



Market Segmentation

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Date: 8th May, 2023

Summary:

- Market segmentation is a widely used marketing strategy but it may not always be the best decision to pursue.
- Before investing resources in market segmentation analysis, it is important to understand the implications of pursuing a market segmentation strategy.
- The key implication of market segmentation is that the organization needs to commit to the strategy on a long-term basis.
- Commitment to market segmentation requires the willingness and ability of the organization to make substantial changes and investments.
- Potentially required changes include the development of new products, modification of existing products, changes in pricing and distribution channels, as well as all communications with the market.
- Organizational structure may also need to be adjusted in view of targeting different market segments. Croft recommends that organizations need to organize around market segments, rather than products.
- The decision to investigate the potential of a market segmentation strategy must be made at the highest executive level, and must be systematically and continuously communicated and reinforced at all organizational levels and across all organizational units.



- Books on market segmentation identify implementation barriers that can impede the successful roll-out of a market segmentation strategy.
- The first group of barriers relates to senior management, including lack of leadership, pro-active championing, commitment, and involvement in the market segmentation process.
- Senior management can also prevent market segmentation from being successfully implemented by not making enough resources available.
- A second group of barriers relates to organizational culture, including lack of market or consumer orientation, resistance to change and new ideas, lack of creative thinking, bad communication, short-term thinking, unwillingness to make changes, and office politics.
- Lack of training can also be a potential problem if senior management and the team tasked with segmentation do not understand the very foundations of market segmentation or are unaware of the consequences of pursuing such a strategy.
- Lack of leadership, pro-active championing, commitment, and involvement by senior management can undermine the success of market segmentation.
- Organizational culture barriers, such as resistance to change, lack of market orientation, short-term thinking, and lack of sharing information can also prevent successful implementation.
- Lack of qualified marketing experts, data managers, and analysts can be a major stumbling block.
- Objective restrictions like lack of financial resources or inability to make structural changes required can hinder implementation.
- Process-related barriers like lack of planning, bad planning, lack of structured processes, and time pressure can impede the search for the best segmentation outcome.
- The use of graphical visualizations can help overcome the challenge of presenting market segmentation analysis in a way that facilitates interpretation by managers.





- Most barriers can be identified from the outset and proactively removed or the option of abandoning the attempt to explore market segmentation should be considered. A resolute sense of purpose and dedication is required if going ahead with market segmentation analysis.
- Culture and Willingness: The first questions on the checklist address the organization's culture and willingness to change. If an organization is not market-oriented or not willing to change, then the market segmentation analysis is unlikely to be successful.
- Long-term Perspective: Market segmentation is a long-term strategy. Therefore, it is important to ensure that the organization takes a long-term perspective to succeed in market segmentation.
- Openness to New Ideas: Organizations that are open to new ideas are more likely to succeed in market segmentation. Therefore, it is important to assess whether an organization is open to new ideas before proceeding with the analysis.
- Communication: Good communication across organizational units is important for market segmentation. It is important to ensure that communication is good before proceeding.
- Structural Changes: Organizations that are not in a position to make significant (structural) changes are unlikely to succeed in market segmentation. Therefore, it is important to assess whether the organization has the capability to make significant changes.
- Financial Resources: Sufficient financial resources are required to support a market segmentation strategy. It is important to assess whether the organization has the financial resources to support the analysis.
- Commitment and Involvement: Securing visible commitment, active involvement, and required financial commitment from senior management is crucial for market segmentation success.





- Understanding: It is important to ensure that the market segmentation concept and implications are fully understood. If not, conducting training until understanding is achieved is necessary.
- Team Assembly: A team with marketing, data, and analysis expertise is essential for conducting the market segmentation analysis. It is important to ensure that a marketing expert, data expert, and data analysis expert are on the team.
- Advisory Committee: Setting up an advisory committee representing all affected organizational units is important for market segmentation success.
- Clear Objectives and Responsibilities: The objectives of the market segmentation analysis should be clear, and a structured process should be developed. It is important to assign responsibilities to team members using the structured process.
- Time and Resources: Enough time should be available to conduct the market segmentation analysis without time pressure. Sufficient financial resources should be available to support the analysis.
- The third layer of market segmentation analysis relies heavily on user input.
- User involvement is critical throughout the segmentation process.
- In Step 2, the organization must determine two sets of segment evaluation criteria: knock-out criteria and attractiveness criteria.
- Knock-out criteria are the essential features of segments that the organization would consider targeting.
- Attractiveness criteria are used to evaluate the relative attractiveness of the remaining market segments.





- The literature proposes a wide array of possible segment evaluation criteria, which are described at different levels of detail.
- Day (1984): Measurable, Substantial, Accessible, Sufficiently different, At suitable life-cycle stage
- Croft (1994): Large enough, Growing, Competitively advantageous, Profitable, Likely technological changes, Sensitivity to price, Barriers to entry, Buyer or supplier bargaining power, Socio-political considerations, Cyclicity and seasonality, Life-cycle position
- Myers (1996): Large enough, Distinguishable, Accessible, Compatible with company
- Wedel and Kamakura (2000): Identifiable, Substantial, Accessible, Responsive, Stable, Actionable
- Perreault Jr and McCarthy (2002): Substantial, Operational, Heterogeneous between, Homogeneous within
- Lilien and Rangaswamy (2003): Large enough, Growing, Competitively advantageous, Segment saturation, Protectable, Environmentally risky, Fit, Relationships with other segments, Profitable
- McDonald and Dunbar (2004): Segment factors, Competition, Financial and economic factors, Technological factors, Socio-political factors
- Dibb and Simkin (2008): Homogeneous, Large enough, Profitable, Stable, Accessible, Compatible, Actionable
- Sternthal and Tybout (2001): Influence of company's current position in the market on growth opportunities, Competitor's ability and motivation to retaliate, Competence and resources, Segments that will prefer the value that can be created by the firm over current market offerings, Consumer motivation and goals indicating gaps in marketplace offerings when launching a new company
- Solomon et al. (2011): Differentiable, Measurable, Substantial, Accessible, Actionable





- West et al. (2010): Large enough, Sufficient purchasing power, Characteristics of the segment, Reachable, Able to serve segment effectively, Distinct, Targetable with marketing programs
- Winer and Dhar (2011): Parsimonious, Large enough, Growing, Competitively advantageous
- Jain (2012): Measurable, Accessible, Substantial, Develops maximum differential in competitive strategy, Preserves competitive advantage, Valid even though imitated
- Kotler and Keller (2012): Measurable, Substantial, Accessible, Differentiable, Actionable, Segment rivalry (competition), Potential entrants, Substitutes, Power of buyers, Power of suppliers, Compatible with company
- Pride et al. (2012): Sales estimates, Competitive assessment, Cost estimates, Long-term profit opportunities, Financial resources, Managerial skills, Employee expertise, Facilities to compete effectively, Fit with corporate objectives, Legal issues, Conflicts with stakeholders, Technological advances
- Sharp (2013): Measurable, Targetable, Large enough, Profitable
- Criteria for market segment evaluation are divided into knock-out criteria and attractiveness criteria.
- Knock-out criteria are essential and non-negotiable in target segment selection.
- Attractiveness criteria represent a shopping list for the segmentation team to select from.





