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### Summary of Market Segmentation

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

##### **1. Implications of committing to market segmentations**

- Engaging in market segmentation is not a transient decision; it necessitates a sustained commitment that can reshape various aspects of an organization. This includes adjustments in product development, pricing strategies, distribution channels, and marketing communications.
- The rationale for pursuing segmentation should be anchored in the anticipated increase in profitability, considering the associated costs of implementation
- Implementing a segmentation strategy may require a fundamental shift in organizational structure, transitioning from a product-centric to a segment-centric approach. This shift demands robust support from senior management and effective communication throughout the organization to ensure alignment and understanding of the new direction.

##### **2. Barriers to Implementation**

###### **2.1. Leadership and Resources Challenges**

- The absence of strong leadership and adequate resources from senior management can significantly impede the successful execution of segmentation strategies. Organizations must cultivate a culture that embraces change and prioritizes consumer orientation to overcome these barriers.

###### **2.2. Training and understanding**

- A lack of knowledge regarding segmentation principles can lead to ineffective implementation. Therefore, it is crucial to provide comprehensive training to relevant teams to enhance their understanding and capabilities in applying segmentation strategies effectively.

###### **2.3. Operational Constraints**

- Financial limitations, vague objectives, and poorly defined processes can disrupt segmentation efforts. Organizations should focus on establishing clear goals and structured processes to facilitate successful segmentation.

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

Specifying the ideal target segment is a critical phase in market segmentation analysis, as it involves identifying and evaluating potential market segments to determine which ones are most aligned with the organization's goals and capabilities.

### **1. Segment Evaluation Criteria**

#### **1.1. Knock-out Criteria**

These criteria help eliminate segments that do not meet essential requirements. Key factors include:

- **Homogeneity:** The segment should exhibit similar characteristics among its members.
- **Distinctiveness:** The segment must be clearly differentiated from others.
- **Size:** The segment should be large enough to justify marketing efforts.
- **Match with Organizational Strengths:** The segment should align with the company's capabilities and resources.
- **Identifiability and Reachability:** The segment should be easily identifiable and accessible for marketing efforts.

### **2. Attractiveness Criteria**

After identifying viable segments, organizations assess their attractiveness based on:

- **Growth Potential:** Is the Segment expected to grow in the future?
- **Profitability:** What is the potential return on investment?
- **Competitive Landscape:** What are the barriers to entry, and how competitive is the segment?
- **Socio-Political and environmental Risks:** Are there external factors that could impact the segment negatively?

### **3. Implementing a structured Process:**

- A structured approach, such as using a segment evaluation plot, is crucial for consistently assessing segment attractiveness against organizational competitiveness. By defining these criteria early in the segmentation process, organizations can ensure that relevant data is collected, and that the selection of target segments is aligned with strategic goals.

### **4. Collaborative Decision Making:**

- The segmentation team, which includes members from different organizational units, collaborates to establish the evaluation criteria. This diverse representation provides a comprehensive perspective, as each unit may have unique insight into market opportunities and risks. The advisory committee reviews and approves the decisions, ensuring that the entire organization supports the segmentation strategy. The team's collaborative approach and the advisory committee's oversight help create a well-rounded and widely supported segmentation strategy.

## 5. Weighting Criteria:

- The process of selecting key attractiveness criteria involves team members allocating 100 points among no more than six criteria based on their significance. This method ensures that the criteria most aligned with the organization's goals receive greater emphasis in the evaluation process. After individual allocations, the team engages in collaborative discussions to finalize the weightings, ensuring that diverse perspectives are integrated. The approach fosters a well-rounded evaluation framework that reflects the collective insights of the team.

## Step 3: Collecting Data

### 3.1. Segmentation Variables:

- Empirical data is vital for identifying and describing market segments. Segmentation variables can be single characteristics (as in commonsense segmentation) or multiple variables (as in data-driven segmentation).
- In commonsense segmentation, descriptor variables (such as demographics or media usage) provide detailed insights into segments, aiding in the development of targeted marketing strategies.
- Data-driven segmentation uses multiple variables to uncover or create segments based on shared characteristics, making it more adaptable and often more insightful.

