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| CASE STUDY  Market Segmentation Analysis | | | |
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**Summary:**

**Chapter 1: Market Segmentation**

**Chapter 1.1: Market Segmentation, Strategic, and Tactical Marketing**

This chapter emphasizes the importance of marketing in meeting consumer needs and aligning supplier offers with those needs. It introduces the concept of marketing planning, which includes both strategic and tactical marketing plans. The strategic plan outlines long-term direction, while the tactical plan translates this into short-term actions. The analogy of a hiking expedition is used to illustrate this process. The chapter stresses the asymmetric relationship between strategic and tactical marketing, highlighting that good strategic marketing is essential for organizational success.

**Chapter 1.2: Definitions of Market Segmentation**

Market segmentation is introduced as a crucial tool for marketing managers in selecting target markets and designing appropriate marketing mixes. It is seen as a key component of strategic marketing, essential for marketing success. The chapter provides historical context, crediting Smith as the first to propose segmentation. Market segmentation involves viewing a diverse market as smaller homogeneous markets based on consumer characteristics, known as segmentation criteria. The example of mobile phone features and pricing illustrates how segmentation works.

**Chapter 1.3: The Benefits of Market Segmentation**

This chapter explores the benefits of market segmentation. It discusses concentrated, differentiated, and undifferentiated market strategies. Concentrated strategies focus on one segment, differentiated strategies cater to multiple segments, and undifferentiated strategies target the entire market. Market segmentation is credited with forcing organizations to reflect on their strengths, leading to improved consumer matching. Tangible benefits include competitive advantage, market dominance, and improved return on investment. The chapter also introduces micro-marketing and finer segmentation concepts.

**1.4: The Costs of Market Segmentation**

This section addresses the costs associated with market segmentation. It emphasizes the substantial investment required, involving time, human resources, and finances. Successful segmentation requires ongoing commitment for evaluation and monitoring. If not implemented well, market segmentation can be a waste of resources, leading to substantial expenses without generating additional returns. The chapter underscores the importance of a well-executed segmentation strategy to avoid disenfranchising staff involved in the process.

**Chapter 2: Market Segmentation Analysis**

**2.1: The Layers of Market Segmentation Analysis**

* Market segmentation analysis involves grouping consumers into segments based on similar product preferences or characteristics.
* The process is exploratory and statistical, requiring competent data analysts and user involvement.
* Additional tasks include collecting good data, exploring data before segmentation, and profiling each segment in detail.

**2.2 Approaches to Market Segmentation Analysis**

* No single approach is best, and two systematics are presented based on organizational constraints and segmentation variables.
* Organizational constraint approaches include quantitative survey-based, creation from existing consumer classifications, and emergence from qualitative research.
* Segmentation variable approaches distinguish between unidimensional (one variable, e.g., age) and multidimensional (multiple variables, e.g., expenditure patterns).

**2.3 Data Structure and Data-Driven Market Segmentation Approaches**

* Data-driven segmentation assumes market segments exist in data, but in reality, distinct segments are rare.
* Three conceptual approaches to data-driven segmentation: natural (distinct segments exist), reproducible (no natural segments but repeatable results), and constructive (no structure, random creation).
* Data structure analysis is recommended before segmentation to determine the nature of segmentation.

**2.4 Market Segmentation Analysis Step-by-Step**

1. Deciding (not) to segment: Assess market suitability and commitment.
2. Specifying the ideal target segment: Define characteristics of the ideal market segment.
3. Collecting data: Gather data on segmentation and descriptor variables.
4. Exploring data: Explore and preprocess data if required.
5. Extracting segments: Use algorithms to split consumers into segments based on the segmentation variable.
6. Profiling segments: Determine key features of the extracted market segments.
7. Describing segments: Provide detailed descriptions of each segment.
8. Selecting (the) target segment(s): Evaluate and choose target segment(s).
9. Customizing the marketing mix: Develop a custom marketing mix for the selected segment(s).
10. Evaluation and monitoring: Assess success and continuously monitor for changes.

