

MARKET SEGMENTATION ANALYSIS

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1. Abstract

This report represents a brief introduction to a marketing strategy popularly known as Market Segmentation (MS) which is the process of grouping an audience into subgroups based on shared characteristics. It also highlights the key points related to MS along with their theory and practical implementation using Python.

2. Market Segmentation

Market Segmentation is the process of identifying segments of the target market and then dividing that target market into subgroups based on different factors such as demographics, needs, priorities, common interests, and other psychographic and/or behavioral criteria used to understand the target audience.

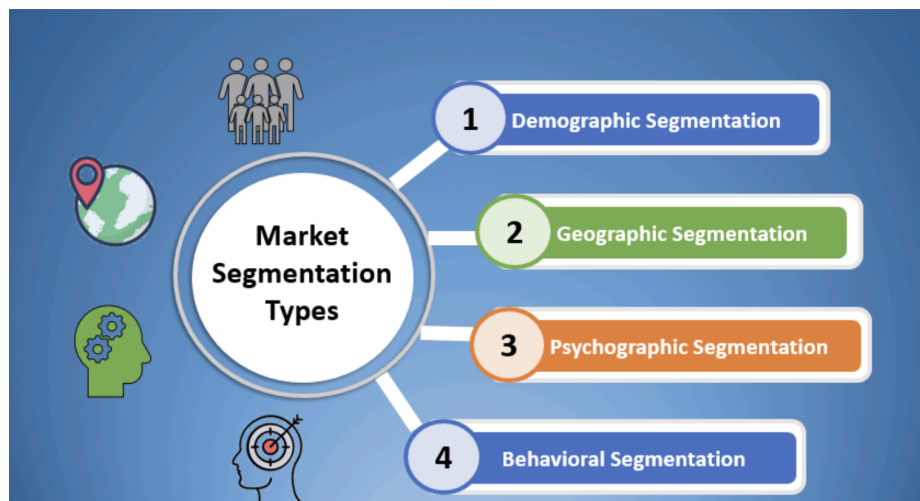
- **Why is it important?**

Market Segmentation is necessary as:

- It can help you to target just the people most likely to become customers of your company or consumers of your content/product.
- By understanding your market segments, you can leverage this targeting in product, sales, and marketing strategies.
- It can also power your product development cycles by informing how you create product offerings for different segments like men vs. women or high income vs. low income.
- More importantly, It can enhance profits [1, 2, 3].

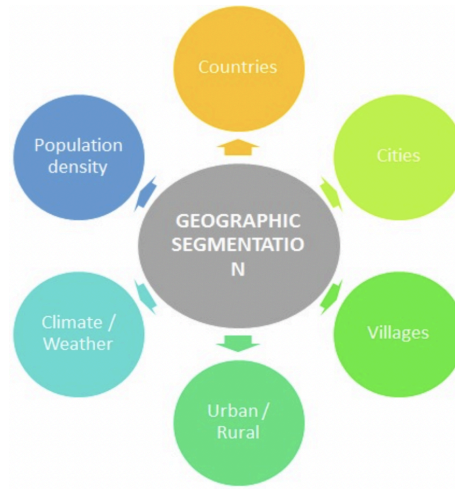
- **Types of Market Segmentation**

There are different types of market segments that you can create. Below are the four major types of Market Segmentation



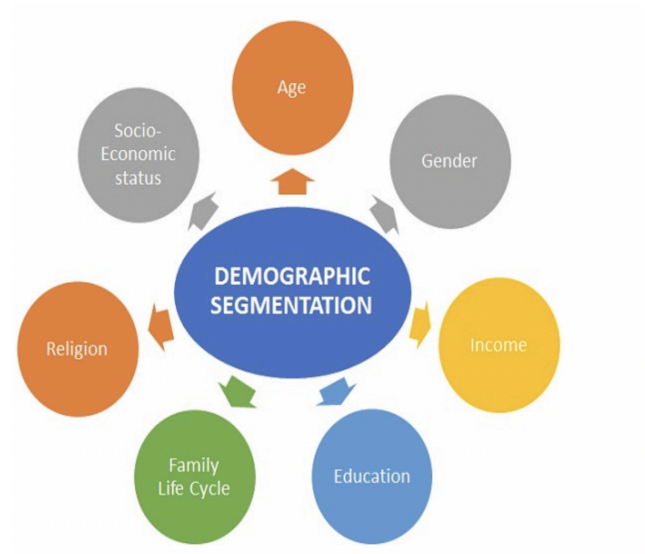
1. Geographic Segmentation

Geographic Segmentation splits up your target segment based on locations such as country, state etc. Customers can also be identified by taking into account the characteristics of the area they live in for example language, urban, suburban, rural etc.