### 3.2. Segmentation Criteria:

The choices of segmentation criteria are influenced by knowledge of the market and cannot be easily outsourced.

- **Geographic Segmentation:** Uses location as the criterion. It is straightforward but may not reflect deeper differences among consumers in the same area.
- **Socio-Demographic Segmentation:** Involves basic demographics like age, gender, and income. This method is easy to implement but often fails to capture the underlying reasons for consumer behaviour.
- **Psychographic Segmentation:** Groups consumers based on psychological attributes like beliefs, values, and lifestyle. This approach provides deeper insights but is complex and relies on accurate data collection.
- **Behavioural Segmentation:** Directly examines consumer behaviours, such as purchasing patterns. It is highly effective when based on actual behaviour but may exclude potential customers who haven't yet engaged with the product.

### 3.3. Data Sources:

Data for segmentation can come from various sources:

- **Surveys:** Inexpensive and easy to collect, though susceptible to biases that can affect segmentation quality.

#### **A) choice of variables:**

- Selecting appropriate segmentation variables is essential for achieving high-quality solutions.
- Unnecessary variables can lengthen surveys causing respondent fatigue and reducing accuracy.

- Noisy Variables hinder algorithm from accurately identifying meaningful segments.
- A well -designed questionnaire, potentially supported by exploratory research ensures the inclusion of vital variables.

#### **B) Response option:**

- Survey responses can be categorized as binary, nominal, metric, or ordinal, with binary and metric options preferred for segmentation analysis.
- Binary and metric responses simplify the application of distance measures, facilitating better identification of respondent similarities and difference.
- Ordinal data while common in surveys can complicate analysis due to unequal distances between response options.
- Visual analogue scales are recommended for capturing fine nuances in options providing a more precise response format than traditional ordinal scales

#### **C) Response Styles:**

- Responses biases such as agreeing with all statements can significantly distort segmentation results leading to inaccurate insights.
- Segment extraction algorithms struggle to differentiate between genuine belief and biased response resulting in political misclassification of segments.
- Identifying and eliminating response styles along with adjusting and analysis is essential for improving the reliability and accuracy of segmentation outcomes

#### **D) Sample Size:**

- Sample size is crucial for segmentation accuracy an insufficient sample can hinder effective segment identification with studies recommending at least 60-70 respondents per segmentation variable.
- Simulation results suggest optimizing algorithm performance by ensuring a minimum of 100 respondents per segmentation variable.

- **Internal Data:** Includes purchase histories and loyalty program data, providing a reliable reflection of consumer behaviour but potentially biased towards current customers.
- **Experimental Studies:** Provide controlled insights into consumer preferences but are more resource intensive.

## **Step 8: Selecting (the) Target segments**

### **A) The Targeting Decision:**

- **Purpose:** The targeting decision involves specifying segments to focus marketing efforts on with the aim of optimizing the use of company resources and achieving better market positioning.
- **Resource Allocation:** The decision also involves considering the resources available for targeting each segment. Companies must assess whether they can effectively serve the needs of the selected segments with their current capabilities.

### **B) Market Segment Evaluation:**

- **profitability Assessment:** Each segment is analyzed for its potential profitability. This includes evaluating factors such as expected revenue cost of serving the segment and overall market size. Segments that promise higher profitability are prioritized.
- **Brand Fit:** The alignment of the segment with the company's brand identity is critical. Segments that resonate with the brand's values and mission are more likely to yield successful marketing outcomes.
- **Market Potential:** Companies assess the size and growth potential of each segment. Segments with larger market sizes and favourable growth trends are typically more attractive.
- **Customer Needs and Preferences:** Understanding the specific needs and preferences of each segment is essential. Companies evaluate their ability to meet these needs effectively, ensuring that they can deliver value to the target audience.

### **C) Final Selection:**

- After evaluating each segment against the established criteria, companies make the final selection of target segments. This decision should reflect a balance between strategic alignment, profitability, and the ability to meet customer needs.

## **Code Summary:**

- This summary provides a high-level overview of the typical R programming steps involved in market segmentation analysis, focusing on data preparation, exploratory analysis, segment extraction, profiling, and validation.