Ten Steps of Market Segmentation Analysis

**Chapter 3**

**Step 1: Deciding (not) to Segment**

**3.1 Implications of Committing to Market Segmentation:**

* Market segmentation is a long-term commitment requiring substantial changes and investments.
* The commitment involves potential changes in products, pricing, distribution, and communication strategies.
* Strategic business units organized around market segments can enhance focus on changing segment needs**.**

**3.2 Implementation Barriers:**

* Senior management involvement and commitment are crucial; lack thereof can hinder successful implementation.
* Organizational culture factors such as resistance to change, lack of creative thinking, and internal communication issues can impede progress.
* Lack of training, formal marketing function, and qualified data managers can be obstacles.
* Objective restrictions, process-related barriers, and operational challenges may need to be addressed.

**3.3 Step 1 Checklist:**

* Assess market orientation and commitment at the highest executive level.
* Evaluate the availability of resources for both initial segmentation analysis and long-term strategy implementation.
* Consider organizational culture factors, including consumer orientation, resistance to change, and willingness to share information.
* Ensure adequate training for senior management and the segmentation team.
* Assess the presence of a formal marketing function and qualified data managers.
* Evaluate objective restrictions and potential barriers related to lack of financial resources or structural changes.
* Clarify objectives, plan effectively, and allocate responsibilities for the market segmentation process.
* Proactively identify and address potential barriers to successful implementation.
* Maintain a resolute sense of purpose, dedication, and patience throughout the segmentation process.

**Chapter 4:**

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

**4.1 Segment Evaluation Criteria:**

* User input is crucial throughout the market segmentation analysis.
* In Step 2, the organization contributes conceptually to guide subsequent steps.
* Two sets of segment evaluation criteria are determined: knock-out criteria (essential features) and attractiveness criteria (relative segment attractiveness).
* Literature provides a variety of proposed criteria at different levels of detail.

**4.2 Knock-Out Criteria:**

* Essential criteria include homogeneity, distinctness, size, match, identifiability, and reachability.
* Knock-out criteria automatically eliminate non-compliant market segments.

**4.3 Attractiveness Criteria:**

Attractiveness criteria are diverse and not binary; each segment is rated on various criteria.

Segment attractiveness and organizational competitiveness determine target segments.

**4.4 Implementing a Structured Process:**

* A structured approach, such as a segment evaluation plot, is recommended for assessing market segments.
* Segment attractiveness and organizational competitiveness values are determined by the segmentation team based on negotiated criteria.
* Involving representatives from various organizational units in the process ensures diverse perspectives and stakeholder input.

**4.5 Step 2 Checklist:**

* Convene a segmentation team meeting.
* Discuss and agree on knock-out criteria.
* Present knock-out criteria to the advisory committee for discussion and adjustment.
* Study available criteria for assessing market segment attractiveness.
* Discuss and agree on a subset of no more than six attractiveness criteria.
* Distribute 100 points across agreed-upon attractiveness criteria, reflecting relative importance.
* Discuss weightings with the team and agree on them.
* Present selected criteria and proposed weights to the advisory committee for discussion and adjustment.

**Chapter 5:**

**Step 3: Collecting Data**

**5.1 Segmentation Variables:**

* Empirical data is essential for both commonsense and data-driven market segmentation.
* The term "segmentation variable" is used to refer to the variable in empirical data used in commonsense segmentation.
* Commonsense segmentation often uses one characteristic (e.g., gender), while data-driven segmentation involves multiple variables.
* Descriptor variables provide detailed information about segments.
* Quality empirical data is crucial for developing valid segmentation solutions.

**5.2 Segmentation Criteria:**

* The organization decides on segmentation criteria before data collection.
* Geographic, socio-demographic, psychographic, and behavioral criteria are common.
* The choice of criteria depends on prior market knowledge.

