

# Market Segmentation Analysis

The "Market Analysis" segment within market segmentation is crucial for understanding the broader environment in which an organization operates. It involves analysing the overall market to identify patterns, customer needs, and competitive dynamics, which will inform the segmentation process.

## **Ten Steps for market segment Analysis: -**

### **Step-1: - Deciding (Not) to Segment**

The first step involves determining whether segmentation is the right strategy for the organization. This decision should be based on an evaluation of the market, the organization's goals, and its resources. Segmentation requires a long-term commitment and a willingness to invest in understanding and serving specific market groups.

If the organization opts to segment, it must consider whether its current capabilities align with the demands of segmentation. This includes assessing resources such as data, manpower, and technical expertise. For organizations with limited resources, segmentation might not be feasible or may need to be conducted at a smaller scale.

Additionally, segmentation is only necessary if the market is diverse enough to justify dividing it into distinct groups. In some cases, the market may be so homogeneous that targeting individual segments would not offer any strategic advantage. Thus, this step focuses on ensuring that segmentation aligns with both market conditions and organizational objectives.

### **Step-2: - Specifying the Ideal Target Segment**

After deciding to segment, the next step is to define the characteristics of the ideal target segment. This involves identifying variables that are relevant to the market, such as demographics (age, income, gender), psychographics (lifestyle,

values), or behaviours (purchasing habits). These variables will serve as the foundation for segmenting the market later on.

Organizations must also establish "knock-out criteria," which automatically exclude certain groups that may not be viable targets. For instance, customers who cannot afford the product or reside in areas where distribution is limited might be ruled out. This helps narrow the focus to the most promising market segments.

This step requires a structured approach, ensuring that the chosen target segment aligns with the organization's strategic goals. It also sets the stage for more effective data collection, as the organization now has clear guidelines for what type of data to gather and analyse.

### **Step-3: - Collecting Data**

Once the ideal target segment is specified, the organization proceeds to gather relevant data. This data can come from primary sources such as surveys, focus groups, or interviews, or from secondary sources like existing customer databases, public reports, and market studies. The quality and relevance of this data are critical to the success of the segmentation process.

Segmentation variables—such as geographic, demographic, psychographic, and behavioural factors—guide the data collection process. Each variable should provide insight into the differences between potential customer groups. Organizations must also consider the size and representativeness of their sample to ensure accurate and meaningful results.

It's important to collect sufficient data to cover the breadth of the market while also maintaining depth for analysis. The data must be reliable and valid, as any gaps or biases could lead to ineffective segmentation. Therefore, meticulous planning and a well-designed data collection strategy are crucial for this step.

### **Step-4: - Exploring Data**

In this step, the organization cleans and explores the collected data to ensure it is ready for segmentation. Data cleaning involves handling missing values, removing outliers, and correcting any inconsistencies. This step is essential, as unclean data can lead to inaccurate segmentation results.

After cleaning, the organization conducts descriptive analysis to gain a preliminary understanding of the data. Tools such as histograms, box plots, and summary statistics provide insights into data distributions, variabilities, and potential patterns. This initial exploration helps identify any further issues with the data and offers a glimpse of potential segments.

Pre-processing the data is another important task, which includes transforming categorical variables into numeric formats and normalizing continuous data. This step ensures that the data is suitable for the statistical methods that will be used in the segmentation process, and it prepares the organization for the next phase—extracting segments.

### **Step-5: - Extracting Segments**

With the data prepared, the organization uses statistical techniques to extract distinct market segments. Clustering algorithms such as k-means, hierarchical clustering, or model-based approaches (e.g., finite mixture models) are commonly employed. These techniques group consumers who share similar characteristics into clusters or segments.

The choice of algorithm depends on the nature of the data and the organization's objectives. For example, distance-based methods might be suitable for simple segmentation, while more advanced machine learning algorithms can handle complex datasets. Multiple algorithms may be tested to determine which produces the most meaningful and distinct segments.

Once segments are extracted, the organization must evaluate their relevance and interpretability. This involves checking whether the segments align with the expected customer profiles and whether they provide actionable insights. If the segments are unclear or overlap too much, adjustments to the algorithm or data may be needed.

### **Step-6: -Profiling Segments**

After extracting the segments, the next step is to profile them by identifying their defining characteristics. This involves analysing variables such as age, income, purchasing behaviour, and preferences to build a comprehensive

profile of each segment. Profiling helps the organization understand what makes each segment unique.

Visual tools like bar charts, heatmaps, and spider diagrams are often used to present these profiles in an intuitive and accessible way. Profiling not only highlights differences between segments but also provides a deeper understanding of each group's needs, motivations, and behaviours. This is crucial for tailoring marketing strategies.

