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Step 1: Deciding (not) to Segment

1)Implications of Committing to Market Segmentation

- Market segmentation requires a long-term commitment from the organization.
- This commitment involves substantial changes and investments, including product development, pricing adjustments, and communication revamps.
- The decision to segment should be made at a high level and endorsed throughout the organization.

2)Implementation Barriers

- **Senior management issues:**
 - Lack of leadership, commitment, and involvement.
 - Insufficient resource allocation.
- **Organizational culture issues:**
 - Lack of market or customer focus.
 - Resistance to change and new ideas.
 - Poor communication and information sharing.
 - Short-term thinking and unwillingness to make changes.
 - Lack of training on market segmentation.
- **Organizational structure issues:**
 - Lack of a formal marketing function or expertise.
 - Lack of qualified data management and analysis.
 - Limited financial resources or inability to make structural changes.
- **Process-related issues:**
 - Unclear objectives for segmentation.
 - Poor planning or lack of structured processes.
 - Unassigned responsibilities and time pressure.
 - Difficulty understanding and interpreting segmentation results.

Step 2:Specifying the Ideal Target Segment

1)Segment Evaluation Criteria

There are two sets of criteria:

- Knock-out criteria: Essential, non-negotiable features of segments for targeting.

- Attractiveness criteria: Used to evaluate the relative appeal of remaining segments.

Criteria from the literature:

- Measurable: Ability to quantify segment size and characteristics.
- Substantial: Large enough to be profitable.
- Accessible: Reachable by the company's marketing efforts.
- Differentiable: Respond differently to marketing mixes.
- Actionable: Ability to develop and implement targeted marketing programs.
- Additional criteria (attractiveness):
 - Growth potential
 - Competitive advantage
 - Profitability
 - Stability
 - Compatibility with company strategy
 - Fit with company resources

Applying the criteria:

- Knock-out criteria are applied first to eliminate unsuitable segments.
- The segmentation team selects and prioritizes attractiveness criteria to evaluate remaining segments.

2) KNOCK OUT CRITERIA

- Used to assess if market segments are worth further evaluation using attractiveness criteria.
- Essentially, they are non-negotiable features a segment must have to be considered for targeting.

Origin and Additional Considerations

- First proposed by Kotler (1994) with a focus on measurability, substantiality, and accessibility (Tynan and Drayton, 1987).
- Over time, more knock-out criteria have been suggested by various authors.

Detailed List of Knock-Out Criteria:

1. **Homogeneity:** Members within the segment should be similar to each other in terms of needs, wants, and buying behaviors.

2. **Distinctiveness:** Members of the segment should be clearly different from members of other segments.
3. **Substantiality (Size):** The segment should be large enough to be profitable after considering the costs of customization. (**Note:** The exact minimum size needs to be determined).
4. **Matching Strengths:** The organization must have the capabilities to address the specific needs of the segment.
5. **Identifiability:** Members of the segment should be easy to recognize and distinguish from others in the market.
6. **Reachability:** There must be effective channels to communicate and deliver marketing messages to the segment.

Understanding Knock-Out Criteria:

- Crucial for all stakeholders involved in market segmentation (senior management, segmentation team, advisory committee).
- Most criteria are self-explanatory, but some require further clarification (e.g., minimum segment size).

3)ATTRACTIVENESS CRITERIA

While knock-out criteria determine if a segment is even worth considering, attractiveness criteria help us delve deeper and assess its relative appeal for targeting.

Key Differences from Knock-Out Criteria:

- **Non-binary nature:** Unlike knock-out criteria (all-or-nothing), attractiveness criteria are used for rating segments. Segments can be more or less attractive based on a specific criterion.
- **Spectrum of Attractiveness:** Segments are evaluated across various criteria, leading to an overall attractiveness score that influences the targeting decision (Step 8 of market segmentation analysis).

The segmentation team doesn't have to use all the listed criteria. Their task is to:

1. **Select the most relevant criteria** based on their specific situation and target market.
2. **Prioritize the chosen criteria** by assigning them relative importance based on the organization's goals and resources.

4)Implementing a structured process

Market segmentation literature emphasizes the value of a structured process for segment assessment.

Popular Evaluation Method:

- Segment evaluation plot: This popular approach visually positions segments based on two key factors:
 - Segment Attractiveness (Y-axis): How appealing a segment is for the organization.
 - Organizational Competitiveness (X-axis): The organization's ability to succeed in that segment

Importance of Advisory Committee:

- Representatives from various organizational units are included for two key reasons:
 1. Diverse Perspectives: Each unit brings a unique viewpoint to the discussion.
 2. Stakeholder Involvement: Segmentation strategy implementation impacts all units, making them key stakeholders.

