations. This shift might also require internal restructuring, emphasizing the need to reorganize around market segments rather than products.  Moreover, this commitment necessitates a top-level executive decision that is continuously communicated across the organization. We delve into potential barriers to successful implementation, delineating senior management's crucial role. Lack of leadership, resources, and resistance to change within the organizational culture are identified as significant impediments. Insufficient understanding of segmentation fundamentals and the absence of a formal marketing function or qualified experts further hamper effective implementation. It underscores that identifying these barriers early on is crucial, with a recommendation to either proactively eliminate them or reevaluate the pursuit of market segmentation. Deciding Criteria The provided list (pg. no 28, 29) outlines a comprehensive set of tasks and responsibilities to evaluate an organization's readiness for market segmentation. It presents a systematic approach to determine whether an organization is well-prepared and equipped to embark on a market segmentation strategy. The tasks include assessing the organization's culture, willingness to change, long-term perspective, openness to new ideas, communication across units, readiness for significant changes, financial resources, and commitment from senior management.  The list also highlights crucial tasks such as securing commitment from senior management, ensuring their active involvement, obtaining financial commitment, conducting training sessions to ensure a complete understanding of market segmentation concepts and implications, assembling a proficient team, setting up an advisory committee, defining clear objectives, developing a structured process for analysis, assigning responsibilities, and allowing sufficient time for the segmentation analysis without time pressure.  Each task emphasizes the necessity of various elements: understanding the organization's culture and receptiveness to change, financial readiness, support from senior management, clarity of goals, proficient team composition, and a well-structured process. These tasks serve as a checklist to evaluate an organization's preparedness before deciding whether to proceed with a market segmentation strategy. Step 2: Specifying the Ideal TargetSegment In Step 2 of market segmentation analysis, the focus lies on specifying the ideal target segment. It involves evaluating segment criteria, which are pivotal for determining the segments to be assessed further. The step begins by highlighting two sets of segment evaluation criteria: knock-out criteria and attractiveness criteria. The knock-out criteria are indispensable features that eliminate non-compliant segments, while attractiveness criteria aid in assessing the appeal of remaining market segments. The knock-out criteria: Knock-out criteria play a crucial role in deciding which market segments, identified through segmentation analysis, are suitable for evaluation using segment attractiveness criteria. Initially outlined by Kotler (1994) as substantiality, measurability, and accessibility, additional criteria have been introduced by different experts (Wedel and Kamakura 2000; Lilien and Rangaswamy 2003; McDonald and Dunbar 2012):   * Homogeneity: Within a segment, members should have common traits or behaviors. * Distinctiveness: Each segment should stand out uniquely from others. * Adequate size: A segment should contain enough consumers to warrant customized marketing strategies. * Alignment with organizational strengths: The organization should be capable of satisfying the needs of segment members effectively. * Identifiability: Segments should be identifiable within the market landscape. * Reachability: Feasible channels must exist to engage with segment members for tailored marketing efforts.   Understanding these knock-out criteria is vital for senior management, the segmentation team, and the advisory committee. While some criteria like homogeneity and distinctiveness are straightforward, specifics like the minimum viable segment size need explicit definition. Implementing a structured process for segment evaluation: The process of assessing market segments benefits from a structured approach, widely acknowledged in segmentation literature (Lilien and Rangaswamy 2003; McDonald and Dunbar 2012). One popular method is using a segment evaluation plot, depicting segment attractiveness and organizational competitiveness. Criteria determining these factors need to be agreed upon, a task involving exploring numerous criteria to identify the most critical ones for the organization. A team approach is recommended, involving representatives from various organizational units to ensure diverse perspectives are considered.  The segment evaluation plot, although not completed initially, gains significance early in the segmentation process by defining essential segment criteria. Determining these criteria in the early stages ensures that data collection (Step 3).  By the end of this step, the segmentation team aims to establish around six segment attractiveness criteria, each with assigned weights indicating its importance relative to others. The typical approach involves team members allocating 100 points across criteria, followed by negotiation until a consensus is reached. Seeking approval from the advisory committee is recommended as it incorporates diverse perspectives from multiple organizational units, enriching the criteria specification process.  Ultimately, Step 2 concludes with the identification of approximately six segment attractiveness criteria, each weighted based on its importance. This list and its associated weightings are presented to the advisory committee for discussion and potential adjustment. The Step 2 checklist (pg.no 36) outlines the tasks involved, including convening team meetings, defining knock-out criteria, studying and agreeing on attractiveness criteria, distributing points across these criteria, and presenting these criteria and weights for approval by the advisory committee. Step 3: Collecting data Step 3 in the market segmentation process focuses on data collection, a critical phase that lays the groundwork for both commonsense and data-driven segmentation approaches. It revolves around identifying segmentation variables and criteria, gathering empirical data, and comprehending the significance of data quality in creating valid segmentation solutions.  Segmentation variables, central to the segmentation process, play a pivotal role in differentiating between commonsense and data-driven segmentation. Commonsense segmentation typically relies on a single characteristic (e.g., gender in Table 5.1) to create segments, while descriptor variables, encompassing other personal characteristics (e.g., age, travel behavior, benefits sought), aid in detailing these segments. Conversely, data-driven segmentation employs multiple segmentation variables to extract naturally existing or artificially created segments, as depicted in Table 5.2. Here, the focus shifts from a single characteristic to multiple variables (e.g., benefits sought) for segment identification, using socio-demographic data as descriptors.  The quality of empirical data holds paramount importance, ensuring accuracy in segment assignment and description. For both commonsense and data-driven segmentation, accurate descriptions are pivotal for customized product development, pricing strategies, distribution channels, and effective communication. The sourcing of empirical data for segmentation studies can vary, including surveys, observations (like scanner data), or experimental studies. While surveys are commonly used, their reliability in reflecting behavior, especially socially desirable behavior, may be limited. Hence, exploring various data sources that closely mirror actual consumer behavior is imperative for robust segmentation analysis.  Before data collection, organizations must decide on segmentation criteria, such as geographic, socio-demographic, psychographic, or behavioral factors, crucial for defining segments. Choosing the appropriate criterion requires market knowledge and understanding. The decision often leans towards using the simplest approach that best suits the product or service, emphasizing the pragmatic over the sophisticated when it comes to segmentation strategies.  The process of choosing segmentation criteria isn't easily outsourced, as it demands a deep understanding of the market landscape. Factors like profitability, preferences, barriers to choice, and consumer interactions influence this decision-making. Simplifying the approach by using demographic, geographic, or psychographic segmentation, based on what aligns best with the product or service, is often recommended to optimize effectiveness at minimal cost.  This comprehensive data collection phase underscores the significance of high-quality data and the strategic selection of segmentation criteria as fundamental elements in crafting effective market segmentation strategies. Geographic Segmentation Geographic segmentation refers to the division of markets based on geographical units such as countries, regions, cities, or neighborhoods. The rationale behind this approach is the understanding that consumers in different locations might have distinct needs, preferences, and behaviors influenced by their surroundings. For instance, the example of the Austrian tourism organization illustrates the need to cater to language differences in neighboring countries. This demonstrates the necessity of adapting marketing strategies to meet diverse linguistic preferences within specific geographic segments.  Advantages:  Targeted Communication: Allows companies to tailor their marketing messages and select appropriate communication channels based on the geographic location of the audience.  Ease of Identification: Each consumer can be easily assigned to a geographic unit, simplifying targeted marketing efforts.  Disadvantages:  Limited Insight: Living in the same area doesn't guarantee shared preferences or behaviors related to product choices.  Inadequate Explanation: Geographic location alone might not provide sufficient insight into consumer behavior or product preferences. Socio-Demographic Segmentation Socio-demographic segmentation relies on criteria such as age, gender, income, education, occupation, marital status, and family size. This segmentation approach is prevalent in various industries, as different demographic groups often exhibit different consumption patterns. However, it's important to note that socio-demographics can only explain a small portion of consumer behavior variation. For instance, luxury goods are often associated with higher income, while retirement village products are targeted at specific age groups.  Advantages:  Easy Identification: Allows straightforward classification of consumers into segments based on easily obtainable demographic information.  Partial Explanation: In some instances, demographics offer explanations for specific product preferences (e.g., family-oriented vacations for families).  Disadvantages:  Limited Explanation: Often, socio-demographics alone don't provide comprehensive insights into consumer behavior or preferences.  Low Variance Explained: Studies suggest that demographic factors explain only a small fraction of consumer behavior variations. Psychographic Segmentation Psychographic segmentation categorizes consumers based on their psychological attributes, including beliefs, values, lifestyles, attitudes, interests, and behaviors. This approach aims to understand consumer motivations and preferences on a deeper level, beyond just demographics. For example, tourists seeking cultural experiences will likely choose destinations rich in cultural heritage. Psychographics offer a more nuanced understanding of consumer behavior but are inherently complex due to the multitude of factors influencing individual choices.  Advantages:  Deeper Understanding: Offers insights into the underlying reasons for consumer behavior differences.  Behavioral Linkage: Psychographics often link closely to specific behaviors or preferences (e.g., travel motives correlating with vacation choices).  Disadvantages:  Complexity: Identifying psychographic traits that truly represent consumer segments is challenging due to the multifaceted nature of human behavior.  Reliability and Validity: The power of psychographic segmentation heavily relies on the accuracy and relevance of the measures used to capture psychological dimensions. Behavioral Segmentation Behavioral segmentation categorizes consumers based on their actions, behaviors, or reported behaviors related to product or service consumption. Factors such as purchase frequency, brand loyalty, usage patterns, and responses to marketing stimuli are considered. Unlike other segmentation methods, behavioral segmentation focuses on actual behavior rather than assumptions or stated preferences.  Advantages:  Behavior-Centric: Directly uses consumer behavior as the basis for creating segments, ensuring relevance and accuracy.  Real-time Insights: Reflects current consumer actions and interactions with products or services.  Disadvantages:  Data Availability: Behavioral data might not always be readily accessible, especially for potential customers who haven't engaged with the product or service before.  Limited Predictive Power: Past behavior might not always predict future preferences or actions accurately. Sample Size Considerations:Impact of Sample Size: Inadequate Samples: Insufficient samples limit algorithms in identifying correct market segments.  Recommended Sample Size: A minimum of 100 respondents per segmentation variable is recommended to ensure reliable identification of accurate market segments. Quality of Data for Segmentation:Desired Data Characteristics: High-Quality Data Requirements: Data for segmentation should ideally possess necessary variables, lack unnecessary or correlated items, employ binary or metric measurement, have no response biases, and maintain a suitable sample size in relation to segmentation variables.  This section emphasizes the necessity of meticulous variable selection, suitable response formats, understanding and mitigating response biases, and the critical importance of adequate sample sizes and overall data quality for accurate and reliable market segmentation analysis based on survey data. | |
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