- The team needs to assess the relative importance of each attractiveness criterion to the organization.
- Knock-out criteria eliminate some market segments automatically.
- Attractiveness criteria are negotiated by the team and then applied to determine the overall relative attractiveness of each market segment in Step 8.
- Certainly, here's a more detailed elaboration of the points you summarized:
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 - Criteria for market segment evaluation are divided into knock-out criteria and attractiveness criteria:
 - In market segmentation, criteria are used to evaluate potential target segments. These criteria are divided into two main categories: knock-out criteria and attractiveness criteria.
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 - Knock-out criteria are essential and non-negotiable in target segment selection:
 - Knock-out criteria are a shorter set of criteria that are essential and non-negotiable. These criteria automatically eliminate some of the available market segments. The segmentation team does not have the power to negotiate their importance in target segment selection.
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 - Attractiveness criteria represent a shopping list for the segmentation team to select from:
 - Attractiveness criteria, on the other hand, are a much longer and more diverse set of criteria that represent a shopping list for the segmentation team. Members of the segmentation team need to select which of these criteria they want to use to determine how attractive potential target segments are.
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- The team needs to assess the relative importance of each attractiveness criterion to the organization:
- Once the attractiveness criteria have been selected, the segmentation team needs to assess the relative importance of each criterion to the organization. This is important because not all attractiveness criteria are equally important to every organization. The team needs to determine which criteria are most important to their organization and prioritize accordingly.
- Knock-out criteria eliminate some market segments automatically:
- Knock-out criteria are used to automatically eliminate market segments that do not meet certain criteria. This is because these criteria are essential and non-negotiable in target segment selection. Examples of knock-out criteria may include regulatory requirements or ethical considerations.
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- Attractiveness criteria are negotiated by the team and then applied to determine the overall relative attractiveness of each market segment in Step 8:
- Once the attractiveness criteria have been selected and their relative importance has been assessed, the segmentation team applies these criteria to determine the overall relative attractiveness of each market segment. This is done in Step 8 of the segmentation process. The team may use a scoring system or other methods to evaluate and compare potential target segments based on the attractiveness criteria.
- Knock-out criteria are used to determine if market segments qualify to be assessed using segment attractiveness criteria.
- The first set of knock-out criteria includes substantiality, measurability, and accessibility.





- Additional knock-out criteria recommended by other authors include homogeneity, distinctiveness, matching strengths of the organization, identifiability, and reachability.
- The segment must be large enough to make it worthwhile to spend extra money on customizing the marketing mix for them.
- Members of the segment must be identifiable, reachable, and similar to each other.
- Knock-out criteria must be understood by senior management, the segmentation team, and the advisory committee.
- The minimum viable target segment size needs to be specified.
- Knock-out criteria determine if market segments qualify for assessment using attractiveness criteria.
- The first set of knock-out criteria suggested by Kotler (1994) includes substantiality, measurability, and accessibility.
- Additional knock-out criteria have been recommended by other authors.
- The segment must be homogeneous, distinct, large enough, matching the organization's strengths, identifiable, and reachable.
- Knock-out criteria must be understood by senior management, the segmentation team, and the advisory committee.
- While most knock-out criteria do not require further specification, some, such as minimum viable target segment size, need to be specified.
- Attractiveness criteria are additional factors considered by the segmentation team to evaluate market segments.
- Table 4.1 provides a list of segment attractiveness criteria that can be considered.
- Attractiveness criteria are not binary; each segment is rated based on how well it complies with each criterion.





- The overall attractiveness of a market segment is determined by considering its attractiveness across all criteria.
- Market segments with higher attractiveness across all criteria are selected as target segments in Step 8.
- Following a structured process when assessing market segments is beneficial
- The use of a segment evaluation plot is the most popular structured approach for evaluating market segments
- The segment attractiveness and organizational competitiveness values are determined by the segmentation team based on negotiated and agreed-upon criteria
- A large number of possible criteria needs to be investigated before agreement is reached on which criteria are most important for the organization
- No more than six factors should be used as the basis for calculating these criteria
- A team of people should ideally complete this task, and representatives from a wide range of organizational units should be included in the process
- All units are key stakeholders of market segmentation analysis, as the segmentation strategy will affect every single unit of the organization.
- The segment evaluation plot is a popular structured approach for evaluating market segments.
- The segment attractiveness and organisational competitiveness values are determined by the segmentation team.
- A large number of possible criteria need to be investigated before agreement is reached on which criteria are most important for the organisation.
- A core team of 2-3 people could propose an initial solution and report their choices to the advisory committee for discussion and possible modification.





- The segment evaluation plot cannot be completed in Step 2 because no segments are available yet.
- Selecting attractiveness criteria at an early stage ensures all relevant information is captured when collecting data and makes selecting a target segment easier.
- The market segmentation team should have a list of approximately six segment attractiveness criteria with weights attached to each.
- The typical approach to weighting is to ask all team members to distribute 100 points across the criteria and negotiate until agreement is reached.
- Approval by the advisory committee is optimal as they bring a range of different perspectives to the challenge of specifying segment attractiveness criteria.
- Convene a segmentation team meeting.
- Discuss and agree on the knock-out criteria: homogeneity, distinctness, size, match, identifiability, and reachability.
- Present the knock-out criteria to the advisory committee for discussion and adjustment.
- Individually study available criteria for the assessment of market segment attractiveness.
- Discuss the criteria with the other segmentation team members and agree on a subset of no more than six criteria.
- Individually distribute 100 points across the segment attractiveness criteria agreed upon by the team.
- Discuss weightings with other team members and agree on a weighting.
- Present the selected segment attractiveness criteria and the proposed weights to the advisory committee for discussion and adjustment.
- Empirical data is used in market segmentation to identify or create market segments and describe them in detail.
- Segmentation variable is the variable in the empirical data used in commonsense segmentation to split the sample into market segments.





- Commonsense segmentation typically uses one single characteristic of the consumers in the sample as the segmentation variable.
- Descriptor variables are used to describe the segments in detail, and they include personal characteristics such as socio-demographics and information about media behaviour.
- Data-driven market segmentation is based on multiple segmentation variables to identify naturally existing or artificially created market segments.
- Data-driven segmentation allows organizations to better target their marketing mix to specific segments.
- The given data shows a comparison between commonsense and data-driven market segmentation.
- The data represents consumers and their characteristics, such as gender, age, number of vacations taken, and five benefits sought or not sought during vacations.
- In commonsense segmentation, only one characteristic is used as the segmentation variable (in this case, gender). This splits the sample into two segments - male and female.
- All other characteristics in the data serve as descriptor variables, which are used to describe the segments in detail.
- Data-driven market segmentation uses multiple segmentation variables to identify naturally existing or artificially created market segments useful to the organization.
- The second table shows an example of data-driven segmentation, where multiple segmentation variables are used to identify segments that better target the marketing mix.
- The descriptor variables are the same as in the first table.
- In data-driven segmentation, the identified segments have a combination of characteristics such as gender, age, number of vacations taken, and benefits sought or not sought during vacations.





- The quality of empirical data is critical for developing a valid segmentation solution.
- Data quality is important in assigning each person in the sample to the correct market segment and being able to correctly describe the segments.
- Good market segmentation analysis requires good empirical data.
- Empirical data for segmentation studies can come from a range of sources such as survey studies, observations, and experimental studies.
- Survey data can be unreliable in reflecting behavior, and other sources should be explored to find data that reflects actual consumer behavior.
- The quality of empirical data is critical for developing a valid segmentation solution:
- The effectiveness of a segmentation solution depends heavily on the quality of the empirical data used to develop it.
- Poor quality data can lead to incorrect segment assignment and inaccurate segment descriptions.
- Data quality is important in assigning each person in the sample to the correct market segment and being able to correctly describe the segments:
- In order to accurately assign individuals to a particular segment, the variables used for segmentation should be clear and well-defined.
- Inaccurate or inconsistent data can lead to incorrect segment assignments, which can have negative consequences for marketing decisions.
- Good market segmentation analysis requires good empirical data:
- Accurate, reliable, and relevant data is crucial for the success of market segmentation analysis.





- Without good data, marketing decisions based on segmentation may be less effective or even counterproductive.
- Empirical data for segmentation studies can come from a range of sources such as survey studies, observations, and experimental studies:
- Different sources of data can be used for segmentation studies, depending on the research question and available resources.
- Survey studies are commonly used, but other sources like observations or experimental studies can also be used to gather data on consumer behavior.
- Survey data can be unreliable in reflecting behavior, and other sources should be explored to find data that reflects actual consumer behavior:
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- Survey data can be subject to bias or errors, especially when the behavior being studied is socially desirable or difficult to measure.
- Therefore, researchers should consider using other sources of data that provide more accurate reflections of consumer behavior, such as observations or experimental studies.
- Before collecting data for market segmentation, an organization must choose which segmentation criterion to use.
- Segmentation criterion refers to the nature of information used for market segmentation.
- The most common segmentation criteria are geographic, socio-demographic, psychographic, and behavioral.
- The decision of which segmentation criterion to use requires prior knowledge about the market and cannot easily be outsourced.
- Bock and Uncles (2002) argue that profitability, bargaining power, preferences for benefits or products, barriers to choice





- The recommendation is to use the simplest possible approach that works for the product or service at the least possible cost, whether it's demographic, geographic, psychographic, or behavioral segmentation.
- Geographic segmentation is the oldest and simplest segmentation criterion used for market segmentation.
- The consumer's location of residence serves as the only criterion to form market segments in geographic segmentation.
- The advantage of geographic segmentation is that it is easy to assign each consumer to a geographic unit and target communication messages accordingly.
- The disadvantage of geographic segmentation is that living in the same area does not necessarily mean people share other characteristics relevant to marketers.
- International market segmentation studies are challenging but have experienced a revival, aiming to extract market segments across geographic boundaries.
- Socio-demographic segmentation criteria include age, gender, income, and education.
- They can be useful in industries such as luxury goods, cosmetics, baby products, retirement villages, and tourism resort products.
- Segment membership can easily be determined for every consumer using socio-demographic criteria.
- In some cases, the socio-demographic criterion may offer an explanation for specific product preferences. However, socio-demographic criteria are not always the cause for product preferences, so they may not provide sufficient market insight for optimal segmentation decisions.
- Demographics explain only about 5% of the variance in consumer behavior, and values, tastes, and preferences are more useful for market segmentation





- Socio-demographic segmentation criteria: The criteria used in this type of segmentation include age, gender, income, and education. These criteria can be used to divide a market into different segments based on common characteristics.
- Useful in certain industries: Socio-demographic segmentation can be useful in certain industries, such as luxury goods, cosmetics, baby products, retirement villages, and tourism resort products. This is because certain products are associated with specific socio-demographic characteristics. For example, luxury goods are often associated with high-income individuals, and retirement villages are often associated with older consumers.
- Easy determination of segment membership: One of the advantages of socio-demographic segmentation is that it is easy to determine segment membership for every consumer. This is because the criteria used are objective and easily measurable.
- Explanation for product preferences: In some cases, the socio-demographic criterion may offer an explanation for specific product preferences. For example, having children may be the reason why families choose a family vacation village, whereas as a couple, their vacation choice may have been entirely different.
- Insufficient market insight: However, in many instances, the socio-demographic criterion is not the cause for product preferences, thus not providing sufficient market insight for optimal segmentation decisions. This is because values, tastes, and preferences are more influential in terms of consumers' buying decisions.
- Demographics explain only 5% of variance: According to Haley (1985), demographics explain only about 5% of the variance in consumer behavior. This suggests that socio-demographic criteria are not a strong basis for market segmentation.





