The lecture of session 5 talks about the market segment, the core of a marketing strategy that explore the strategy of creating value by trying to understand who the customers are. Segmentation techniques. There are multiple criterions to target the specific group. For example, there are demographic factors including educational level, marital Status, age, gender, occupation, and income level, geographic factors including world region, country, and city or rural, behavioral factors including type of consumers (luxury-seeking, price-sensitive or quality-conscious), usage frequency (heavy users, regular users or light users) and degree of loyalty (loyal customers or switchers), and psychographic factors including lifestyle(environmentalists, traditionalists, or socially aware) and types of values (innovative or conservative). In conclusion, there are three important variables that could be used to target the specific segmentation. First, we should first identify that who are the customers for this specific product by examining factors such as Demographics, communication responsiveness, lifestyle, attitudes etc., Secondly, we should determine that what have the customers bought by examining factors such as usage and loyalty. Finally, we should identify that why do customers make the decisions they do, and there are criteria for actionable segmentation including identifiability, substantiality, accessibility, stability, and differentiability.

There are some marketing models that could be used to identify who are the customers to target and which marketing actions to use. As the first step is usually to quantify the customer, we could use RFMC framework to quantify the values of R-F-M-C for each individual customer. Then, we could apply cluster analysis that segments the customer base according to customer value and country to create customer segments and hierarchical linear model that evaluates responsiveness to marketing actions at different aggregation levels including time, customer value, and country to evaluate responsiveness to marketing. Then, to assess the sales variation drivers, we could use cross-Random Effects model to assess the extent to which sales variation can be explained by time, customer value, and country. Later, as we need to predict the sales, we could compare forecasting accuracy of our model to benchmarks. Finally, we should reallocate marketing actions within each country and keep the budget constant.

Session 5 also talks about a case study: predicting Consumer Tastes with Big Data at Gap. The takeaways from this case study are that, while identify popular products among customers with a big data-driven creative process, the pros are that data-driven could reflects the market preferences, eliminates guesswork, and forces rigorous decision making based on facts, not opinions. However, data can only reveal what worked, not what will work, and it is possible that consumers do not have the ability to identify successful products. Therefore, the use of big data and predicting consumer demand requires some fundamental assumptions: first, consumer preferences are stable across time. Secondly, consumer preferences are generated by consumers themselves and are resistant to marketers’ persuasive efforts. Finally, consumer preferences guide their purchase behavior, regardless of changes in context. However, research in consumer psychology has shown that people often exhibit inconsistency in their preferences: