Market Segmentation Analysis

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Steps

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Step 1: Deciding (not) to Segment

1.1 Implications of Committing to Market Segmentation

- Market segmentation is a marketing strategy that involves dividing the market into different groups of customers based on their needs and preferences.

- Market segmentation requires a long-term commitment and significant investment from the company, as it involves researching the segments, creating or modifying products, changing pricing and communication, and reorganizing the company structure.

- Market segmentation can be beneficial if it leads to increased sales, but it also has costs and risks. Cahill (2006) advises not to segment unless the expected increase in sales is enough to justify the segmentation strategy.

1.2 Implementation Barriers

- Two types of barriers can prevent market segmentation from being implemented successfully: senior management and organizational culture.

- Senior management can be a barrier if they lack vision, understanding, or support for the segmentation process, or if they fail to provide enough resources for the analysis and the strategy.

- Organizational culture can be a barrier if it does not have a strong sense of purpose, dedication, patience, and willingness to deal with the challenges of segmentation.

1.2.1 Lack of training

- In this will discusses how the lack of training can be a potential problem for market segmentation. It mentions several factors that can make market segmentation difficult, such as not having enough skills in marketing and data analysis, not having enough resources and flexibility, not having clear goals, planning, processes, responsibilities, and time, and not understanding and accepting segmentation methods.

for examples : how poor planning and management can affect market segmentation negatively.

It suggests that clear goals, good planning, organized processes, clear responsibilities, and enough time are essential for successful market segmentation

Step 1 Checklist

The checklist consists of tasks and questions. If the answers to these questions are negative, it's a warning sign. For example, if a company doesn't pay attention to what the market wants, even the best market segmentation analysis will fail.

Step 2: Specifying the Ideal Target Segment

2.1 Segment Evaluation Criteria

The third layer of market segmentation analysis heavily relies on user input throughout various stages. User involvement is crucial for the analysis to provide valuable results to an organization. After committing to exploring the value of a segmentation strategy, the organization plays a key role in Step 2 by contributing conceptual criteria, dividing them into knock-out criteria (essential features for targeting) and attractiveness criteria (used to evaluate remaining segments).

2.2 Knock-Out Criteria

Knock-out criteria filter market segments for attractiveness evaluation. which are the essential features that a market segment must have to be considered for further evaluation. it lists six knock-out criteria, such as homogeneity, distinctiveness, and reachability, and cites various authors who have proposed them. it also explains that knock-out criteria must be agreed upon by the organisation and its stakeholders, and that some criteria, such as size, need to be defined more precisely. It is crucial for senior management, the segmentation team, and the advisory committee to understand these criteria for effective decision-making in the segmentation process.

2.3 Attractiveness Criteria

a variety of options are presented to the segmentation team, expanding on the knock-out criteria. Unlike the binary nature of knock-out criteria, attractiveness criteria involve a nuanced approach. Market segments are not classified as simply compliant or non-compliant; instead, each segment receives a rating, indicating its relative attractiveness with respect to specific criteria. The overall attractiveness across all criteria plays a pivotal role in determining whether a market segment is deemed suitable for selection as a target. The segmentation team must carefully assess and prioritize these criteria, tailoring their decisions to the specific circumstances of the analysis.

2.4 Implementing a Structured Process

The evaluation of market segments is a well-defined procedure that involves utilizing a segment evaluation plot to assess both segment appeal and organizational competitiveness. It is crucial for the segmentation team and advisory committee, who bring diverse viewpoints and represent various units, to reach a consensus on the criteria and weights for these two factors. Additionally, the importance of determining the attractiveness criteria early in the process, prior to data collection and target segment selection, is emphasized.

2.5 Step 2 Checklist:

· Initiate a meeting with the segmentation team.

· Define and reach consensus on knock-out criteria (homogeneity, distinctness, size, match, identifiability, and reachability) to automatically eliminate non-compliant segments in Step 8.

· Share knock-out criteria with the advisory committee for discussion and potential adjustments.

· Independently review available criteria for assessing market segment attractiveness.

· Collaborate with segmentation team members to choose a subset of no more than six criteria.

· Allocate 100 points individually across the agreed-upon attractiveness criteria, reflecting their relative importance.