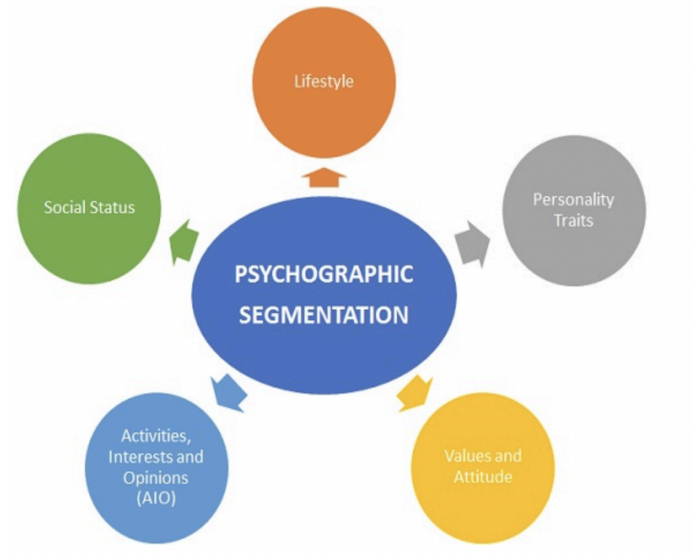
2. Demographic Segmentation

This type of segmentation technique splits the target audience based on people-based differences. These factors include things like age, sex, marital status, family size, occupation, education level, income, race, nationality and religion.



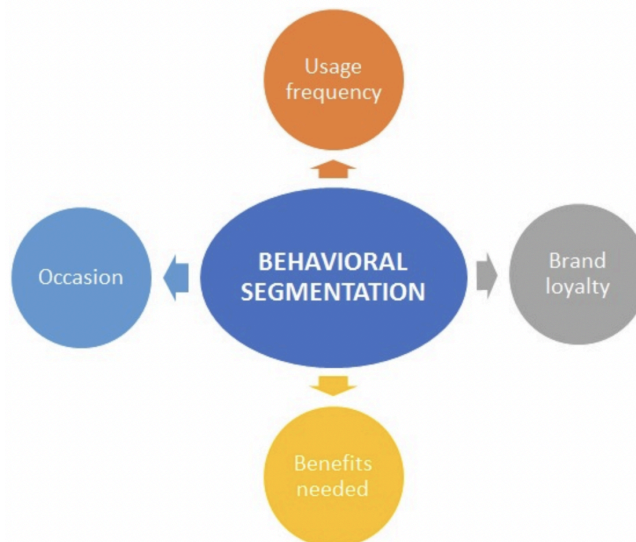
3. Psychographic Segmentation

Psychographic Segmentation splits the target market based on characteristics that are mental and emotional. Some examples of psychographic characteristics include personality traits, interests, beliefs, values, attitudes and lifestyles.



4. Behavioral Segmentation

Behavioral segmentation is a form of marketing segmentation that divides the target market based on behavioral patterns exhibited. This segmentation type studies the behavioral traits of consumers — their knowledge of, attitude towards, use of, likes/dislikes of, or response to a product, service, promotion, or brand.



3. The How

3.1 Deciding (not) to Segment

Committing to market segmentation implies a long-term organizational commitment, requiring substantial changes and investments. This includes developing new products, altering pricing, and restructuring internally to focus on market segments rather than products. The decision must be supported by top executives and communicated throughout the organization.

However, several barriers can impede successful implementation. Senior management's lack of leadership and resource allocation, an organizational culture resistant to change, and inadequate training can undermine efforts. Additionally, the absence of a formal marketing function, financial constraints, and poor planning can also pose challenges. Understanding and removing these barriers from the outset is crucial, or else reconsidering the segmentation strategy is advised.

A checklist for the first step of market segmentation includes tasks and questions to identify potential barriers. If an organization is not market-oriented, even a well-conducted segmentation analysis may fail. Ultimately, dedication, patience, and proactive problem-solving are essential for successful market segmentation implementation.

3.2 Specifying the Ideal Target Segment

Organizations must specify ideal target segments through user input and determining two sets of criteria: knock-out and attractiveness. Knock-out criteria are essential and non-negotiable, ensuring segments are homogeneous, distinct, large enough, match organizational strengths, identifiable, and reachable. These criteria help eliminate non-viable segments early on.

Attractiveness criteria, on the other hand, are used to rate the remaining segments on various factors such as market potential, growth, competitive advantage, and profitability. These criteria are not binary and require the segmentation team to negotiate and weigh their importance.

