

MARKET SEGMENTATION ANALYSIS

– McDonald's Case study

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Abstract: The process of breaking a bigger market into smaller groups or segments of consumers with comparable demands, features, or behaviours is known as market segmentation. Companies can develop more targeted and successful marketing strategies that better satisfy the needs of consumer groups by segmenting the market. Using information from demographic, geographic, psychographic, and behavioural sources, markets can be segmented into various groups. Knowing the specific needs and preferences of various market segments enables businesses to modify their products, services, and marketing messages to better appeal to demographics, resulting in more fruitful and profitable marketing campaigns. Market segmentation is a crucial component of contemporary marketing that aids businesses in making the most of their resources and achieving their goals.

Market Segmentation

The technique of segmenting a diverse market into smaller groups or segments based on shared traits or demands is known as market segmentation. Market segmentation is to pinpoint the unique requirements and preferences of various client groups so that targeted marketing strategies may be created to successfully reach and cater to those customers.



Fig: Block Diagram of steps involved in Market Segmentation

STEPS OF MARKET SEGMENTATION ANALYSIS

STEP 1 - Deciding (not) to segment:

Choosing whether to segment the market is the first stage in the segmentation process. Businesses must assess if the costs and resources needed to execute a segmentation analysis outweigh the possible benefits of segmentation, such as higher customer happiness and profitability. The decision to segment the market is a vital one that can considerably affect a company's success in the marketplace. Before deciding to segment the market, companies must consider a range of factors, including:

- **Market size:** When selecting whether to segment, the size of the market is a key factor. While larger markets may present more opportunities for segmentation and targeted marketing, segmentation may not be necessary or cost-effective for smaller markets.
- **Market traits:** The market's traits, like its degree of heterogeneity, amount of competition, and development potential, can also affect the choice to segment. Markets that are highly varied and competitive may require segmentation to effectively reach and service certain client groups.
- **Business strategy:** Market segmentation should be decided in accordance with the company's overall business strategy, according to this statement. Segmentation may be required if the company's strategy focuses on providing niche goods or services in order to successfully reach the target market.
- **Customer needs:** Businesses must also consider the unique requirements and preferences of their target market. To effectively meet the needs of customers with varied needs and preferences, segmentation may be required.

In the end, the choice to divide the market should be founded on a thorough evaluation of these variables and an awareness of the potential advantages and disadvantages of segmentation. Although segmentation can result in increased customer satisfaction, loyalty, and profitability, it also necessitates a significant time, resource, and effort investment.

STEP 2 - Specifying the ideal target segment:

Choosing the best target segment is the next stage in market segmentation after selecting to divide the market into segments. This entails determining the consumer group or groups that the business wishes to concentrate on and serve most successfully. This phase is crucial since it establishes the framework for all further market segmentation and marketing initiatives.

Companies often consider a number of variables, including as demographics, psychographics, behaviours, and demands, in order to pinpoint the appropriate target segment. When defining the target segment, demographic factors like age, gender, income, education, and occupation are frequently used as a starting point. The target audience's demands and preferences could not be adequately captured by these criteria alone, though.

To better understand the motivations and behaviours of the target group, businesses may also consider psychographic variables including personality, values, attitudes, and lifestyle. Companies generally develop a customer profile or persona that details the traits, tastes, and behaviours of the target customer once the appropriate target segment has been identified. This profile acts as a jumping-off point for all subsequent marketing initiatives and ensures that those initiatives are in line with the wants and needs of the target market. Companies may employ a range of data sources, such as market research, customer surveys, and customer data analysis, to establish an effective target group. To obtain a deeper understanding of the requirements and preferences of the target market, they might also conduct focus groups or other kinds of qualitative research.

The ultimate objective of defining the ideal target segment is to produce an understandable and actionable portrait of the target consumer. By doing this, businesses are able to create marketing plans that are more effective, customise their goods and services to the needs of the target market, and get a competitive edge in the market.

STEP 3 - Collecting data:

Gathering information to better understand the traits and behaviours of the target segment is the third step in market segmentation. This step is crucial because it enables businesses to decide how to sell to the target audience efficiently and create goods and services that satisfy their wants. Depending on the market and the target sector, many data collection techniques may be used, but they often combine primary and secondary research. While secondary research entails analysing already-existing data sources to gain insights into the target segment, primary research entails gathering fresh data directly from the target audience.