· Discuss and finalize weightings with other team members.

· Present selected attractiveness criteria and proposed weights to the advisory committee for discussion and potential adjustments.

Step 3: Collecting Data

3.1 Segmentation Variables

- Segmentation relies on empirical data for both commonsense and data-driven approaches.
- Commonsense segmentation uses a single variable (e.g., gender), while data-driven segmentation involves multiple variables (e.g., vacation preferences).
- Descriptor variables offer detailed information about segments.
- Accurate data is crucial for assigning individuals to segments and developing effective marketing strategies.
- Good empirical data can be sourced from surveys, observations (e.g., scanner data), or experiments.
- Quality empirical data is essential for meaningful segmentation analysis and actionable insights for organizations.

3.2 Segmentation Criteria

In navigating market segmentation, how the organisation has to choose the segmentation criterion, which is the type of information used to divide the market into groups of customers. It discusses some common segmentation criteria, such as geographic, socio-demographic, psychographic and behavioural, and some factors that affect the relevance of market segmentation, such as profitability, bargaining power, and preferences also advises to use the simplest segmentation criterion that works for the product or service, and not to be swayed by the complexity or appeal of other criteria.

3.2.1 Geographic Segmentation

The concept of geographic segmentation involves grouping customers based on their location.explores the advantages and disadvantages of employing geographic segmentation and provides examples of its implementation by various organizations. Additionally, it touches upon the challenges and opportunities associated with using geographic segmentation across diverse countries and cultures.

3.2.3 Psychographic Segmentation

Psychographic segmentation involves categorizing individuals based on psychological criteria, including beliefs, interests, preferences, aspirations, or sought benefits when making a purchase. Introduced by Haley (1985), this method encompasses a broad range of mental measures, notably featuring benefit and lifestyle segmentation. Unlike simpler geographic or socio-demographic criteria, psychographic segmentation is inherently complex, necessitating multiple variables like diverse travel motives or perceived vacation risks. Although psychographic segmentation provides a more accurate reflection of the underlying reasons for consumer behavior, determining segment memberships becomes more intricate. The effectiveness of this approach hinges on the reliability and validity of empirical measures capturing the psychographic dimensions of interest.

3.2.4 Behavioral Segmentation

Behavioral segmentation involves extracting segments based on similarities in behavior or reported behavior. Various behaviors, such as prior product experience, purchase frequency, amount spent, and information search behavior, can be used as segmentation criteria. Studies suggest that behavioral segmentation using actual behavior can be more effective than geographic variables. The key advantage lies in using the behavior of interest as the basis for segment extraction. Examples include using consumer expenses and actual purchase data as segmentation variables. While behavioral data is powerful, its availability can be limited, particularly when including potential customers who haven't previously purchased the product. This approach also eliminates the need for developing valid measures for psychological constructs.

3.3 Data from Survey Studies

Most market segmentation relies on survey data for its affordability and accessibility. However, survey data, unlike behavior-based data, can be influenced by biases, potentially compromising the quality of segmentation analysis. This section emphasizes the need to address biases when using survey data to ensure accurate and reliable segmentation outcomes.

3.3.1 Choice of Variables

Selecting variables is critical for both commonsense and data-driven segmentation. In data-driven approaches, including all relevant variables while avoiding unnecessary ones is key. Unneeded variables can lead to respondent fatigue, impacting data quality. They also complicate segmentation without adding value. Noisy variables, arising from poor survey questions or variable selection, hinder algorithm accuracy. To prevent this, it's crucial to ask necessary and unique questions, avoiding redundancy. Redundancy interferes with segmentation algorithms. A robust questionnaire development process involves qualitative research, ensuring critical variables are included.

3.3.2 Sample Size

A crucial component of successful market segmentation analysis is determining an appropriate sample size. Without a sufficient dataset, accurate identification of segments becomes hindered, underscoring the importance of proper sampling. Experts recommend a minimum sample size of 60 multiplied by the number of variables used for segmentation. In more complex situations, larger samples greatly improve the accuracy of segment extraction. Various factors, such as the size and overlap of market segments and the quality of survey responses, can also affect the effectiveness of segment identification. For optimal results, the data collected should include all necessary elements, without any unnecessary or redundant items, and have a high level of data quality. Ultimately, selecting an appropriate sample size is crucial in ensuring successful market segmentation.

