

:Market Segmentation Analysis:

Soumik Mallick

STEP-1,2,3,8,9

1. First Step: Deciding (not) to Segment : -

Although market segmentation has developed to be a key marketing strategy applied in many organizations, it is not always the best decision to pursue such a strategy.

1.1 Implications of Committing to Market Segmentation:

- **Long-Term Commitment:** Think of market segmentation like a long-term relationship. It demands serious dedication and a significant investment in various areas like research, developing products, adjusting prices, and tailoring communication to different customer groups.
- **Organizational Changes:** It's not just about surveys; it might mean changing products, pricing strategies, how things are sold, and even restructuring inside the company to match specific market segments.
- **Strategic Focus:** Instead of focusing on products, it's about organizing the whole company around different types of customers. This approach can bring the best results.

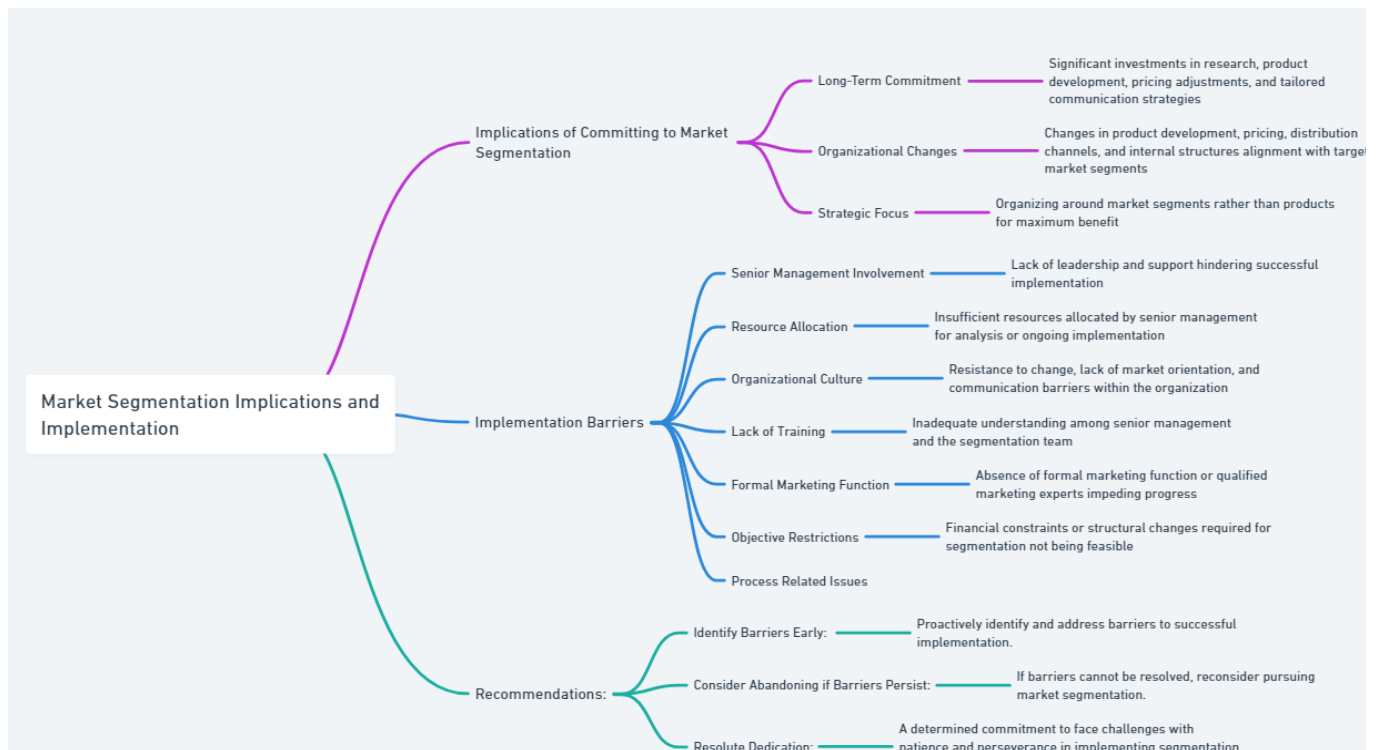
1.2 Implementation Barriers:

- **Senior Management Involvement:** If the top-level folks aren't fully into it, or if they don't provide enough support, this whole segmentation idea might struggle.
- **Resource Allocation:** Sometimes there might not be enough money or resources given by senior management for proper analysis or ongoing implementation.
- **Organizational Culture:** If the company isn't open to new ideas, doesn't like change, or has communication problems between departments, segmentation might hit a roadblock.
- **Lack of Training:** It's not just about having the right mindset; the team needs to really understand how market segmentation works.

- **Formal Marketing Function:** If there aren't proper marketing experts or a dedicated marketing function, progress might be slow.
- **Objective Restrictions:** Money problems or big structural changes needed might make segmentation plans unrealistic.
- **Process-Related Issues:** Not having clear goals, planning poorly, not having clear responsibilities, or being rushed can all mess up segmentation plans.

1.3 Recommendations:

- **Identify Barriers Early:** It's crucial to spot problems early and try to fix them or reconsider if segmentation is the right move.
- **Consider Abandoning if Barriers Persist:** If things just aren't working out and barriers can't be resolved, it might be wise to rethink the segmentation strategy.
- **Resolute Dedication:** It takes a lot of patience, dedication, and perseverance to push through the challenges that come with implementing segmentation strategies.



2. Second Step: Specifying the Ideal Target Segment

The second step dives into the critical role of user input in the third layer of market segmentation analysis and highlights the importance of continuous involvement throughout the process.

2.1 User Involvement in Market Segmentation Analysis:

- **Continuous User Involvement:** User input shouldn't be limited to the beginning or the end of the process. Instead, active involvement throughout the various stages is crucial for effective market segmentation.
- **Step 2 Contribution:** Once committed to segmentation, the organization's input is pivotal in determining segment evaluation criteria. This conceptual input guides subsequent steps, especially data collection and selecting target segments.

2.2 Segment Evaluation Criteria:

- **Knock-Out Criteria:** These are non-negotiable features essential for segments the organization considers targeting.
- **Attractiveness Criteria:** These are used to evaluate the relative attractiveness of remaining segments compliant with the knock-out criteria.

2.2.1 Knock-Out Criteria in Market Segmentation:

- Knock-out criteria are essential to determine if market segments resulting from segmentation analysis qualify for further assessment using attractiveness criteria.

1. Kotler's Suggested Criteria:

- **Substantiality:** The segment must be substantial in size.
- **Measurability:** Segments must be measurable in terms of their characteristics.
- **Accessibility:** Segments should be accessible for targeted marketing efforts.

2. Additional Knock-Out Criteria:

- **Homogeneity:** Segment members must be similar to one another.
- **Distinctiveness:** The segment must be distinctly different from other segments.
- **Size Adequacy:** It should contain enough consumers to justify customized marketing.
- **Alignment with Organizational Strengths:** The organization should have the capability to meet segment needs.
- **Identifiability:** Members of the segment must be identifiable in the marketplace.

- **Reachability:** There should be a means to connect with segment members for effective marketing.

3. Importance and Understanding:

- **Clarity Required:** Knock-out criteria are crucial and need to be understood by senior management, the segmentation team, and the advisory committee.
- **Specificity:** While most criteria are non-negotiable, some, like size, might need specific minimum viable segment size specifications.

2.2.2 Attractiveness Criteria in Market Segmentation:

- A broad spectrum of attractiveness criteria for the segmentation team to consider.

1. Nature of Attractiveness Criteria:

- **Non-Binary Assessment:** Unlike knock-out criteria, attractiveness criteria are not binary. Segments aren't just compliant or non-compliant; rather, they're rated based on attractiveness across various criteria.
- **Rating System:** Each market segment is evaluated on a scale, determining its level of attractiveness concerning specific criteria.

2. Role in Target Segment Selection:

- **Determining Target Segments:** The overall attractiveness ratings across all criteria collectively determine whether a market segment is selected as a target segment in Step 8 of segmentation analysis.

3. Flexibility and Customization:

- **Adaptability:** These criteria allow flexibility for the segmentation team to tailor their assessment to their specific situation and needs.
- **Holistic Evaluation:** The comprehensive evaluation across multiple criteria ensures a well-rounded understanding of each market segment's potential attractiveness.

The structured process for assessing market segments emphasizes the importance of a segment evaluation plot, showcasing segment attractiveness against organizational competitiveness. Negotiating and agreeing upon factors that constitute both attractiveness and competitiveness is crucial. Recommendations suggest using no more than six factors and involving a team to propose initial solutions, engaging an advisory committee representing various organizational units for discussion and potential modifications.