- Values, tastes, and preferences more useful: Yankelovich and Meer (2006) argue that values, tastes, and preferences are more useful for market segmentation. This is because these factors are more influential in terms of consumers' buying decisions. Therefore, marketers need to understand these factors to develop effective segmentation strategies.
- Psychographic segmentation groups people according to psychological criteria such as beliefs, interests, preferences, aspirations, or benefits sought when purchasing a product.
- Benefit segmentation and lifestyle segmentation are popular psychographic segmentation approaches.
- Psychographic criteria are more complex than geographic or socio-demographic criteria as they require multiple variables to determine the psychographic dimension of interest.
- Psychographic segmentation is more reflective of the underlying reasons for differences in consumer behavior as it identifies the primary motivation of consumers to purchase a product or service.
- The psychographic approach is used in tourism to understand the travel motives of consumers, and it has been frequently used as the basis for data-driven market segmentation.
- The disadvantage of the psychographic approach is the increased complexity of determining segment memberships for consumers, and the reliability and validity of the empirical measures used to capture the psychographic dimensions of interest play a crucial role in the power of the psychographic approach.
- Behavioral segmentation is an approach that groups people based on similarities in their behavior or reported behavior, such as prior experience with a product, frequency of purchase, amount spent, and information search behavior.





- Survey data is a common and cost-effective approach for conducting market segmentation analysis.
- However, survey data can be influenced by various biases, such as social desirability bias (respondents may give answers that they believe are socially acceptable rather than their true opinions), response bias (respondents may not provide accurate information due to memory or interpretation errors), and non-response bias (the sample of respondents may not be representative of the target population).
- To minimize bias, it is important to design the survey questions carefully and pre-test them with a sample of respondents. The survey should also use a representative sample of the target population, and efforts should be made to increase response rates.
- The quality of survey data can also be improved by using appropriate sampling techniques, such as random sampling or stratified sampling, to ensure that the sample is representative of the target population.
- Additionally, the survey questions should be designed to capture the relevant variables for segmentation analysis. For example, if using demographic variables, the survey should include questions about age, gender, income, education level, etc. If using psychographic variables, the survey should include questions about attitudes, beliefs, values, and interests.
- Finally, it is important to analyze the survey data using appropriate statistical techniques to identify meaningful segments. Clustering techniques, such as k-means clustering, hierarchical clustering, or latent class analysis, are commonly used for segmentation analysis. The identified segments should be evaluated based on their size, distinctiveness, and potential profitability.





- When conducting market segmentation analysis using survey data, it is critical to carefully choose the variables that will be used as segmentation criteria. In data-driven segmentation, all variables relevant to the construct captured by the segmentation criterion should be included, while unnecessary variables must be avoided. Including unnecessary variables can make questionnaires long and tedious for respondents, leading to respondent fatigue and lower-quality responses.
- Unnecessary variables can also increase the dimensionality of the segmentation problem without adding relevant information, making it more difficult to extract optimal market segments. Additionally, the presence of noisy variables, which do not contribute any information necessary for identifying the correct market segments, can make it more challenging for algorithms to extract the correct solution.
- Noisy variables can result from poorly developed survey questions or the inclusion of unnecessary or redundant questions. It is recommended to ask all necessary and unique questions while avoiding redundant questions. Redundant items can be particularly problematic in market segmentation analysis as they can interfere with algorithms' ability to identify the correct market segmentation solutions.
- To develop a good questionnaire, it is recommended to conduct exploratory or qualitative research to gain insights into people's beliefs that survey research cannot offer. These insights can then be categorized and included in a questionnaire as a list of answer options. A two-stage process involving both qualitative, exploratory, and quantitative survey research ensures that no critically important variables are omitted.





- The answer options provided in surveys determine the scale of data available for subsequent analyses.
- Binary or dichotomous data is generated when respondents are provided with options that allow them to answer in only one of two ways. These responses can be represented in a data set by 0s and 1s, and the distance between them is clearly defined, making them suitable for segmentation analysis.
- Nominal variables are generated when respondents are asked to select an answer from a range of unordered categories, such as their occupation. Nominal variables can be transformed into binary data by introducing a binary variable for each answer option.
- Metric data is generated when respondents are asked to indicate a number, such as their age or the number of nights stayed at a hotel. Metric data allow any statistical procedure to be performed, including the measurement of distance, making them well-suited for segmentation analysis.
- The most commonly used response option in survey research is a limited number of ordered answer options larger than two. Respondents are asked to express their agreement with a series of statements using five or seven response options, generating ordinal data. However, the distance between adjacent answer options is not clearly defined, making it difficult to apply standard distance measures to such data.
- Using binary or metric response options is preferable, as it prevents subsequent complications relating to the distance measure in the process of data-driven segmentation analysis.
- Visual analogue scales allow respondents to indicate a position along a continuous line between two end-points, generating data that can be assumed to be metric.





- In many contexts, binary response options have been shown to outperform ordinal answer options, especially when formulated in a level-free way.
- Response bias: A response bias is a systematic tendency to respond to survey questions on some basis other than the specific item content. In other words, respondents may answer questions based on factors unrelated to the question itself, such as social desirability, acquiescence bias (tendency to agree with all questions), or extreme response style (tendency to use the endpoints of the scale).
- Response style: A response style is a consistent bias displayed by a respondent over time, and independently of the survey questions asked. This means that some respondents may consistently use extreme response options, such as "strongly agree" or "strongly disagree," or consistently use the midpoint of the scale, such as "neither agree nor disagree." Response styles can affect segmentation results because they may artificially inflate or deflate the responses of certain market segments.
- Minimizing response styles: To minimize the risk of capturing response styles when collecting data for segmentation, it is important to design survey questions that are clear, concise, and relevant to the research objectives. It is also important to use response options that are appropriate for the type of data needed for subsequent analyses. For example, using binary or metric response options may be preferable to ordinal response options that are prone to response style biases.
- Addressing response styles: If attractive market segments emerge with response patterns potentially caused by a response style, additional analyses are required to exclude this possibility.





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- Addressing response styles: If attractive market segments emerge with response patterns potentially caused by a response style, additional analyses are required to exclude this possibility.
- It is important to be aware of response styles and to consider their potential impact on segmentation results when interpreting the data.