A well-detailed profile is essential for later steps, as it serves as the foundation for customizing the marketing mix. Profiling ensures that the organization can effectively target each segment with relevant products, prices, promotions, and distribution strategies, increasing the likelihood of success.

### **Step-7: - Describing Segments**

Describing segments involves providing a complete and detailed picture of each group, using a mix of qualitative and quantitative data. Descriptor variables such as demographic characteristics (e.g., age, income) and behavioural tendencies (e.g., purchase frequency) are used to paint a clear image of each segment.

This step uses statistical analysis to test the significance of differences between segments, confirming that the defined segments are distinct. Visualizations like stacked bar charts, mosaic plots, and box-and-whisker diagrams can effectively present this data, making it easier to compare and contrast segments.

By fully describing the segments, organizations ensure they have a clear and actionable understanding of the customer groups they intend to target. These descriptions play a critical role in the next stage, where decisions about target segments are made based on the attractiveness and strategic fit of each group.

### **Step-8: - Selecting Target Segment**

In this step, the organization selects which market segment(s) to target. The decision is based on several factors, including the attractiveness of the segment (e.g., size, growth potential, profitability) and the organization's ability to serve it effectively. This involves a strategic evaluation of the segments' long-term potential and alignment with business goals.

Tools like SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) and the Segment Attractiveness Matrix can assist in assessing each segment's viability. Organizations also consider the competitive landscape, looking at whether competitors are already targeting the segment or if there are underserved niches.

Ultimately, selecting the right segment(s) is a balancing act between opportunity and feasibility. By choosing the most promising segments, organizations can focus their marketing efforts more effectively, positioning themselves to capture valuable customer groups and maximize return on investment.

### **Step-9: - Customizing the Marketing Mix**

Once the target segment(s) are selected, the organization tailors the marketing mix—product, price, place (distribution), and promotion—specifically for these segments. Each element of the mix is customized to meet the needs and preferences of the target group. For instance, product features may be adjusted based on segment demands, or pricing strategies may be aligned with customer willingness to pay.

The distribution strategy is also optimized, ensuring the product is available through channels preferred by the target segment (e.g., online, physical stores). Promotional messages are crafted to resonate with the values, motivations, and media habits of the segment, ensuring maximum engagement and relevance.

By customizing the marketing mix for each segment, organizations can deliver highly targeted offerings that meet customer expectations, leading to greater satisfaction, loyalty, and market success. This step ensures that the segmentation strategy translates into real-world marketing actions.

### **Step-10: - Evaluation and Monitoring**

The final step in market segmentation is to continuously evaluate and monitor the effectiveness of the segmentation strategy. Organizations track key performance indicators (KPIs) such as sales, customer retention, and segment profitability to assess whether the chosen segments are delivering the expected results.

Monitoring also involves keeping an eye on market dynamics, customer behaviour, and competitive actions. Over time, segments may evolve due to

changes in technology, consumer preferences, or the economy. This requires organizations to adjust their segmentation strategy, either by re-segmenting the market or by refining the marketing mix for existing segments.

Continuous evaluation ensures that the segmentation strategy remains relevant and effective in a changing market. Regular adjustments based on feedback and performance data help organizations stay agile and responsive to new opportunities and challenges

### **Explanation of 10 steps in a tabular format: -**

Step	Description	Key Activities
1. <b>Deciding (Not) to Segment</b>	Determine if segmentation aligns with organizational goals and resources.	Assess market diversity, resources, long-term strategy.
2. <b>Specifying Ideal Target</b>	Define key criteria (demographics, psychographics, behaviour) for the target market segment.	Set knock-out criteria, prioritize segment characteristics.
3. <b>Collecting Data</b>	Gather relevant data to inform segmentation.	Use primary and secondary sources, ensure sample quality.
4. <b>Exploring Data</b>	Clean and pre-process data for analysis.	Data cleaning, descriptive analysis, handling missing data.
5. <b>Extracting Segments</b>	Apply statistical techniques to group consumers into distinct segments.	Use clustering algorithms (k-means, hierarchical, etc.).
6. <b>Profiling Segments</b>	Identify key characteristics of each segment.	Visualize profiles, identify needs and preferences.
7. <b>Describing Segments</b>	Provide detailed descriptions of each segment based on descriptor variables.	Use statistical tests, visualize differences between segments.
8. <b>Selecting Target Segment</b>	Choose the most attractive segment(s) to target based on profitability and strategic fit.	Evaluate segments using SWOT, prioritize based on opportunity.

9. Customizing Marketing Mix	Tailor product, price, place, and promotion for selected segments.	Develop targeted marketing strategies, adjust pricing and channels.
10. Evaluation & Monitoring	Continuously assess and adjust the segmentation strategy as market conditions change.	Track KPIs, monitor segment stability, adjust marketing mix.