Although the segment evaluation plot isn't completed in Step 2 due to the absence of segments, selecting attractiveness criteria early streamlines data collection and facilitates target segment selection later. By this step's end, the team should have around six weighted attractiveness criteria, often determined by allocating 100 points across criteria and negotiating until consensus, ideally seeking approval from the advisory committee representing diverse organizational perspectives.

3. Third Step: Collecting Data -

3.1. Segmentation Variables in Market Segmentation:

- **Commonsense vs. Data-Driven Segmentation:** In market segmentation, empirical data is crucial. Commonsense segmentation relies on a single characteristic (like gender) to split consumers into segments, while data-driven segmentation uses multiple variables to identify or create segments that might not share common single traits but might have shared interests or behaviors.
- **Commonsense Segmentation Example:** In commonsense segmentation, data might separate consumers by gender into men and women, using other characteristics like age, vacation habits, and vacation benefits as descriptors to understand these segments better.
- **Data-Driven Segmentation Example:** Data-driven segmentation involves multiple variables (like vacation benefits sought) to define segments, while socio-demographics (gender, age) and behaviors serve as descriptors to understand these segments deeply.

Data Sources for Segmentation:

- **Range of Data Sources:** Empirical data for segmentation can come from surveys, observations (like scanner data), or experimental studies, ideally reflecting consumer behavior.
- **Consideration Beyond Surveys:** While surveys are common, their reliability in reflecting actual behavior, especially for socially desirable actions, might be limited. Exploring diverse data sources reflecting real consumer behavior is recommended for robust segmentation analysis.

3.2. Segmentation Criteria

Choosing the right segmentation criterion is a crucial decision that organizations must make before even collecting data for segment extraction. Unlike specific measured values, this criterion refers to the nature of information used for segmentation, like geographic, socio-demographic, psychographic, or behavioral aspects. It's a decision heavily reliant on prior market knowledge and can't be easily delegated to consultants or data analysts.

3.2.1 Geographic Segmentation

- *Definition:* Grouping consumers based on their location or residence.
- *Advantages:* Easy consumer assignment to geographic areas, facilitating targeted communication via local media.
- *Disadvantages:* Doesn't necessarily reflect shared preferences or buying behaviors despite similar locations.
- *Example:* National tourism organizations targeting tourists from different neighboring countries using various languages.

3.2.2 Socio-Demographic Segmentation

- *Criteria:* Age, gender, income, and education as defining factors.
- *Usefulness:* Useful in specific industries (e.g., luxury goods, cosmetics), but often doesn't fully explain product preferences.
- *Limitations:* Offers limited market insight; demographic factors explain only a small part of consumer behavior.

3.2.3 Psychographic Segmentation

- *Definition:* Grouping based on psychological criteria, such as beliefs, preferences, and aspirations.
- *Complexity:* Requires multiple variables due to the complexity of capturing a single psychological dimension.
- *Advantage:* Reflects underlying reasons for consumer behavior better than other criteria.
- *Limitations:* Complex determination of segment memberships; reliability of measures impacts effectiveness.

3.2.4 Behavioral Segmentation

- *Approach:* Groups consumers based on their actual behavior or reported behavior.
- *Strengths:* Utilizes actual behavior of interest as the basis for segmentation; avoids the need for psychological construct development.
- *Challenges:* Availability of behavioral data, especially for potential new customers, could be limited

3.3. Data from Survey Studies

Most market segmentation analyses are based on survey data. Survey data is cheap and easy to collect, making it a feasible approach for any organization. But survey data – as opposed to data obtained from observing actual behavior – can be contaminated by a wide range of biases.

3.3.1 Choice of Variables

- Careful selection of variables is crucial for segmentation quality.
- Include all relevant variables for data-driven segmentation while avoiding unnecessary ones to prevent respondent fatigue and algorithm challenges.
- Noisy or redundant variables hinder correct segmentation solutions, so survey questions need meticulous development and selection.

3.3.2 Response Options

- Various response options generate different data scales.
- Binary or metric options are most suitable for segmentation analysis.
- Ordinal data generated from multiple-choice or Likert-type scales pose challenges due to undefined distances between options

3.3.3 Response Styles

- Biases in responses affect segmentation results.
- Biases like extreme agreeing/disagreeing or using the midpoint impact segment interpretation.