- Sample size is an important factor in market segmentation analysis.
- Insufficient sample size can make it difficult to determine the correct number of market segments.
- Viennese psychologist Formann recommends that the sample size should be at least $2p$ (better five times $2p$), where p is the number of segmentation variables.
- This rule of thumb relates to the specific purpose of goodness-of-fit testing in the context of latent class analysis when using binary variables.
- Increasing the sample size improves the ability of segmentation algorithms to identify the correct segmentation solution.
- The extent of improvement varies across market and data characteristics.
- Some challenging market and data characteristics can be compensated for by increasing sample size, while others cannot.
- Correlated segmentation variables make it difficult for the algorithm to extract the correct segments, and increasing sample size does not help.
- A small number of noisy variables has a lower effect.
- The recommendation is to have at least 100 respondents for each segmentation variable to ensure sufficient sample size for the algorithm to extract the correct segments.
- High-quality unbiased data is important for market segmentation analysis.
- Internal data refers to data that organizations have collected themselves, often from their own customers or operations. This data can be used for market segmentation analysis, as it represents actual behavior rather than self-reported behavior or intentions.
- Internal data is often automatically generated and easily accessible, which can save organizations time and effort in collecting data.





- One potential disadvantage of using internal data is that it may be biased towards existing customers. This can be problematic if an organization wants to attract new customers who may have different consumption patterns than existing customers.
- To address this potential bias, organizations may need to supplement internal data with external data sources, such as survey data or data from third-party providers. This can help to ensure that the market segmentation analysis is based on a more representative sample of the target market.
- Another consideration when using internal data is the potential for response biases, such as social desirability bias or other response styles. Organizations may need to take steps to minimize these biases, such as ensuring that the data is collected anonymously or using techniques like randomization to reduce the impact of response biases.
- Overall, using internal data for market segmentation analysis can be a powerful tool, but it is important to be aware of potential biases and take steps to address them in order to ensure accurate and actionable results.
- Experimental data can be collected from field or laboratory experiments.
- Response to certain stimuli, such as advertisements or product attributes, can be used as segmentation criteria.
- Choice experiments and conjoint analyses provide information about the importance of different product attributes and levels and can also be used for segmentation.
- Experimental data can help identify important segmentation criteria that might not be obvious from other data sources.
- However, experimental data may not always be representative of the target population and may require careful interpretation.





- Convene a market segmentation team meeting.
- Gather a team of experts who will participate in the market segmentation process.
- Discuss which consumer characteristics could serve as promising segmentation variables.
- Brainstorm and identify consumer characteristics that can be used to group consumers into segments.
- These variables should be relevant to the product or service being offered and should be able to differentiate consumers.
- Identify other consumer characteristics that are important for describing and understanding the identified segments in detail.
- These variables should provide insights into consumer needs, preferences, and behavior.
- Determine how you can collect data to most validly capture both the segmentation variables and the descriptor variables.
- Determine the appropriate data collection method (e.g., survey, interviews, focus groups, etc.) to capture the identified variables.
- Consider the most appropriate sampling technique, sample size, and data collection instrument to ensure data validity and reliability.
- Design data collection carefully to keep data contamination through biases and other sources of systematic error to a minimum.
- Develop a data collection plan that minimizes potential sources of systematic errors or biases that may influence the accuracy of the collected data.
- Ensure that the data collection process is standardized and that the data are collected in a consistent manner.
- Collect data.
- Implement the data collection plan and collect the data according to the established procedures.
- Ensure that the collected data are complete, accurate, and reliable.



Market Segmentation

Analysis

Step 4:

Exploring Data :

Glimpse about the data :

The authors introduce the concept of exploratory data analysis and its importance in cleaning and preprocessing data for segmentation. They mention that data exploration helps in identifying the measurement levels of variables, investigating the univariate distributions of each of the variables, and assessing dependency structures between variables. The authors use a travel motives dataset to illustrate the process of data exploration. The dataset contains 20 travel motives reported by 1000 Australian residents in relation to their last vacation. The authors provide information on how to access the dataset in R and how to read it into R using the `read.csv()` function. They also demonstrate how to inspect the dataset using the `summary()` function and show how to select specific columns from the dataset. The `summary()` function provides a summary of the dataset, including information about the different variables, such as the number of respondents, age, and income. The authors also point out that the dataset contains missing values, which are coded as NAs in R.

Data Cleaning :

The importance of data cleaning before commencing data analysis, which involves checking if all values have been recorded correctly and ensuring consistent labels for categorical variables. The example of the Australian travel motives dataset is used to demonstrate data cleaning, specifically reordering the levels of the Income2 variable to make it an ordered factor in R. The section emphasizes the importance of documenting and reproducing all steps of data cleaning, exploration, and analysis for future use. Finally, the section concludes by discussing the importance of saving the cleaned dataset for future use using the save() function.

Descriptive Analysis:

6.4 Inferential Analysis

Inferential analysis aims to make predictions about a larger population based on sampled data. The predictions are probabilistic, meaning that they are based on the probability of observing certain values. The predictions are never 100% accurate, but we aim to make them as accurate as possible.

Inferential analysis generally involves testing hypotheses. A hypothesis is a statement about a population parameter. For example, a hypothesis could be that the mean age of all tourists who visit Australia is 40 years. A sample is used to test the hypothesis. If the sample data provide strong evidence against the hypothesis, we reject it.

Otherwise, we accept it, but with a certain level of uncertainty.

Inferential analysis is based on probability theory.

Probability theory is a branch of mathematics that deals with uncertainty. We can use probability theory to calculate the probability of observing certain values under certain conditions. For example, we can use probability theory to calculate the probability of observing a sample mean as extreme as our observed sample mean, if the population mean is equal to our hypothesised mean. If this probability is low, we conclude that our hypothesis is unlikely and reject it. Inferential analysis is often used to test for significant differences between groups. For example, we may want to know if the average age of tourists who visit Australia for cultural reasons is significantly different from the average age of tourists who visit Australia for adventure reasons. We can use a statistical test to test for this difference.

Statistical tests come in many different forms, but they all aim to provide evidence about the likelihood of observing certain values under certain conditions. We can use the t-test to test for differences between means of two groups. The t-test is based on the t-distribution, which is a probability distribution that describes the distribution of sample means when the population standard deviation is unknown.

To perform a t-test in R, we can use the `t.test()` function.

For example, to test if the mean age of tourists who visit Australia for cultural reasons is significantly different from the mean age of tourists who visit Australia for adventure reasons, we can use:

```
R> t.test(Age ~ Purpose, data = vac)
```

This command tests for a difference in means between the two groups, where Age is the numeric variable for age and Purpose is the categorical variable for purpose of travel. The command returns the p-value, which is the probability of observing the observed difference in means or a larger difference, if the null hypothesis is true. If the p-value is less than 0.05, we reject the null hypothesis and conclude that the means are significantly different.