3.4 Data from Internal Sources

Organizations are progressively leveraging extensive internal data pools for conducting market segmentation analyses. Internal data can come from sources such as scanner data, booking data, or online purchase data, that reflect the actual behavior of consumers. it discusses some advantages and disadvantages of using internal data, and gives some examples of how it is used by different organisations also mentions some challenges and opportunities of using internal data for new or existing customers.

3.5 Data from Experimental Studies

Experimental data, derived from field or laboratory experiments, offer an alternative source for market segmentation analysis. Experimental data can come from field or laboratory experiments that test how consumers react to different stimuli, such as advertisements or products. Experimental data can reveal consumers' preferences and choices, which can be used as segmentation criteria.

3.6 Step 3 Checklist:

· Initiate a meeting with the market segmentation team.

· Identify potential segmentation variables by discussing consumer characteristics suitable for grouping.

· Recognize additional consumer characteristics necessary for comprehensive segment descriptions.

· Plan data collection methods ensuring accurate capture of segmentation and descriptor variables.

· Strategically design data collection to minimize contamination from biases and systematic errors.

· Execute the data collection process.

Step 8: Selecting the Target Segment(s)

8.1 The Targeting Decision

Step 8 is a pivotal moment where the strategic decision to choose target market segments is made. After determining the global market segmentation solution in Step 5, Steps 6 and 7 involve in-depth analysis of various segments. In Step 8, the objective is to select one or more segments for targeting, which significantly influences the organization's future performance.

Insights from Step 2, particularly the established knock-out criteria and segment attractiveness criteria, guide the segmentation team. While knock-out criteria ideally have been applied earlier to eliminate unsuitable segments, a thorough check is performed for compliance. The focus then shifts to evaluating the attractiveness of the remaining segments and assessing the organization's competitiveness.

8.2 Market Segment Evaluation

Selecting target market segments involves assessing their attractiveness and the organization's competitiveness. Decision matrices, like the Boston matrix or General Electric/McKinsey matrix, are commonly used for this purpose, offering visualizations of segment attractiveness and organizational competitiveness to aid decision-making.

In a segment evaluation plot, the x-axis represents the segment's attractiveness to the organization, and the y-axis indicates organizational competitiveness to the segment. Circles, symbolizing segments, vary in size based on additional criteria such as contribution to turnover or loyalty. Users determine the best measure of attractiveness and competitiveness according to their specifications for an ideal target segment.

Creating the plot involves assigning values for each attractiveness criterion to every segment based on profiles and descriptions from Steps 6 and 7. The weighted values for each criterion are summed to provide an overall attractiveness value for each segment (x-axis). The same process is used to assess organizational competitiveness (y-axis).

Bubble size, often indicating profit potential, can be customized based on user preferences. The completed plot assists the segmentation team in discussions and decisions. For example, segments with low attractiveness or competitiveness may be eliminated, while those with high attractiveness and profitability may be prioritized. The provided code demonstrates how to recreate the plot using the MSA package.

Step 8 Checklist: Target Segment Selection

- o Convene a segmentation team meeting.
- o Identify potential target markets among the segments profiled in Steps 6 and 7.

- Double-check remaining segments for compliance with knock-out criteria (homogeneity, distinctness, size, match, identifiability, and reachability). Eliminate non-compliant segments.
- Discuss and agree on values for each segment attractiveness criterion for every market segment.
- Discuss and agree on values for each relative organizational competitiveness criterion for each market segment.
- Calculate each segment's overall attractiveness by multiplying segment values with criterion weights and summing up these values for each segment.
- Calculate each segment's overall relative organizational competitiveness using the same process.
- Plot the values on a segment evaluation plot.
- Make a preliminary selection of target segment(s).
- If targeting multiple segments, ensure compatibility.
- Present selected segments to the advisory committee for discussion and reconsideration if necessary.