- Detection and exclusion of response styles are critical to avoid misinterpretation of segments.

3.3.4 Sample Size

- Insufficient sample sizes hinder accurate segmentation.
- Adequate sample size is essential; Formann's rule suggests at least $2p$ (preferably five times $2p$) for the number of segmentation variables.
- Insufficient sample sizes pose challenges for segmentation algorithms to determine correct market segments (Figure 5.1).
- Sample size recommendations in market segmentation are less defined compared to other statistical analyses.
- Formann's rule suggests a sample size of $2p$ (or five times $2p$) based on segmentation variables.

3.3. Data from Internal Sources:

1. Internal Data for Segmentation:

- Valuable source for market segmentation due to representing actual consumer behavior.
- Examples include scanner data in retail, airline booking data, and online purchase records.
- Advantage lies in capturing real behavior instead of self-reported or intention-based data prone to biases.
- Accessibility is convenient as it's automatically generated and stored if organizations have appropriate systems.

2. Limitations of Internal Data:

- Potential bias toward existing customers, lacking information about prospective customers' distinct consumption patterns.
- Might not encompass data related to future customer segments that differ from the current customer base.

3.4. Data from Experimental Studies:

1. Experimental Data for Segmentation:

- Originates from controlled experiments, either in laboratory or field settings.
- Examples include responses to advertisements or choice experiments focusing on product attributes and consumer preferences.
- Experimental data provides insights into consumer responses to stimuli or preferences related to specific product attributes.
- Conjoint analyses and choice experiments offer information on attribute impact on consumer choice, useful for segmentation criteria

Step 8: Selecting the Target Segment(s) :-

8.1. The Targeting Decision

Step 8 in market segmentation is like the moment when you decide which group or groups of people you're going to focus on. It's a big choice because it shapes the future of the company. This step comes after a lot of analysis and digging into different potential groups in the market.

First off, before getting into Step 8, a lot happens. The team looks at different segments in Step 6 and describes them more deeply in Step 7. They're like detectives, examining what makes each group unique and whether they fit certain criteria that the company needs. For example, they check if a group is big enough or if they have needs the company can actually meet.

By Step 8, they've likely tossed out segments that just don't fit the bill. But it's always good to double-check—so the first job is to make sure the remaining segments meet all the important criteria.

Now, onto the real decision-making. There are two big questions the team needs to tackle:

1. **Which group does the company really want to focus on?** Think of it like choosing someone to commit to in a relationship. You want to be sure about it. So, they ask themselves, "Which segment feels right for us to commit to?"

2. **Which group is likely to pick us?** It's like wondering who your crush would choose to date among many suitors. They want to know how likely each segment is to choose their company over others selling similar stuff. This helps figure out how competitive the company is in each segment.

Answering these two questions is how they pick the target segment. It's a bit like proposing—deciding who they want to commit to and who's likely to commit back.

8.2. Market Segment Evaluation:

Sure thing! So, when it comes to picking which market segments a company should focus on, there's this handy tool called a decision matrix. It's like a visual aid that helps compare different segments to see which ones are most attractive for the company and how well the company fits those segments.

There are various versions of this matrix, each with fancy names like Boston matrix or General Electric/McKinsey matrix. But don't let the names confuse you—they all serve the same purpose: to help decide which segments are the best fit for the company.

Imagine this matrix like a chart with two axes: one measures how appealing a segment is to the company, and the other gauges how much the company appeals to that segment. It's like figuring out if you'd want to marry someone and if they'd want to marry you back among all the people in the world.

Here's where it gets a bit technical: to plot these segments on the chart, the team assigns values based on certain criteria that make a segment attractive. They've already set these criteria back in Step 2 of their analysis. Things like segment size, their needs, or how profitable they could be for the company.

Then, they take the info gathered from Steps 6 and 7, where they've described these segments in detail, and give each segment a score based on those criteria. These scores are then multiplied by the importance assigned to each criterion and added up. That final number becomes the spot where a segment sits on the chart (the x-axis).

Same goes for how competitive the company is in each segment. They figure out what factors consumers consider when choosing between different companies offering similar stuff. Is it the product's appeal, the price, how easy it is to buy, or how well-known the company is?

So, they go through the same process for each segment—assign values, multiply by importance, add it all up—to find where each segment stands in terms of how much the company appeals to them (that's the y-axis).