Inferential analysis is a powerful tool for making predictions about populations based on sampled data. However, it relies on assumptions about the population distribution and the sampling method. These assumptions must be checked before inference can be made. Otherwise, the results may be biased or incorrect.

Preprocessing :

The pre-processing of categorical variables involves merging levels of categorical variables and converting them to numeric variables if it makes sense to do so. Merging levels of categorical variables is useful when the original categories are too differentiated. Ordinal data can be converted to numeric data if the distances between adjacent scale points on the ordinal scale

are approximately equal. Binary answer options are less prone to capturing response styles and do not require data pre-processing. Most statistical procedures work correctly after conversion if there are only two categories. Converting dichotomous ordinal or nominal variables to binary 0/1 variables is not a problem. Binary variables can always be converted to numeric variables. The travel motives can be converted to a numeric matrix with 0 and 1 for NO and YES, respectively. R package flexclust contains it as a sample data set.

Numerical Values :

In segmentation analysis, the range of values of a segmentation variable can impact its relative influence on distance-based segmentation methods. To balance the influence of variables, they can be standardized, which involves transforming them to a common scale. The default standardization method subtracts the empirical mean and divides by the empirical standard deviation. This results in a variable with a mean of 0 and standard deviation of 1. Standardization can be done using the "scale()" function in R. However, alternative standardization methods may be necessary if the data contains outliers. In such cases, robust estimates for location and spread, such as the median and interquartile range, may be more appropriate.

Principal Component Analysis :

Principal Components Analysis (PCA) as a method to transform a multivariate data set into a new data set with uncorrelated variables. The new variables, called principal components, are ordered by importance and are used to reduce the dimensionality of the data set for plotting purposes. PCA works off the covariance or correlation matrix of several numeric variables, and if the data ranges are different, the correlation matrix should be used. The `prcomp()` function in R is used to generate a PCA, and by default, the data is centered but not standardized.

To summarize:

- Principal Components Analysis (PCA) transforms a multivariate data set into a new data set with uncorrelated variables, called principal components.
- The principal components are ordered by importance and are used to reduce the dimensionality of the data set for plotting purposes.
- PCA works off the covariance or correlation matrix of several numeric variables, and if the data ranges are different, the correlation matrix should be used.
- The `prcomp()` function in R is used to generate a PCA, and by default, the data is centered but not standardized.

According to the output, the variables that have the highest loadings on the second principal component are "FUN and ENTERTAINMENT", "LUXURY / BE SPOILT".

Step5 :

Extracting Segments:

Grouping Consumers :

the author discusses the challenges of data-driven market segmentation analysis, which is exploratory in nature and uses unstructured consumer data. The author points out that market segmentation solutions are determined by both the data and the extraction algorithm chosen. Therefore, it is important to explore market segmentation solutions derived from a range of different clustering methods and to understand how different algorithms impose structure on the extracted segments.

The author describes two popular extraction methods used in market segmentation: distance-based methods and model-based methods. Distance-based methods use a particular notion of similarity or distance between observations (consumers) and try to find groups of similar observations (market segments). Model-based methods formulate a concise stochastic model for the market segments.

The author emphasizes that no single best algorithm exists for market segmentation analysis, and investigating and comparing alternative segmentation solutions is critical to arriving at a good final solution. The size of the available data set, the scale level of segmentation variables, and special structure and additional information are among the data set characteristics that inform extraction algorithm selection. The author concludes that each method has its advantages and disadvantages and should be selected based on the specific data and desired segment characteristics.

Distance Based Methods :

In this scenario, the problem is to group tourists with similar activity patterns when on vacation. The data set provided in Table 7.2 contains information about seven people indicating the percentage of time they spend on BEACH, ACTION, and CULTURE. To find groups of similar tourists, one needs a notion of similarity or dissimilarity, mathematically speaking, a distance measure. Several distance measures exist, such as Euclidean distance, Manhattan or absolute distance, and asymmetric binary distance, but Euclidean distance is the most common measure used in market segmentation analysis. Euclidean distance corresponds to the direct "straight-line" distance between two points in two-dimensional space. Manhattan distance derives its name from the fact that it gives the distance between two points assuming that streets on a grid (like in Manhattan) need to be used to get from one point to another.

In summary, there are two main types of clustering methods: hierarchical clustering and partitioning clustering. Hierarchical clustering starts by treating each observation as a separate cluster and then iteratively merges them based on similarity until all observations belong to a single cluster. Partitioning clustering, on the other hand, involves dividing the data into a fixed number of non-overlapping clusters. The most common partitioning method is k-means clustering, where each cluster is represented by a centroid, and observations

are assigned to the nearest centroid.

Another method of clustering is auto-encoding neural networks, which use a single hidden layer perceptron to learn how to best represent the data using segment representatives. The network is trained to predict the inputs as accurately as possible, and the parameters connecting the hidden layer to the output layer are interpreted as segment representatives.

Fuzzy clustering generates membership values between 0 and 1, indicating membership in multiple segments. Hybrid approaches combine hierarchical and partitioning algorithms in an attempt to compensate for their weaknesses. Hierarchical clustering does not require the number of segments to be specified in advance and can visualize the similarities of market segments using a dendrogram, but requires substantial memory capacity and becomes difficult to interpret with a large sample size. Partitioning clustering has minimal memory requirements and is suitable for segmenting large data sets, but requires the number of segments to be specified in advance and does not allow for tracking changes in segment membership across segmentation solutions with different numbers of segments.

Bagged clustering is a clustering method that combines partitioning clustering algorithms, hierarchical clustering algorithms, and bootstrapping. Bootstrapping is a statistical technique that involves repeatedly drawing random samples from a dataset with

replacement. The method is used to make the final segmentation solution less dependent on the specific people contained in consumer data.

In bagged clustering, the first step is to cluster the bootstrapped datasets using a partitioning algorithm. Next, the original dataset and all bootstrapped datasets are discarded, and only the cluster centroids resulting from the repeated partitioning cluster analyses are saved. These cluster centroids are used as the dataset for the second step: hierarchical clustering. Bagged clustering is advantageous in situations where there is a suspicion of the existence of niche markets, fear that standard algorithms might get stuck in bad local solutions, or where the data set is too large for hierarchical clustering.

