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Summary of Market Segmentation Analysis

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Introduction

What is Market Segmentation Analysis?

Market segmentation analysis is a strategic marketing process that involves dividing a broad and diverse consumer market into smaller, more homogenous groups, or segments, based on shared characteristics such as demographics, behavior, needs, or preferences. This analysis helps businesses to better understand the distinct needs of different consumer groups and design targeted marketing strategies that resonate with them effectively.

Why is it Required?

It is essential because today's markets are highly competitive and consumers are no longer uniform in their expectations. By identifying and focusing on the most attractive and reachable segments, organizations can allocate their resources efficiently, tailor their products or services to specific groups, and gain a competitive edge. Market segmentation analysis thus serves as the foundation for customer-centric strategies that drive higher customer satisfaction, loyalty, and profitability.

Step1:- Deciding (not) to Segment

1. Implications of Market Segmentation

- **Long-term Commitment**: Segmentation is like a "marriage" – not a short-term trial.

- **Costly Investment**: Surveys, focus groups, multiple products, and ads require significant spending.

- **Organisational Changes**: May need new products, pricing, distribution, and internal restructuring.

- **Top Management Support**: Must be led and reinforced by senior executives at all levels.

2. Barriers to Implementation

- **Management Barriers**: Lack of leadership, commitment, and resource allocation.

- **Cultural Barriers**: Resistance to change, poor communication, short-term thinking, office politics.

- **Skill Gaps**: No trained marketers or data experts; lack of segmentation knowledge.

- **Resource Constraints**: Limited funds and inability to restructure teams.

- **Process Issues**: Poor planning, unclear objectives, and no structured approach.

- **Technical Gaps**: Managers may not understand or trust segmentation tools.

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3. Checklist (Deciding whether to Segment)

This is like a *pre-checklist* to decide whether you should even start market segmentation:

- **Is the organisation market-oriented?**

    - If not, segmentation will fail.

- **Does senior management support it?**

    - Without top-level commitment, don't proceed.

- **Do you have resources (money, people, time)?**

    - If not, it's risky to try segmentation.

- **Is the organisation willing to change?**

    - Segmentation may require changes in structure, products, pricing, and communication.

- **Are there barriers that can't be removed?**

    - If yes, it's better **not** to start segmentation.

Step2:- Specifying the Ideal Target Segment

1. Segment Evaluation Criteria: Overview

- **User Involvement**: Segmentation isn't just technical; it requires ongoing user input throughout the process, not just at the start or end.

  - The organisation contributes conceptually in Step 2, guiding later stages like data collection (Step 3) and selecting target segments (Step 8).

- **Two Types of Evaluation Criteria**:

  a. **Knock-Out Criteria** (essential, non-negotiable): Automatically eliminate segments that don't meet core requirements.

  b. **Attractiveness Criteria** (relative, negotiable): Used to compare the remaining segments for their potential value.

2. Knock-Out Criteria

Used to check if a segment is **worth considering at all**. If a segment fails here, it is **eliminated immediately**.

- **Homogeneity**: Segment members must be similar.

- **Distinctness**: Must differ clearly from other segments.

- **Size (Substantiality)**: Segment must be large enough to justify the investment.

- **Match with Strengths**: Organisation should be capable of meeting segment needs.

- **Identifiability**: Must be able to locate and recognise segment members.

- **Reachability**: Must be possible to access segment members with marketing efforts.

3. Attractiveness Criteria

Once knock-out criteria are applied, attractiveness criteria are used to **rank** the remaining segments.

- **Not binary**: Segments are rated as *more or less attractive*, not simply accepted or rejected.

- Help determine **priority** and **strategic fit** of each segment.

  Common Attractiveness Criteria (from literature):

  - **Market Factors**: Size, growth rate, profitability, stability, competition level.

  - **Organisation Fit**: Strengths match segment needs, resources to serve the segment.

  - **External Factors**: Socio-political considerations, legal restrictions, technology trends.

  - **Financial Considerations**: ROI potential, entry costs, long-term profits.

