# Step 1: DECIDING (NOT) TO SEGMENT:

It is crucial to comprehend the ramifications of pursuing a market segmentation strategy before devoting time and resources to a market segmentation analysis. The main takeaway is that the organisation must make a long-term commitment to the segmentation strategy.

Potentially required changes are:

1. Development of new products.
2. Modification of existing products.
3. Changes in pricing and distribution channels.

The decision to study the possibility of a market segmentation strategy must be made at the highest executive level and must be consistently conveyed to and reinforced across all organisational levels due to the significant consequences of such a long-term organisational commitment.

Implementation Barriers:

First group of barriers related to the market segmentation

- Lack of leadership,
- pro-active championing,
- commitment, and involvement in the market segmentation process by senior leadership undermines the success of market segmentation.

Second group and other barriers related to the market segmentation.

- Lack of training.
- Lack of a formal marketing function or atleast a qualified marketing expert in the organization.
- Lack of a qualified data manager and analyst in the organization.
- Lack of financial resources.
- Lack of planning or bad planning.
- Lack of structured processes.
- Lack of time to conduct the market segmentation analysis without time pressure.

# Step 2: SPECIFYING THE IDEAL TARGET SEGMENT

## Knock-out criteria:

If market segments identified by the market segmentation analysis meet the requirements to be evaluated using segment attractiveness criteria, the segments are knocked out.

• The segment must be uniform; its participants must be comparable to one another.

• The segment must be distinct, and its members must be clearly distinguishable from those of other segments.

• For it to be worthwhile to invest extra money tailoring the marketing mix for them, the segment must be big enough and contain enough people.

• The segment must complement the organization's strengths, and the organisation must be able to meet the needs of segment participants.

• The segment's participants must be recognisable and visible in the marketplace.

• To make the segment accessible to them with the customised marketing mix, the segment must be approachable; members of the segment must be contactable.

## Attractiveness Criteria:

The definitions of attractiveness are not absolutes. Segments are not evaluated as meeting or not meeting beauty criteria. Each market segment is instead given a rating; depending on a particular criterion, it may be more or less attractive. In Step 8 of the market segmentation study, a market segment is chosen as a target segment based on its attractiveness across all criteria.

## Implementing a Structured Process

The segmentation literature generally agrees that it is advantageous to use a structured procedure when evaluating market segments. Examine each of the relevant factors for determining a market segment's attractiveness. Together, the segmentation team members should decide on a subset of no more than six criteria after discussing the criteria. Each segment attractiveness criterion should receive 100 points, as determined by the segmentation team. Distribute them such that each beauty criterion is given weights that represent their relative relevance. Decide on a weighting after discussing weightings with the other segmentation team members. Present the advisory committee with the chosen segment attractiveness criteria and the proposed weights allocated to each of them for debate and (if

necessary) revision.

## STEP 3: COLLECTING DATA

3.1 Segmentation Variables: This term refers to a single measured value, such as a single response in a survey or a single observed category of spending. The phrase "segmentation criterion" refers to the type of data that is utilised to segment the market. Common sense and data-driven market segmentation vary in that the latter is based on numerous segmentation variables as opposed to just one.

3.2 Segmentation criteria: Here, the phrase "segmentation criterion" is used more broadly than "Segmentation variable." The phrase "segmentation criterion" refers to the type of data that is utilised to segment the market. It may also be related to a single concept, like advantages desired.

3.2.1 Geographical segmentation: When using geographic segmentation, the only factor employed to create market segments is the consumer's place of residence. Although straightforward, the geographic segmentation strategy is frequently the most suitable. Each consumer may be quickly assigned to a geographic unit, which is the main benefit of geographic segmentation.

3.2.2 Socio- Demographic Segmentation: Age, gender, income, and education are among the segmentation variables used. The benefit of using socio-demographic segmentation criteria is that it is simple to determine which section each consumer belongs to.

3.2.3 Psychographic Segmentation: Due to the difficulty in identifying a single trait in an individual that would give insight into the psychographic dimension of interest, psychographic criteria are inherently more complex than geographic or sociodemographic criteria.

3.2.4 Behavioural Segmentation: A wide range of possible behaviours can be used for this purpose, including prior experience with the product, frequency of purchase, amount spent on purchasing the product on each occasion (or across multiple purchase occasions), and information search behaviour. The key advantage of behavioural approaches is that, if based on actual behaviour rather than stated behaviour or stated intended behaviour, the very behaviour of interest is used as the basis of segment extraction.

3.3 Data from Survey Studies: Most market segmentation analyses are based on survey data. survey data – as opposed to data obtained from observing actual behaviour can be contaminated by a wide range of biases.

3.3.1 Choice of Variables: All variables relevant to the construct captured by the segmentation criterion need to be included.

3.3.2 Response Options: Answer options provided to respondents in surveys determine the scale of the data available for subsequent analyses. Options allowing respondents to answer in only one of two ways, generate binary or dichotomous data. Such responses can be represented in a data set by 0s and 1s.