A few examples of primary research techniques are surveys, focus groups, interviews, and observation. One of the most popular primary research techniques for market segmentation is the survey, which can be carried out in-person, over the phone, or online. Focus groups, which include bringing a small group of people together to talk about a certain subject or item, can give detailed insights into the motivations and behaviours of the target market. Direct interaction with specific clients is required when using the interview and observation methods to learn about their requirements and preferences.

Analysing demographic data, consumer purchase data, internet behaviour data, industry reports, and other publicly accessible data sources are examples of secondary research approaches. Businesses can benefit from this information by having a better understanding of the market as a whole and the traits and tendencies of the target market. Data must be analysed once it has been gathered to find important trends, patterns, and insights. This study can be used to uncover opportunities for focused marketing and product development as well as to segment customers based on shared traits and behaviours.

Companies must continue to collect and analyse data in order to stay abreast of shifting consumer preferences and industry trends. Data collecting is an ongoing operation. Companies can get a competitive edge in the market and create more effective marketing strategies and product offers that cater to the needs of their target audience by efficiently collecting and analysing data.

STEP 4 - Exploring data

Exploring the information gathered in the previous stage is the fourth step in market segmentation. The goal of this stage is to get insights into the traits, habits, and preferences of the target market by analysing and interpreting the data.

Numerous techniques, such as statistical analysis, data visualisation, and qualitative analysis, are typically used when exploring data. To find patterns and links in the data, such as correlations or trends, statistical analysis uses mathematical tools. It is also possible to employ data visualisation tools, such as graphs and charts, to find patterns and trends in the data. By looking at the data more subjectively and frequently employing human interpretation to find important themes and insights, qualitative analysis. Finding more delicate or nuanced insights into the behaviour and preferences of the target audience might be a special benefit of this type of investigation.

Based on shared traits and behaviours, businesses may discover several distinct client groups during the investigation phase. Depending on the data gathered and the segmentation objectives, these segments may comprise demographic, psychographic, or behavioural segments. Once customer segments have been identified, businesses can investigate each segment further to learn more about its needs, preferences, and behaviours. This can help businesses better cater their marketing initiatives and product offers to each segment's needs.

Exploring data is a continuous activity, and businesses must keep doing data analysis and interpretation as consumer preferences and market conditions evolve. Companies can design more specialised marketing plans and product offers that cater to the needs of their target market by successfully utilising data exploration to provide them a competitive edge in the market.

STEP 5 - Extracting segments

Extraction of segments from the information gathered and examined in the preceding processes constitutes the fifth step in market segmentation. In this step, customers with similar traits and behaviours are categorised into distinct segments that can later be targeted with tailored marketing campaigns and product offerings. Companies frequently employ statistical methods like clustering or factor analysis to extract segments. While factor analysis involves identifying underlying factors that influence customer behaviour and preferences, clustering involves grouping customers based on similarity in their characteristics or behaviours.

Companies must assess and fine-tune the segments after they have been established to make sure they are significant and helpful for marketing objectives. In order to better align segments with marketing objectives, segments may need to be combined, divided, or their criteria may need to be refined in order to better reflect the requirements and behaviours of each segment. To learn more about each segment's traits and behaviours, the retrieved segments can subsequently be profiled. Analysing demographic, psychographic, or behavioural data may be necessary in order to obtain understanding of the requirements, preferences, and motivations of each segment.

Companies can more effectively adjust their marketing strategies and product offers to the needs and preferences of each segment by separating segments from the data. This may result in more successful marketing tactics, greater client retention, and improved revenue.

It is crucial to remember that segment extraction is a continual process, and businesses must regularly assess and update their segments as market dynamics and consumer preferences alter. Companies may keep a competitive edge in the market and continue to build efficient marketing tactics and product offers by staying current with client wants and preferences.

STEP 6 - Profiling segments

Profiling the segments that were extracted in the previous stage is the sixth step in market segmentation. Understanding each segment's traits, wants, preferences, and behaviours better through segment profiling enables businesses to better target their marketing initiatives and product offers to match the demands of each segment. Companies generally combine quantitative and qualitative research techniques to profile segments. While qualitative methods may entail conducting surveys, focus groups, or in-depth interviews with customers in each segment, quantitative methods may entail analysing demographic, geographic, and transactional data.

Companies can gain valuable insights into the needs, tastes, and behaviours of each segment by profiling its constituent segments. The development of more effective marketing plans and product offerings that are suited to the requirements of each group may then be done using the information provided.

A business might, for instance, profile a group of clients who value sustainability and the environment. The corporation may create marketing tactics that highlight the eco-friendliness of their products or create new product offers that are in line with the values of this segment by studying the values and preferences of this market.