A structured process is recommended, often utilizing a segment evaluation plot to assess segment attractiveness against organizational competitiveness. This involves selecting a few key criteria (typically no more than six) and assigning weights to each, ensuring all relevant information is captured during data collection.

The segmentation team should involve representatives from all organizational units to ensure diverse perspectives and stakeholder buy-in. A checklist helps guide the process, including convening meetings, agreeing on criteria, distributing weight points, and seeking approval from an advisory committee. This structured approach lays the groundwork for easier target segment selection in later steps.

3.3 Collecting Data

The importance of collecting high-quality data for market segmentation analysis. The data collection process involves identifying the right segmentation variables, which are characteristics that can be used to split the sample into market segments. Descriptor variables, on the other hand, are used to describe

the segments in detail. The chapter highlights the importance of using empirical data, which can come from various sources such as surveys, internal data, and experimental studies.

When collecting data, it is essential to consider the quality of the data and minimize biases and errors. This can be achieved by carefully designing the data collection process, selecting the right response options, and ensuring that the sample size is sufficient. The chapter provides recommendations for sample size, suggesting that a minimum of 100 respondents per segmentation variable is required.

The chapter also discusses the advantages and disadvantages of different data sources. Survey data is cheap and easy to collect but can be contaminated by biases. Internal data, on the other hand, represents actual behavior but may be biased towards existing customers. Experimental data can provide valuable insights but may not be representative of real-world behavior.

To ensure high-quality data, the chapter recommends that data collection should be designed to minimize response styles, use binary or metric response options, and include a sufficient sample size. Additionally, data should be free of correlated items, noisy variables, and response biases.

3.4 Describing Segments

Describing market segments involves understanding the differences between segments in terms of descriptor variables, which are additional variables that provide information about segment members. These descriptor variables can be nominal or ordinal (such as gender, level of education, country of origin) or metric (such as age, income, number of purchases).

Visualizations can be used to describe market segments, making it easier to interpret results and avoiding the over-interpretation of insignificant differences. Stacked bar charts and mosaic plots are two approaches that can be used for nominal and ordinal descriptor variables, while histograms and box-and-whisker plots can be used for metric descriptor variables.

Mosaic plots can also visualize the statistical significance of differences between segments, using colors to indicate where observed frequencies are different from expected frequencies under the assumption of independence between variables.

In addition to visualizations, statistical tests can be used to formally test for differences in descriptor variables across market segments. The χ^2 -test is an appropriate test for independence between columns

and rows of a table, and can be used to test for significant differences in the gender distribution across segments.

Prediction models can also be used to predict segment membership from descriptor variables, using methods such as regression analysis or machine learning algorithms. These models can test differences in all descriptor variables simultaneously and indicate how well members of a market segment can be identified given the descriptor variables.

3.5 Selecting the Target Segment

The target segment(s) are selected from the market segments that have been previously identified and analyzed. This is a crucial decision as it will significantly impact the organization's future performance.

Before selecting the target segment(s), the segmentation team must ensure that all the market segments under consideration have passed the knock-out criteria, such as size, homogeneity, distinctness, match, identifiability, and reachability. If a market segment does not meet these criteria, it should be eliminated from further consideration.

To select the target segment(s), the segmentation team must evaluate the attractiveness of each market segment and the organization's relative competitiveness for each segment. This evaluation can be visualized using a decision matrix, such as the Boston matrix or the General Electric/McKinsey matrix. These matrices typically plot segment attractiveness along one axis and relative organizational competitiveness along the other axis.

Segment attractiveness is based on the criteria specified in Step 2 of the market segmentation process, such as market size, growth potential, and profitability. The segment evaluation plot shows the weighted value for each segment attractiveness criterion for each segment. The overall attractiveness of each segment is calculated by multiplying the weight of each attractiveness criterion with the value of the criterion for each market segment and then summing up all these values for each segment.

Relative organizational competitiveness is based on the criteria that consumers use to select between alternative offers in the market, such as product attractiveness, price, distribution channels, and brand image. The overall relative organizational competitiveness of each segment is calculated in the same way as the attractiveness of each segment from the organizational perspective.

The segment evaluation plot can help the segmentation team identify the most attractive segments and the segments where the organization has a competitive advantage. The plot can also help the team eliminate less attractive segments and identify segments that may not be a good fit for the organization.

3.5 Customising the Marketing

organizations customize their marketing mix to cater to the needs and preferences of their target segment(s). The marketing mix consists of four main components: Product, Price, Place, and Promotion. Market segmentation is often used in conjunction with other strategic marketing areas, such as positioning and competition, in what is known as the segmentation-targeting-positioning (STP) approach.