3.3.3 Response Styles: A response bias is a systematic tendency to respond to a range of questionnaire items on some basis other than the specific item content (i.e., what the items were designed to measure). Response styles affect segmentation results because commonly used segment extraction algorithms cannot differentiate between a data entry reflecting the respondent's belief from a data entry reflecting both a respondent's belief and a response style.

3.3.4 Sample Size: - It is the act of choosing the number of observations or replicates to include in a statistical sample. The sample size is an important feature of any empirical study in which the goal is

to make inferences about a population from a sample. In practice, the sample size used in a study is usually determined based on the cost, time, or convenience of collecting the data, and the need for it to offer sufficient statistical power.

3.4 Data from Internet Source: Increasingly organisations have access to substantial amounts of internal data that can be harvested for the purpose of market segmentation analysis. . Typical examples are scanner data available to grocery stores, booking data available through airline loyalty programs, and online purchase data.

3.5 Data from Experimental Studies: The data that can form the basis of market segmentation analysis is experimental data. Experimental data can result from field or laboratory experiments. Experimental data can also result from choice experiments or conjoint analyses. The aim of such studies is to present consumers with carefully developed stimuli consisting of specific levels of specific product attributes.

# Step 6: Profiling Segments

## Identifying Key Characteristics of Market Segments

The aim of the profiling step is to get to know the market segments resulting from the extraction steps. Profiling is only required when data-driven market segmentation is used. For common-sense segmentation, the profiles of the segments are predefined. If, for example, age is used as the segmentation variable for the common-sense segmentation, it is obvious that the resulting segments will be age groups. At the profiling stage, we inspect a number of alternative market segmentation solutions. This is particularly important if no natural segments exist in the data, and either a reproducible or a constructive market segmentation approach has to be taken.

## Traditional Approaches to Profiling Market Segments

Data-driven segmentation solutions are usually presented to users (clients, managers) in one of two ways: (1) as high-level summaries simplifying segment characteristics to a point where they are misleadingly trivial, or (2) as large tables that provide, for each segment, exact percentages for each segmentation variable. Such tables are hard to interpret, and it is virtually impossible to get a quick overview of the key insights.

| | Seg. 1 | Seg. 2 | Seg. 3 | Seg. 4 | Seg. 5 | Seg. 6 | Total |
|---|---|---|---|---|---|---|---|
| Rest and relax | 83 | 96 | 89 | 82 | 98 | 96 | 90 |
| Change of surroundings | 27 | 82 | 73 | 82 | 87 | 77 | 67 |
| Fun and entertainment | 7 | 71 | 81 | 60 | 95 | 37 | 53 |
| Free-and-easy-going | 12 | 65 | 58 | 45 | 87 | 75 | 52 |
| Not exceed planned budget | 23 | 100 | 2 | 49 | 84 | 73 | 51 |
| Life style of the local people | 9 | 29 | 30 | 90 | 75 | 80 | 46 |
| Good company | 14 | 59 | 40 | 58 | 77 | 55 | 46 |
| Excitement, a challenge | 9 | 17 | 39 | 57 | 76 | 36 | 33 |
| Maintain unspoilt surroundings | 9 | 10 | 16 | 7 | 67 | 95 | 30 |
| Cultural offers | 4 | 2 | 5 | 96 | 62 | 38 | 28 |
| Luxury / be spoilt | 19 | 24 | 39 | 13 | 89 | 6 | 28 |
| Unspoilt nature/natural landscape | 10 | 10 | 13 | 15 | 69 | 64 | 26 |
| Intense experience of nature | 6 | 8 | 9 | 21 | 50 | 58 | 22 |
| Cosiness/familiar atmosphere | 11 | 24 | 12 | 7 | 49 | 25 | 19 |
| Entertainment facilities | 5 | 25 | 30 | 14 | 53 | 6 | 19 |
| Not care about prices | 8 | 7 | 43 | 19 | 29 | 10 | 18 |
| Everything organised | 7 | 21 | 15 | 12 | 46 | 9 | 16 |
| Do sports | 8 | 12 | 13 | 10 | 46 | 7 | 14 |
| Health and beauty | 5 | 8 | 10 | 8 | 49 | 16 | 12 |
| Realise creativity | 2 | 2 | 3 | 8 | 29 | 14 | 8 |

Using Table as the basis of interpreting segments shows that the defining

characteristics of segment 2, for example, are: being motivated by rest and relaxation, and not wanting to exceed the planned travel budget. Also, many members of segment 2 care about a change of surroundings, but not about cultural offers, an intense experience of nature, about not caring about prices, health and beauty and realising creativity. Segment 1 is likely to be a response style segment because – for each travel motive – the percentage of segment members indicating that a travel motive is relevant to them is low (compared to the overall percentage of agreement). Sometimes – to deal with the size of this task – information is provided about the statistical significance of the difference between segments for each of the segmentation variables. This approach, however, is not statistically correct. Segment membership is directly derived from the segmentation variables, and segments are created in a way that makes them maximally different, thus not allowing to use standard statistical tests to assess the significance of differences.