Segment Evaluation Plot Timing:

- While the plot cannot be completed in Step 2 (no segments yet), choosing attractiveness criteria early offers advantages:
 - Data Collection Focus: Knowing what's important ensures relevant information is captured during data collection (Step 3).
 - Streamlined Target Selection (Step 8): The groundwork facilitates easier selection with actual segments available.

Finalizing Attractiveness Criteria:

- The segmentation team aims to establish a list of around six segment attractiveness criteria.
- Each criterion should be weighted to reflect its relative importance compared to others.
- Weighting typically involves team members distributing 100 points across all criteria, followed by negotiation for agreement.
- Ideally, seek approval from the advisory committee for their diverse perspectives.

Step 3:Collecting Data

1)SEGMENTATION VARIABLE

In commonsense segmentation, the segmentation variable is typically one single characteristic of the consumers in the sample. For example, gender can be used as a segmentation variable to split the sample into a segment of women and a segment of men.

Data-driven market segmentation is based on not one, but on multiple segmentation variables. These segmentation variables can be used to identify naturally existing, or artificially creating market segments useful to the organization. For example, benefits sought can be used as segmentation variables to identify a segment of tourists who seek relaxation, culture and meeting people.

In both commonsense and data-driven market segmentation, data quality is critical. Data quality is important for:

- Assigning each person in the sample to the correct market segment
- Describing the segments correctly

The correct description of the segments is important for developing a customized product, determining the most appropriate pricing strategy, selecting the best distribution channel, and the most effective communication channel for advertising and promotion.

2)SEGMENTATION CRITERIA

Segmentation criteria is a broader term than segmentation variable.

- Segmentation variable: A measured value, for instance a survey item or observed expenditure category.
- Segmentation criteria: The nature of the information used for market segmentation, can be a specific construct like benefits sought.

Choosing a segmentation criteria requires knowledge about the market and cannot be outsourced easily.

Common segmentation criteria include:

- Geographic
- Sociodemographic

- Psychographic
- Behavioral

There is no single best segmentation criteria, the recommendation is to use the simplest approach that works.

- If demographic segmentation works for your product or service, use it.
- If geographic segmentation works because your product appeals to a specific region, then use it.
- Psychographic segmentation is not necessarily better than demographic or geographic segmentation, use what works for your product or service at the least cost.

→ **Geographic segmentation**

Geographic segmentation is a common and easy to implement approach to segment a market.

Pros:

- Easy to assign consumers to segments based on their location
- Easy to target communication messages and channels (local media) to specific geographic segments

Cons:

- People in the same location may not share other relevant characteristics (e.g. people in luxury suburbs may choose similar locations to live but not necessarily similar cars)
- Geographic segmentation may not be effective for products where location is not a key factor (e.g. luxury cars)

Geographic segmentation can be useful for international segmentation studies, but it's important to consider:

- Finding segmentation variables that are meaningful across all geographic regions
- Potential biases due to cultural differences when collecting data (e.g. surveys)

→ **Socio-Demographic Segmentation**

Socio-demographic segmentation is a common approach that uses factors like age, gender, income, and education to divide a market.

Pros:

- Easy to determine segment membership for each consumer
- Can be useful for some industries (e.g. luxury goods for high income earners, baby products)
- May explain product preferences in some cases (e.g. families with children choosing family vacation villages)

Cons:

- May not provide enough insight for optimal segmentation decisions (socio-demographics only explain about 5% of consumer behavior according to some estimates)
- Does not necessarily explain why people buy things (values, tastes, and preferences are more influential according to some experts)

→ Behavioral Segmentation

Behavioural segmentation is a market segmentation approach that uses customer behaviour to define segments.

Pros:

- Uses actual behaviour (not just stated intentions) to group customers, which can be more accurate.
- Groups people based on the most relevant factor (their behaviour).

Cons:

- Behavioural data may not always be readily available, especially for potential customers.

3) DATA FROM SURVEY STUDIES

Survey data is commonly used for market segmentation analysis because it's cheap and easy to collect.

However, survey data can be unreliable compared to actual behavioral data because it can be contaminated by biases.

These biases can negatively affect the quality of the segmentation results.

★ CHOICE OF VARIABLES

Choosing the right variables for market segmentation is crucial for getting good results.