Customizing the marketing mix to the target segment requires careful consideration of each of the 4Ps. For example, product design or modification may be necessary to meet the specific needs of the target segment. This could involve developing new products or modifying existing ones, as well as considering aspects such as naming, packaging, warranties, and after-sales support services.

Pricing decisions also need to take into account the target segment's willingness and ability to pay, as well as any discounts or promotions that may be necessary to attract and retain customers. Place, or distribution, decisions involve determining how to make the product available to customers, such as through online or offline channels, or through wholesalers, retailers, or direct sales.

Promotion decisions involve developing a marketing communication strategy that resonates with the target segment. This could include advertising messages, public relations, personal selling, and sponsorship. Understanding the target segment's information sources and media consumption habits is crucial in developing an effective promotion strategy.

Organizations may choose to structure their market segmentation analysis around one of the 4Ps, depending on their specific objectives. For example, if the objective is to inform pricing decisions, price sensitivity and willingness to pay may be used as segmentation variables. If the objective is to inform advertising decisions, benefits sought, lifestyle, and psychographic variables may be more useful.

Customizing the marketing mix to the target segment is essential for maximizing the benefits of a market segmentation strategy. By understanding the needs, preferences, and behavior of the target segment, organizations can develop products, pricing, distribution, and promotion strategies that are more likely to be successful.

3.6 Evaluation and Monitoring

Market segmentation is not a one-time process, but rather an ongoing strategic decision process. After implementing a segmentation strategy, organizations must evaluate its effectiveness and monitor the market for changes. Evaluating the success of a segmentation strategy involves determining whether developing a customized marketing mix for one or more segments has resulted in the expected benefits, such as increased profit or achievement of the organizational mission.

Monitoring the market involves tracking changes in segment membership and segment evolution over time. Changes in segment membership can occur due to a variety of factors, including changes in consumer behavior, the availability of new products, and disruptive innovations. Segment evolution can be modeled using methods such as the MONIC framework or the taxonomy developed by Oliveira and Gama, which allow for segments to remain unchanged, merge, split, disappear, or emerge over time.

It is important to establish a process for monitoring market segments to ensure that any changes are identified as early as possible and acted upon. This can help organizations adapt to changes in the market and maintain a competitive advantage. By continuously monitoring and adapting to changes in market segments, organizations can more closely satisfy consumer needs and create competitive advantage.

In the context of market segmentation analysis, it is important to keep in mind that consumers may not always stay in the same segment. Segment hopping, or the phenomenon of consumers switching between segments, can occur due to a variety of factors, such as changes in consumption occasions or promotional offers. Organizations can estimate the proportion of segment hoppers and develop targeted marketing strategies for this group.

Overall, ongoing evaluation and monitoring of market segmentation strategies is crucial for organizations to stay competitive and continue to satisfy consumer needs over time. By tracking changes in segment membership and segment evolution, organizations can adapt their marketing mix and maintain a competitive advantage in the market.

4. Market Segmentation Case Study on McDonalds Dataset

Kindly refer to any of the following GitHub links for the complete code implementation.

Github link: <https://github.com/Manassaluja/feynn-lab-internship/tree/main/Task-1>

5. Conclusion

In conclusion, market segmentation is a critical aspect of marketing strategy that involves dividing a market into distinct groups of consumers with similar needs and characteristics. The segmentation process involves several steps, including selecting segmentation variables, collecting data, extracting market segments, profiling and describing segments, and evaluating and monitoring the segmentation strategy.

When selecting segmentation variables, it is important to choose variables that are relevant, measurable, and actionable. Data collection can be done through various methods, including surveys, focus groups, and secondary data sources. Extracting market segments involves using statistical techniques to identify distinct groups of consumers based on the segmentation variables. Profiling and describing segments involves understanding the characteristics and needs of each segment, which can be done through visualizations and statistical tests.

Evaluating and monitoring the segmentation strategy involves ongoing tasks, including evaluating the effectiveness of the segmentation strategy and monitoring changes in the market. It is important to keep in mind that consumers may not always stay in the same segment, and segment hopping can occur due to various factors.

Overall, market segmentation is a complex process that requires careful consideration of various factors. By following the steps outlined in this summary, marketers can gain a deeper understanding of their target market and develop effective marketing strategies that meet the needs and preferences of their customers. It is important to remember that market segmentation is not a one-time process, but rather an ongoing strategic decision process that requires continuous evaluation and monitoring.