Step 9: Customising the Marketing Mix

9.1 Implications for Marketing Mix Decisions

When conducting market segmentation for distribution decisions, crucial variables include store loyalty, patronage, and benefits sought in store selection. These factors, outlined by Lilien and Rangaswamy (2003), play a pivotal role in understanding consumer behavior within retail channels. However, market segmentation analysis typically extends beyond a narrow focus on the 4Ps (Product, Price, Place, and Promotion). Instead, it offers a comprehensive perspective, considering diverse aspects of consumer behavior. Insights from the detailed description of the target segment in Step 7 guide organizations not only in distribution decisions but also in shaping the entire marketing mix. By tailoring strategies across all elements of the marketing mix based on a holistic understanding of the target segment, organizations can effectively meet specific consumer needs and preferences, ensuring a more integrated and consumer-centric approach.

9.2 Product

When it comes to the product element of the marketing mix, organizations must make a critical decision - ensuring that the product meets the needs of their customers. This often requires adjusting existing products rather than developing completely new ones. Many factors, such as naming, packaging, warranties, and post-purchase support, play a role in shaping the overall product strategy. To better understand how target segments affect product design, let's take a look at the biclustering approach applied to the Australian vacation activities data set (see Appendix C.3). For instance, if an organization wants to target segment 3, which has a strong interest in cultural activities, they may make modifications to their product to meet the needs of this segment. Through this example, we can see how target segments have a direct impact on product design.

9.3 Price

The dimension of price in the marketing mix carries great weight in making crucial decisions that impact a multitude of factors. These decisions include determining product pricing and implementing discount strategies. To illustrate, let's consider a destination aiming at attracting segment 3, which was identified through biclustering of the Australian vacation activities data set. Through an analysis, the bicluster solution is applied and a binary vector is created to identify segment 3 members. By delving into consumer expenditures, as depicted in a boxplot, the study divulges a comparison between the spending habits of segment 3 members and other consumers. Remarkably, members of segment 3 demonstrate a tendency for higher daily expenditures, suggesting the potential for implementing premium pricing strategies on desirable products, such as "MUSEUMS, MONUMENTS & MUCH, MUCH MORE"offering. This analysis showcases how insights from the price dimension can optimize targeted marketing approaches, providing valuable guidance for pricing strategies.

9.4 Place

In the marketing mix, the place dimension involves crucial decisions on product distribution to customers, encompassing considerations of online versus offline availability, direct selling versus intermediaries, and the choice between wholesalers and retailers. In the context of targeting segment 3, known for its cultural heritage interest, insights into booking preferences become vital. Survey data on accommodation booking behavior during domestic holidays is utilized to inform distribution strategies. Visualizing the information using propBarchart from the flexclust package reveals that segment 3 members exhibit a higher inclination for online hotel bookings compared to the average tourist. This finding emphasizes the need for online booking options for the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product, illustrating how understanding consumer behavior informs decisions in the place dimension of the marketing mix. Further exploration into the online booking patterns for other products and activities by segment 3 members could provide additional valuable insights.

9.5 Promotion

In shaping the marketing mix, promotion decisions involve crafting an advertising message resonating with the target market and determining the most effective communication channels. Public relations, personal selling, and sponsorship are additional tools in the promotion category. For segment 3, understanding the preferred information sources becomes crucial in promoting the product. Analyzing their choices for information on the last domestic holiday reveals a distinct reliance on tourist centers. Leveraging this insight, promotional strategies may include offering information packs at local tourist centers and online platforms. Examining TV channel preferences through mosaic plot analysis unveils that segment 3 members favor Channel 7. This valuable information guides the development of a media plan to enhance targeted communication for the specified product, emphasizing the importance of aligning promotion strategies with the preferences of the target segment.

- **Step 9 Checklist**
- Convene a segmentation team meeting.
- Study the profile and the detailed description of the target segment again carefully.

- Determine how the product-related aspects need to be designed or modified to best cater for this target segment.
- Determine how the price-related aspects need to be designed or modified to best cater for this target segment.
- Determine how the place-related aspects need to be designed or modified to best cater for this target segment.
- Determine how the promotion-related aspects need to be designed or modified to best cater for this target segment.
- Review the marketing mix in its entirety.
- If you intend to target more than one segment: repeat the above steps for each of the target segments. Ensure that segments are compatible with one another.
- Present an outline of the proposed marketing mix to the advisory committee for discussion and (if required) modification.