  - **Customer Considerations**: Accessibility, willingness to pay, sensitivity to price.

4. Structured Evaluation Process

- **Segment Evaluation Plot**:

  - A visual tool to map *Segment Attractiveness (Y-axis)* vs. *Organisational Competitiveness (X-axis)*.
  - Helps prioritise which segments are worth targeting.

- **Why Involve the Whole Organisation?**

  - Different departments bring unique perspectives.
  - Segmentation affects *all units* (sales, marketing, production, etc.), so they are stakeholders.

- **Team Setup**:

  - Core team: 2–3 people propose an initial list of criteria and weights.
  - Advisory committee: Reviews and adjusts as needed.

- **Weighting Criteria**:

  - Team members distribute **100 points** across attractiveness criteria to reflect importance.
  - Points are negotiated until consensus is reached.

5. Checklist (Key Tasks)

- Segmentation Team Meeting: Agree on knock-out criteria.

- Present knock-out criteria to advisory committee for approval.

- Study and shortlist segment attractiveness criteria (~6 max).

- Assign weights to attractiveness criteria.

- Get advisory committee approval on criteria and weights.

Step 3: Collecting Data

1. Segmentation Variables

- **Empirical data:** Used to identify and describe market segments. Quality of data is critical for valid segmentation.

- **Commonsense segmentation:** Uses *one variable* (e.g., gender) to split the market. Other variables are *descriptors* (e.g., age, vacations taken).

- **Data-driven segmentation:** Uses *multiple variables* to identify natural groupings (e.g., benefits sought like relaxation, action).

- **Descriptor variables:** Help in *describing segments* in detail for creating tailored marketing strategies.

- **Data sources:** Surveys, purchase histories, loyalty programs, experiments. Behavior-based data is preferred over self-reported survey data.

2. Segmentation Criteria

- **Segmentation criterion:** Broader than segmentation variable. Relates to the type of information (e.g., demographics, psychographics). Must align with market knowledge.

2.1. Geographic Segmentation

– **What:** Based on location (e.g., country, city).

– **Advantage:** Easy targeting via local channels; useful for region-specific products.

– **Disadvantage:** People in the same area may have *different preferences.*

2.2. Socio-Demographic Segmentation

– **What:** Based on age, gender, income, education.

– **Advantage:** Simple to apply; useful in certain industries (e.g., luxury goods, baby products).

– **Disadvantage:** Demographics often *don't explain behavior deeply* (only $\sim 5\%$ variance).

2.3. Psychographic Segmentation

– **What:** Based on beliefs, interests, lifestyle, and benefits sought.

– **Advantage:** Reflects *real motivations* for behavior (e.g., cultural travelers).

– **Disadvantage:** Complex; needs reliable measures for psychological traits.

2.4. Behavioral Segmentation

– **What:** Groups consumers based on actual behavior (e.g., buying frequency, spending).

– **Advantage:** *Most accurate*—uses real behavior instead of stated intentions.

– **Disadvantage:** Requires high-quality behavioral data.

3. Data from Survey Studies

Behavioral vs Survey Data

– **Behavioral data** (e.g., purchase history) is more reliable because it reflects actual actions.

– **Limitation:** Hard to get for *potential customers* who haven't yet purchased.

– **Survey data** is *cheap & easy to collect*, but prone to biases.

3.1. Choice of Variables

– **Critical for quality** segmentation.

– Too many variables → longer surveys → respondent fatigue → poor data quality.

– **Unnecessary/noisy variables** confuse algorithms and reduce segmentation accuracy.

– **Recommendation:**

  ○ Include only *necessary, unique variables.*
  ○ Avoid *redundant/repeated questions.*
  ○ Conduct *exploratory research* first to design better surveys.

3.2. Response Options

– **Binary (yes/no)** or **metric (numeric)** responses are best for analysis.

– **Ordinal scales** (agree-disagree) are common but harder for algorithms (distance between responses is unclear).

– **Visual analogue (slider) scales** produce **metric data** and work well in online surveys.