**5.2.1 Geographic Segmentation:**

* Uses consumer location as the segmentation criterion.
* Advantages include easy assignment to segments, facilitating targeted communication.
* Disadvantages include potential lack of relevance for product preferences.

**5.2.2 Socio-Demographic Segmentation:**

* Involves criteria like age, gender, income, and education.
* Useful in some industries (e.g., luxury goods), but may not explain all product preferences.
* Demographics explain a relatively low percentage of consumer behavior.

**5.2.3 Psychographic Segmentation:**

* Groups of people based on psychological criteria like beliefs, interests, and benefits sought.
* More reflective of underlying reasons for differences in consumer behavior.
* Challenges include complexity and reliance on reliable and valid measures.

**5.2.4 Behavioral Segmentation:**

* Directly looks for similarities in behavior or reported behavior.
* Criteria include prior experience, frequency of purchase, amount spent, and information search behavior.
* Advantages include using the behavior of interest as the basis for segment extraction.

**5.3 Data from Survey Studies**

**5.3.1 Choice of Variables**

* Critical Variable Selection: Choosing segmentation variables is crucial for quality solutions.
* Avoid Unnecessary Variables: Including unnecessary variables leads to respondent fatigue and hampers data analytic techniques.

**5.3.2 Response Options**

* Scale of Data: Response options influence subsequent analyses; binary or metric options are preferable.
* Ordinal Data Issues: Ordinal data, common in surveys, lacks a clearly defined distance, complicating segmentation analysis.

**5.3.3 Response Styles**

* Biases in Responses: Response biases, like extreme or midpoint preferences, can affect segmentation outcomes.
* Risk Mitigation: Minimizing the capture of response styles is crucial; additional analyses may be needed.

**5.3.4 Sample Size**

Importance of Sample Size: Inadequate sample size hinders correct segmentation; recommendations vary based on segmentation variables.

**Additional Insights**

* Simulated Studies: Studies show the impact of sample size on correct segment recovery in artificial data.
* Recommendations: A sample size of at least 100 respondents for each segmentation variable is suggested.
* Data Quality: Emphasis on collecting high-quality, unbiased data for accurate market segmentation analysis.

**Overall Recommendations for Optimal Data:**

Ensure the data used in market segmentation analyses:

* Contains all necessary items.
* Avoids unnecessary and correlated items.
* Contains high-quality responses.
* Is binary or metric in nature.
* Is free of response styles.
* Represents a suitable sample size given the segmentation study's aim.

**5.4 Data from Internal Sources**

**Pros:**

* Actual Behavior Representation: Internal data reflects actual consumer behavior, providing more reliable insights than survey data.
* Automatic Generation: Internal data is often automatically generated, reducing the effort required for collection.

**Cons:**

* Customer Bias: Internal data may be biased towards existing customers, lacking representation of potential future customers.
* Limited to Available Information: It relies on the information available in internal databases, potentially limiting the scope of segmentation.

**5.5 Data from Experimental Studies**

Examples:

* Advertising Response Studies: Analyzing responses to advertisements as a segmentation criterion.
* Choice Experiments or Conjoint Analyses: Studying consumer preferences based on specific product attributes and attribute levels.

**5.6 Step 3 Checklist**

**Tasks:**

**Convene Team Meeting:**

Discuss potential segmentation variables.

Identify additional consumer characteristics for segment description.

**Data Collection Planning:**

Determine methods for valid data collection.

Design data collection to minimize biases and systematic errors.

**Implementation:**

* Initiate data collection based on the planned strategy.
* Responsibility:
* Team: Convene meetings, discuss variables, and plan data collection.
* Data Collection Team: Execute data collection.
* Completion Status:
* Pending: Convene meeting and plan.
* Ongoing: Data collection in progress.
* This checklist emphasizes the importance of thorough planning, team collaboration, and careful execution in the data collection phase of market segmentation analysis.