It's a bit like doing a thorough evaluation of both sides of a potential relationship to see if it's a good match from both perspectives.

Once the segments are plotted on the matrix based on their attractiveness to the company and the company's appeal to them, there's another factor: the bubble size.

This bubble size represents something crucial. Usually, it's profit potential—a mix of the segment's size and spending habits. But in different scenarios, it could be entirely different things. For instance, a nonprofit using segmentation to recruit volunteers might measure bubble size by the number of hours volunteered.

Once this matrix is set up, it's discussion time for the segmentation team. They look at the plot and start making decisions. Segment 5 might seem great but isn't as keen on the company, making it tough to serve them well.

However, segment 8 looks fantastic—it loves the company, and the feeling's mutual. But there's a catch: it might not bring in a huge profit. That's where segment 2 might come in. It's quite fond of the company, has decent profit potential, and is almost as attractive to the company as segments 1, 4, and 6 (even though those segments aren't as keen on the company).

To recreate this plot using a programming language like R, they use specific commands to visualize this decision matrix.

Ultimately, this matrix helps the team visualize and discuss which segments are worth focusing on, considering not just their appeal but also the potential profits and compatibility with the company's offerings. It's like finding the best match where both sides really hit it off and the relationship looks promising for the long haul.

Step 9: Customizing the Marketing Mix :-

9.1. Marketing Mix Evolution

- Originally, marketing operated like a toolbox, blending various tools to boost sales. This approach, initially outlined by Borden in 1964, included a dozen elements such as product planning, pricing, branding, and promotions.
- Over time, this toolbox evolved into the 4Ps—Product, Price, Promotion, and Place—becoming a foundational framework in marketing strategies.

9.2 Market Segmentation within Strategic Framework

- Market segmentation, however, isn't a standalone strategy. It's intricately linked with positioning and competition. The Segmentation-Targeting-Positioning (STP) model illustrates this. It kicks off with segmentation—dividing the market into distinct segments.
- Then comes targeting—choosing specific segments to focus on. Finally, there's positioning—making your product stand out from competitors within those segments.

9.3 The Flexibility of STP

- Despite its structured nature, the STP model isn't always linear. There might be a need to move back and forth between segmentation and targeting before committing long-term to specific segments.

9.4 Segment Impact on Marketing Mix

- Selecting a target segment significantly influences how you shape your marketing mix. Each aspect—Product, Price, Place, and Promotion—needs a meticulous reevaluation post selecting the target segment.

9.5 Customization is Key

- Tailoring the marketing mix to suit the chosen segment is pivotal.
- For example, if a segment, say Segment 3 from an Australian vacation dataset, shows a penchant for cultural experiences, it might prompt the creation of a specific product—let's say, "MUSEUMS, MONUMENTS & MUCH, MUCH MORE."

9.6 Pricing Strategy

- Understanding the spending patterns of the segment—like Segment 3 spending more per day on vacations—can steer pricing decisions. This might suggest a potential for premium pricing for targeted experiences.

9.7 Distribution Channels

- Insights into how the segment prefers to book—perhaps Segment 3 preferring online bookings—signal the necessity for online booking options to cater to their needs.

9.8 Targeted Promotion

- The promotion aspect involves reaching the segment effectively.
- If a segment relies heavily on specific channels or sources for information, say Segment 3 favoring Channel 7, designing advertising campaigns to target that channel becomes crucial.

Ultimately, the goal is alignment—each element of the marketing mix needs to harmonize with the preferences and behaviors of the chosen segment. This alignment aims to maximize the benefits derived from a strategic segmentation approach.

Conclusion:

Understanding market segmentation involves considering various data sources and segmentation criteria. Geographic, socio-demographic, psychographic, and behavioral segmentation offer unique insights into consumer behavior but have limitations in explaining preferences. While survey data drives segmentation, biases like respondent fatigue impact insights. Internal data sources provide actual consumer behavior but might skew toward existing customers. Experimental data from tests enrich segmentation.

Implementation barriers like data quality and bias exist. Ideal target segments are those where segmentation aligns with the company's objectives, offering identifiable, accessible, substantial, and actionable groups, crucial for effective marketing strategies. Balancing multiple data sources and overcoming implementation barriers are key to defining these ideal segments, facilitating better understanding and targeted approaches to diverse consumer preferences