3.3. Response Styles

– Respondents may show **biases** like:

  ○ Always agreeing (acquiescence bias).
  ○ Choosing extremes (strongly agree/disagree).
  ○ Sticking to midpoints (neutral answers).

– **Impact:** Algorithms may misinterpret these as genuine patterns, creating *false segments.*

– **Solution:**

- Minimize response biases during survey design.
- Remove respondents with clear bias before analysis.

3.4. Sample Size

– **Small samples** $\rightarrow$ segmentation algorithms struggle to identify real patterns.

– **Key factors affecting sample needs:**

- Unequal or overlapping segments $\rightarrow$ need **larger samples**.
- Noisy variables or biased respondents increase complexity.

4. Data from Internal Sources

– **What:** Data collected from within the organization (e.g., loyalty programs, online purchases, scanner data).

– **Advantages:**

- Reflects *actual consumer behavior* (not just intentions).
- Automatically generated and easy to access if well-organized.

– **Limitations:**

- May *over-represent current customers*, missing insights about *potential customers*.
- Can lead to *biased segmentation* if new target markets differ from existing ones.

5. Data from Experimental Studies

– **What:** Data from controlled experiments (field or lab), e.g., testing reactions to ads or products.

– **Examples:**

  ○ *Conjoint analysis* or *choice experiments* to understand preference for product attributes.

  ○ Use responses as *segmentation criteria.*

– **Advantages:**

  ○ Allows testing of *hypothetical scenarios* and *new concepts.*

  ○ Helps in identifying *drivers of consumer choice.*

6. Checklist

• Identify **segmentation variables** (used to group consumers).

• Identify **descriptor variables** (used to describe segments).

• Plan **valid data collection** (minimize biases/errors).

• Collect high-quality data systematically.

Step8:-Selecting the Target Segment(s)

1. The Targeting Decision

- **Step 8 is critical**: you decide which segment(s) to target.

- Previous steps (profiling & description) ensure only **viable segments** remain.

- Two key checks:

  1. **Knock-out criteria** – Is the segment large enough, distinct, identifiable, reachable, and aligned with the organisation's capabilities?

  2. **Attractiveness & fit** – Does the segment want us as much as we want them?

2. Market Segment Evaluation

- Use a **Decision Matrix** (e.g., Boston Matrix, GE/McKinsey Matrix) to evaluate:

  - **X-axis**: Segment Attractiveness (*How much we want them*).
  - **Y-axis**: Organisational Competitiveness (*How much they want us*).
  - **Bubble Size**: Additional factor like profit potential.

- **Steps to Evaluate Segments**:

  1. Identify criteria for **segment attractiveness** (e.g., size, growth, loyalty).

  2. Identify criteria for **organisational competitiveness** (e.g., brand image, price fit).

  3. Assign **weights** to each criterion based on importance.

  4. Rate each segment (scale 1–10) on each criterion.

  5. Calculate **weighted scores** for attractiveness (X-axis) and competitiveness (Y-axis).

6. Plot results as bubbles, where size reflects factors like **profitability**.

- **Insights from Plot**:

  – Focus on **high-high segments** (top-right).
  – Be cautious of segments where *we like them but they don't like us* (bottom-right).
  – Consider **compatibility** when selecting multiple segments.

3. Checklist

- Convene segmentation team to review potential target segments.

- **Double-check knock-out criteria**: eliminate unfit segments.

- Agree on **values and weights** for:

  – Segment Attractiveness
  – Organisational Competitiveness

- **Calculate scores** for each segment and plot on matrix.

- **Make preliminary selection** of target segment(s).

- For multiple targets, check **compatibility** between segments.

- Present selected segments for **final approval**.

• Conclusion

Effective market segmentation relies on the **quality and source of data** used. **Internal data** provides accurate insights into existing customer behavior but may overlook potential customers. **Survey data** is flexible and cost-effective but prone to biases, while **experimental data** allows testing consumer preferences in controlled scenarios to inform segmentation decisions.