Companies must constantly update their knowledge of each segment as consumer preferences and market circumstances change over time. Segment profiling is an ongoing activity. Companies may continue to create effective marketing plans and product offers that satisfy the changing wants and preferences of their customers by keeping up with each group.

STEP 7 - Describing segments

The segments that were profiled in the previous phase are described in the seventh step of market segmentation. In this step, each segment is thoroughly described, including its traits, requirements, preferences, and behaviours.

In order to establish specialised marketing plans and product offerings, it is important to have a thorough understanding of each sector before explaining it. In addition to psychographic data like personality, values, and way of life, this description may also include demographic data like age, gender, income, and education.

The description of each segment may also include information on their purchase behaviour, including preferences for particular goods or services, purchasing patterns, and decision-making processes, in addition to demographic and psychographic data.

Companies can better understand their customers and better adjust their marketing initiatives and product offers to fit the needs and preferences of each group by creating a thorough description of each segment. This may result in more successful marketing tactics, greater client retention, and improved revenue.

It is vital to remember that segment classifications are dynamic and subject to change as consumer tastes and market circumstances do. In order to maintain the effectiveness and relevance of their marketing strategies and product offers, businesses must constantly refresh their expertise of each sector.

STEP 8 - Selecting (the) target segment(s):

Choosing the target segment or segments from the segments that were described in the previous phase is the eighth stage in market segmentation. In this step, each segment's potential is assessed, and the segment or segments that most closely match the company's marketing goals and objectives are chosen.

Companies must take into account a number of criteria when choosing a target segment, including the segment's size and development potential, the level of segment rivalry, and the company's capacity to successfully reach and service the segment.

After choosing a target segment or segments, the business can start creating marketing plans and product lines that are catered to the distinct requirements and preferences of that segment. This could entail creating marketing messages that appeal to the target market, creating new product offerings that specifically address the demands of the market, or enhancing current product offerings in order to more effectively meet market demands.

Companies can concentrate their resources and efforts on the clients most likely to be interested in their goods or services by choosing a target segment. Increased customer loyalty, more successful marketing tactics, and higher profits can all result from this.

It is crucial to remember that choosing a target segment is a constant process; businesses must continually assess and revise their target segment in light of shifting consumer preferences and market dynamics. Companies may maintain a competitive edge in the market and continue to build efficient marketing tactics and product offers by keeping up with their target segment.

STEP 9 - Customising the marketing mix

Customising the marketing mix for the chosen target segment is the ninth step in market segmentation. The four Ps of marketing—product, pricing, promotion, and place—are included in the marketing mix. To increase the marketing strategy's success, each of these components must be customised to the wants and preferences of the target market.

Customising a product or service is creating it to match the specific requirements and preferences of the target market. This can entail changing current items or developing whole new ones that are tailored to the target market.

Setting pricing that are in line with the target segment's willingness to pay is known as price customization. Offering discounts or promotions to the target market may be one way to encourage them to buy the goods in this situation.

Customising promotions entails creating marketing messaging and ad campaigns that appeal to the target audience. This might entail speaking to the needs and preferences of the target segment directly through language, imagery, and messaging. Choosing the best distribution channels to reach the target audience is part of place customization. This can entail utilising several sales channels or retail spaces that are most handy for the target market.

Companies can more successfully reach and engage their customers by tailoring the marketing mix for the target category, which can enhance customer loyalty and boost revenues. The marketing mix is dynamic and may need to be modified over time as consumer tastes and market circumstances change.

STEP 10 - Evaluation and monitoring:

Evaluation and monitoring are the tenth and last steps in market segmentation. This step entails monitoring the marketing strategy's performance and making any necessary modifications to enhance it. A variety of measures, including sales data, customer reviews, and market share, can be used for evaluation and monitoring. These metrics can assist businesses in determining whether their marketing approach is successfully engaging and reaching the intended audience.

Adjustments can be made to the marketing mix or other elements of the strategy if the marketing plan is not yielding the desired results. This could entail altering the product, lowering the price, altering the messaging, or using other channels for distribution.

Evaluation and monitoring require keeping up with changes in the market and client preferences in addition to measuring the effectiveness of the marketing strategy. Companies may continue to hone their marketing tactics and preserve a competitive advantage in the market by being educated and sensitive to these developments.

Overall, evaluation and monitoring are key steps in market segmentation because they enable businesses to continuously enhance their marketing approaches and adjust to shifting consumer preferences and market conditions.

McDonalds Case Study in Python (Replication):

GitHub Link: https://github.com/Morla4208/Feyy_Labs_Project