- In data-driven segmentation, you want to include all variables relevant to what you're measuring, but avoid unnecessary ones.
- Unnecessary variables make the survey longer and can lead to lower quality responses from tired participants.
- They also make it harder to find the segmentation you're looking for by overwhelming the analysis with irrelevant data. These are called noisy variables.
- Noisy variables can come from poorly designed survey questions or including unnecessary data points.
- To avoid noisy variables, focus on asking all the necessary and unique questions and avoid redundant ones.
- Redundant questions are common but can make it harder to find the right segmentation.

★ RESPONSE OPTIONS

Binary/Dichotomous: Respondents can answer with only two options (e.g., yes/no, agree/disagree). This creates data that is easy to analyze (0 or 1).

Nominal: Respondents choose one answer from a list of unordered categories (e.g., occupation). Can be converted to binary by creating a binary variable for each answer option.

Metric: Respondents indicate a number (e.g., age, income). This data allows for any statistical procedure and is ideal for segmentation analysis.

Ordinal: Respondents select an answer from a range of ordered categories (e.g., strongly agree, agree, neutral, disagree, strongly disagree). This is the most common type of answer option, but it's not ideal for segmentation analysis.

★ RESPONSE STYLES

Response bias is a systematic way that people answer surveys that isn't related to the question itself. Response styles are biases that people consistently show across surveys.

Here are some common response styles that can affect segmentation results:

- Using extreme answer options (strongly agree/disagree)
- Using the middle option (neither agree nor disagree)
- Agreeing with all statements

These response styles can make it seem like a segment has certain characteristics (e.g., high spending tourists) when really it's just a reflection of how they answer surveys, not their actual behavior.

★ SAMPLE SIZE

Sample size is crucial for accurate market segmentation analysis.

- Insufficient sample size makes it difficult to identify the correct number of segments .

There are different recommendations for sample size depending on the method used:

- Forman (1984) recommends at least $2p$ (or 5 times $2p$) where p is the number of segmentation variables. This applies to goodness-of-fit testing with binary variables.
- Qiu and Joe (2015) recommend at least 10 times the number of segmentation variables times the number of segments for data with equal cluster sizes. For unequal sized segments, the smallest segment should have at least $10 \cdot p$ samples.
- Dolnicar et al. (2014) recommend at least $60p$ *based on their simulation studies. For more difficult scenarios, they recommend at least $70p$.*

Increasing sample size improves the segmentation results, but the benefit diminishes with larger samples (shown in Figure 5.2).

Market and data characteristics can affect the required sample size:

- More segments or unequal/overlapping segments require a larger sample size.
- Correlated segmentation variables make it harder to identify segments, and increasing sample size has less effect.

High-quality unbiased data is important for market segmentation analysis. Ideally, the data should have:

- All necessary items
- No unnecessary or correlated items
- High-quality responses (binary or metric, free of response styles)
- A suitable sample given the segmentation aim
- A sufficient sample size (at least 100 times the number of segmentation variables) according to Dolnicar et al. (2016).

STEP-9 Customizing the Marketing Mix

1) Implications for Marketing Mix Decisions

- Market segmentation is not a standalone strategy, but rather it works together with other strategic marketing areas, especially STP (Segmentation-Targeting-Positioning).

Segmentation should not be viewed as completely separate from other strategic decisions. There may be back-and-forth between steps before committing to target segments.

The target segment decision affects the marketing mix (4Ps).

Each element of the marketing mix needs to be reviewed based on the target segment.

The marketing mix can be customized for the target segment by:

- Developing new products or modifying existing ones.
- Adjusting pricing or discount structures.
- Choosing suitable distribution channels.
- Creating new communication messages and promotions.

Market segmentation analysis can be structured around one of the 4Ps to inform decisions about that specific element.

Typically, segmentation analysis considers all the 4Ps to develop or adjust the marketing mix for the target segment.

❖ **PRODUCT**

Product dimension of marketing mix involves specifying a product based on customer needs, often through modification of existing products.

Other product dimension decisions include naming, packaging, warranties, and after-sales support.

Target segment selection can guide product design/modification

❖ PRICE

Typical decisions an organisation needs to make when developing the price dimension of the marketing mix include setting the price for a product, and deciding on discounts to be offered.

❖ PLACE

The key decision relating to the place dimension of the marketing mix is how to distribute the product to the customers. This includes answering questions such as: should the product be made available for purchase online or offline only or both; should the manufacturer sell directly to customers; or should a wholesaler or a retailer or both be used.

❖ PROMOTION

This involves decisions like creating advertising messages and choosing communication channels.

Other promotion tools include public relations, personal selling, and sponsorship.

GitHub Link: [SMRUTISARITA/Market-Segment-Analysis \(github.com\)](https://github.com/SMRUTISARITA/Market-Segment-Analysis)