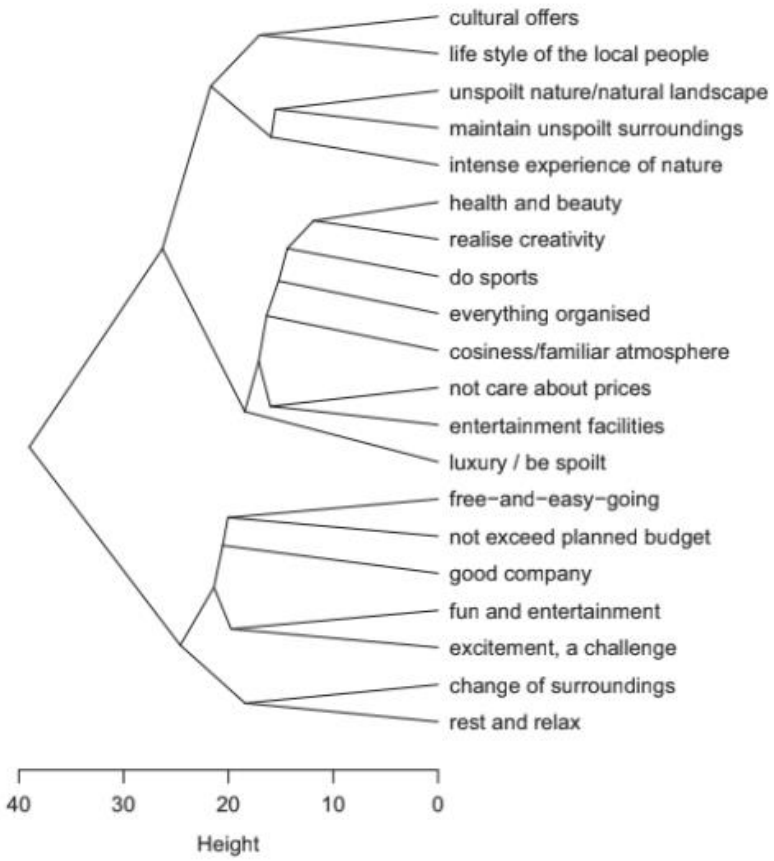
## Segment Profiling with Visualisations

Neither the highly simplified, nor the very complex tabular representation typically used to present market segmentation solutions make much use of graphics, although data visualisation using graphics is an integral part of statistical data analysis Graphics are particularly important in exploratory statistical analysis (like cluster analysis) because they provide insights into the complex relationships between variables. In addition, in times of big and increasingly bigger data, visualisation offers a simple way of monitoring developments over time. Visualisations are useful in the data-driven market segmentation process to inspect, for each segmentation solution, one or more segments in detail. Statistical graphs facilitate the interpretation of segment profiles. They also make it easier to assess the usefulness of a market segmentation solution. The process of segmenting data always leads to a large number of alternative solutions. Selecting one of the possible solutions is a critical decision. Visualisations of solutions assist the data analyst and user with this task.

# Identifying Defining Characteristics of Market Segments

A good way to understand the defining characteristics of each segment is to produce a segment profile plot. The segment profile plot shows – for all segmentation variables – how each market segment differs from the overall sample. The segment profile plot is the direct visual translation of tables such as Table 8.1. The t() around the data matrix vacmot transposes the matrix such that distances between columns rather than rows are computed. Next, hierarchical clustering of the variables is conducted using Ward's method. Figure 8.1 shows the result. Argument which specifies the variables to be included, and their order of presentation. Here, all variables are shown in the order suggested by hierarchical clustering of variables. shade = TRUE identifies so-called marker variables and depicts them in colour. These variables are particularly characteristic for a segment. All other variables are greyed out. To make the chart even easier to interpret, marker variables appear in colour (solid bars). The remaining segmentation variables are greyed out. The definition of marker variables in the segment profile plot used by default in barchart() is suitable for binary variables, and takes into account the absolute and relative difference of the segment mean to the total mean. Marker variables are defined as

variables which deviate by more than 0.25 from the overall mean.




The deviation figures of 0.25 and 50% have been empirically determined to indicate substantial differences on the basis of inspecting many empirical data sets, but are ultimately arbitrary and, as such, can be chosen by the data analyst and user as they see fit. In particular if the segmentation variables are not binary, different thresholds for defining a marker variable need to be specified. Good visualisations facilitate interpretation by managers who make long-term strategic decisions based on segmentation results. Such long-term strategic decisions imply substantial financial commitments to the implementation of a segmentation strategy. Good visualisations, therefore, offer an excellent return on investment.