Bagged clustering can identify niche segments because hierarchical clustering captures market niches as small distinct branches in the dendrogram. Bagged clustering has been successfully applied to tourism data. To use bagged clustering, the method consists of five steps. First, create bootstrap samples of the dataset. Second, repeat the preferred partitioning method for each bootstrap sample. Third, use all cluster centres resulting from the repeated partitioning analyses to create a new, derived dataset. Fourth, calculate hierarchical clustering using the derived dataset. Finally, determine the final segmentation solution by selecting a cut point for the dendrogram and assign each original observation

(consumer in the dataset) to the market segment the representative of which is closest to that particular consumer. The article discusses the process of segmentation analysis, which involves clustering similar data points together into groups or segments. It provides an example of segmenting winter vacation activities data using bagged clustering, which involves combining multiple clustering solutions to reduce the risk of overfitting or sampling error. The resulting segments are then analyzed using a bar chart and boxplot to understand their characteristics and size. The article also highlights the importance of investigating niche segments, which may not emerge using other clustering algorithms. Overall, segmentation analysis can help businesses identify target markets and tailor their marketing strategies accordingly.

STEP-6: Exploring Data

1. Introduction

Creating discrete groups with comparable traits, tastes, and demands from a large target market is a crucial step in market segmentation study. As a result, customer satisfaction, market share, and profitability are all increased for businesses thanks to the process of segmenting their target markets. Exploring data is a crucial phase in market segmentation analysis since it gives organisations knowledge of client behaviour, helps them to find relevant categories, and helps them to make wise marketing choices. This study seeks to offer a summary of the market segmentation analysis's data exploration phase.

2. Objectives of Exploring Data

In the market segmentation analysis process, the following major goals are served by the data exploration step:

- a) Gaining a deeper understanding of the target market: By analysing data, firms can learn more about the demographics, psychographics, behaviours, and preferences of their target market. Effective market segmentation is built on this knowledge.
- b) Determining important factors: Data exploration aids in determining important factors that distinguish customers and affect their purchasing choices. These characteristics may include demographics (age, gender, and income), location, lifestyle decisions, purchasing trends, and product preferences.
- c) Finding patterns and trends: Data exploration enables companies to find patterns, trends, and connections between various customer variables. The data reveals insights that might inform marketing tactics and helps identify prospective segments.
- d) Verifying hypotheses: Investigating data enables the verification of hypotheses put forth during the preliminary market segmentation analysis. It makes sure the portions aren't just based on gut feeling or speculation, but also on actual evidence.

3. Data Collection and Preparation

Businesses frequently gather data from a variety of sources to analyse data for market segmentation analysis. Observational studies, focus groups, questionnaires, and interviews are some examples of primary research techniques that might be used in this context. Social media analytics, government databases, and market research reports are examples of secondary data sources that might yield insightful information. Data needs to be cleaned, arranged, and transformed into a suitable format for exploration in order to be ready for analysis once it has been gathered.

4. Data Exploration Techniques

The examining data phase of market segmentation analysis can make use of a variety of data exploration techniques:

a) Descriptive statistics: Descriptive statistics like mean, median, mode, standard deviation, and correlation coefficients summarise the data and assist in spotting the first patterns and connections.

Data visualisation aids in finding patterns, clusters, and outliers by displaying data in the form of graphs, heat maps, scatter plots, charts, and histograms. The decision-making process is aided by this visual depiction, which makes it easier to interpret the data.

c) Clustering analysis: Clustering methods such as k-means clustering or hierarchical clustering aid in the discovery of natural groupings or segments within the data. These methods highlight differences across segments by grouping related data points together.

d) Factor analysis: Factor analysis reveals the underlying latent variables that account for the correlations between the observed variables. It facilitates the data's decomposition and pinpoints the primary variables influencing consumer behaviour.

e) Association rules: Mining methods for association rules, such as the Apriori algorithm, reveal connections and co-occurrences between various variables. This makes it easier to find links between various goods or services and purchasing patterns.

5. Benefits and Limitations

Investigating data in market segmentation analysis has a number of advantages, such as: - A better understanding of consumer preferences and behaviours - Better targeting and customization of marketing strategies - A higher level of client satisfaction and loyalty - Efficient use of marketing resources

Data exploration does have its limitations, however, including the following: - Missing or incomplete data that may affect the precision of insights; - Possibilities of biases in the data collection; - The possibility that data exploration alone may not provide a comprehensive understanding of customer motivations and needs; and - The need for additional research and analysis.

6. Conclusion

In order for organisations to learn useful information about their target market, the examining data step is a vital stage in market segmentation study, by gathering information

STEP-7: Extracting Data

1. Introduction

Understanding and focusing on particular consumer segments is essential for maximising marketing performance. Extraction of data, which entails obtaining pertinent data from numerous sources to support segmentation attempts, is one of the process' essential components. This paper intends to give a high-level overview of the market segmentation analysis's data extraction process.

2. Objectives of Extracting Data

Several significant goals are served by the data extraction stage of market segmentation study.

- a) Data acquisition is the process of gathering pertinent information from a variety of sources, such as internal databases, market research studies, customer surveys, social media platforms, and other secondary data sources.
- b) Data integration: Gathering and merging information from many sources to produce a comprehensive dataset that includes different client attributes, demographics, psychographics, behaviours, and preferences.
- c) Data cleansing, validation, and verification procedures are used to ensure the accuracy, reliability, and completeness of the obtained data.
- d) Data Accessibility: Organising and storing data in a systematic way so that it is simple to access for segmentation and additional analytic tasks.

3. Data Sources for Market Segmentation Analysis

Data from numerous primary and secondary sources are collected during the extracting data phase. The following are typical data sources for market segmentation analysis:

- a) Internal Data: Information that the organisation has collected itself, such as customer databases, transaction records, website analytics, CRM systems, and loyalty programmes.
- b) Market Research Reports: Publications by market research companies that offer industry-specific information, market trends, consumer insights, and competitive analyses.
- c) Surveys and interviews: These are the main types of research used to collect data directly from consumers, including demographic data, purchasing behaviour, attitudes, and preferences.
- d) Social Media and Web Analytics: Extracting data from social media platforms, website analytics programmes, and online discussion boards to comprehend client sentiment, engagement, and online behaviour.
- e) Government databases: These are publicly accessible data sources given by government organisations, such as census data, economic indicators, and geographic data.

4. Data Extraction Techniques

There are numerous methods that can be used to extract pertinent data for market segmentation analysis:

- a) Web scraping programmes used for automated data extraction methods from websites, online directories, or other digital platforms.
- b) API Integration: Making use of the Application Programming Interfaces (APIs) offered by data sources, which enable direct access to certain datasets or real-time data changes.
- c) Surveys and Questionnaires: Planning and executing surveys or questionnaires to get specific data from clients.
- d) Data Purchase: Purchasing third-party datasets from market research companies, data providers, or other sources that may already include segmented or pre-processed data.
- e) Data Cleaning and Validation: Ensuring data quality by means of procedures like deleting duplicates, addressing missing values, and validating data in accordance with predetermined standards.

5. Challenges and Considerations

Data extraction for market segmentation study is not without its difficulties. It is crucial to take into account the following:

- a) Data Privacy and Compliance: Ensuring adherence to data protection laws like the GDPR or CCPA and preserving the confidentiality of consumer data.
- b) Data Integration: Organising and fusing information from diverse sources while assuring consistency and compatibility between distinct datasets.
- c) Data Accuracy and Bias: Recognising and addressing potential biases in the data that have been obtained, for as by taking into account sampling biases or fixing data mistakes.
- d) Data Volume and Scalability: Handling massive datasets and setting up effective data processing and storage infrastructure to handle the volume of data.
- e) Data Security: Setting up suitable security measures to guard the gathered data against unauthorised access, data breaches, or online threats.

6. Conclusion

In order to create an accurate and insightful consumer segmentation, the extracting data step is a crucial part of market segmentation study, accessing and incorporating pertinent data

Step 8: Selecting the Target Segment

The Targeting Decision

segmenting the market in many ways based on your company's market research. Four common ways are behavioral, demographic, geographic, and psychographic segmentation.

Behavioral Segmentation:

This segment looks at how consumers interact with brands and products. For instance, you can look at which platforms your ideal customer most frequents, their social media usage, and their customer journey online, Looking forward the brand value and particular product quality and market growth.

Demographic Segmentation:

Businesses tend to feel this is the most important criteria to identify their target market. These include age, gender, education level, income level, social class, nationality, family size, marital status, and religion. Knowing these demographics about the customer need to help what you want from this brand for market Segmentation.

Geographic Segmentation:

Yes, this segment has to do with details on a consumer's location or where they live. Aside from nationality, you can consider their state, county, town, or city.

Psychographic Segmentation:

Businesses can look at elements such as parts of a consumer's personality lifestyles and consumer behavior, this Segmentation can used research method to divide the customer to analysis the characteristics including lifestyles, social activities, interested area etc.

To Effectively Create Target Market Segmentation

Creating a target market analysis will help you understand the types of consumers you need to market to and will even help you break into market's.

1. Gather Accurate and Current Data

Gathering details from outside sources can be incredibly valuable to help you gain better insights into your market segment, potential customers, and even your industry as a whole. Plus, if you're just starting out, you may not have enough internal data to get a good enough view of what customer groups you need to target based on customer needs. The challenge when gathering data is that there is plenty out there. Make sure what you're using is both current and accurate data for market Segmentation to analyze the how customer like your brand/product.

2. Divide up Market Based on Chosen Characteristics

Consumers who are most likely attracted to your brand, product, or service will share the same types of characteristics, Divide the product according to the quality what type of category ,also divided by like or dislike this about divide rules analysis the market based Segmentation.

Market Segment Evaluation

Segmentation is an important marketing technique that helps you reach each group of potential customers with an approach that appeals to them. Evaluating each segment ensures that your company doesn't waste resources on segments that won't buy your products.

Market Potential:

You can evaluate the market potential of a segment by looking at the number of potential customers in the segment, their income and the number of people in the segment who need the kind of product you offer. A market participant is one who is going to buy such a product, and the total number of participants times their purchases forms the total market. A market participant has to need the product, have the ability to pay the price of the product and has to want to buy the product. Evaluating how many such people are in each segment lets you gauge the potential market.

Sales Potential:

The sales potential is the share of the potential market of a segment that your company expects to achieve. You can estimate your company's share based on your performance in other markets, or you can build up your share by asking how much of

your product you expect an average customer of a segment to buy and multiplying by the total number of customers. The result of this evaluation gives you an idea of how valuable each segment is to your company.

Competition:

A key factor in the evaluation of each segment is the competitive situation. If the total sales of existing suppliers are below the market potential, then you can achieve sales without taking business away from competitors. If the sales of your competitors are close to the market potential, then any sales you make will result in fewer sales for them. This means you will have to lower your prices or spend more money on promotion to achieve your sales potential, and it makes the segment less valuable for your company.

Cost:

Some markets cost a lot of money to service and this affects the value of the segment. If you physically have to deliver large items over long distances, the costs will be high and the resulting prices may put your product out of the reach of the customers' income range. If the cost of the promotional campaign you think is required to introduce your product to a particular segment is high in relation to the expected sales, then the value of the segment is low. Your evaluations identify the segments which will be the most valuable for your company.

Step 9: Customising the Marketing Mix

Implications for Marketing Mix Decisions



Implementation of a marketing strategy can improve business profitability because of implications for all aspects of the company's operations. The marketing strategy focuses company attention on particular target market segments and makes it clear what product characteristics are required for successfully satisfying customer needs.

Products:

A marketing strategy has important implications for product design and promotion. Once you know what your customers want, you have to ensure that the product features meet their needs or change the design to add corresponding features. Instead of convincing customers to buy the product you have, you offer them the product they need and promote the features they want. A marketing strategy focused on offering products that suit your target market promotes innovation and improves product quality. The marketing strategy then specifies that you run ads promoting the innovative nature and high quality of your products.

Place:

Place always matter because off which product or what type of product to be sale that place/area are good enough for market Segmentation or these place can be help out to join the good customer to your company. It can be very useful for market Segmentation.

Price:

Price of the product vary from product type and product quality when the price is high but similar product price from another brand with same quality then our company product may be less priority in market or less market value. Then always keep in mind the product price is according to the product quality.

Promotion:

Many way of the promotion the product now days the social media is the best platform for promotion your products quality ,price and product services, social media like YouTube, Facebook, twitter etc. Experts peoples also for review the product quality and recommend to other person, Advertising is also a method of promoting your products in market.