

# **MARKET SEGMENTATION ANALYSIS**

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## **DEFINITION:**

- Market segmentation is a marketing concept which divides the complete market set up into smaller subsets comprising of consumers with a similar taste, demand and preference

## **Steps:**

- Step 1: Deciding (not) to Segment
- Step 2: Specifying the Ideal Target Segment
- Step 3: Collecting Data
- Step 8: Selecting (the) Target Segment(s)

## **STEP-1: Deciding (Not) To Segment**

- Market segmentation is a long-term strategic commitment. It is critical, therefore, for any organization that intends to adopt a segmentation strategy, to be aware of the consequences, and to make an informed decision
- Market segmentation is a crucial component of any successful marketing strategy
- To meet the most basic criteria of a market segment, three characteristics must be present:
  1. There must be homogeneity among the common needs of the segment
  2. There needs to be a distinction that makes the segment unique from other groups
  3. The presence of a common reaction or a similar and somewhat predictable response to marketing is required

# **ADVANTAGES AND DISADVANTAGES OF MARKET SEGMENTATION:**

## **✓ Advantages:**

- It gives you greater focus
- It can give your brand a stronger identity
- It reveals opportunities for innovation
- Helps focus your marketing efforts

## **✓ Disadvantages:**

- The cost of market segmentation is very expensive
- Market segmentation is Time Consuming
- If you misread the desires of a target segment, it can cause consumer backlash
- Targeting small market segments can lead to unprofitable goals

## **Implications of Committing to Market Segmentation:**

- Implications are effects or consequences that may happen in the future. The key implication is that the organisation needs to commit to the segmentation strategy on the long term
- Market segmentation includes performing the research, fielding surveys, and focus groups, designing multiple packages, and designing multiple advertisements and communication messages which costs more
- To obtain Maximum benefits in market segmentation, organisations need to organise around market segments rather than organising around products
- Market segmentation allows companies to learn about their customers
- Companies gain a better understanding of customer's needs and therefore can tailor campaigns to customer segments most likely to purchase products.
- Market segmentation works best when you have a large market to start with rather than small markets
- Over-segmentation can result in a restricted concentration on specific consumer groups

## **Implementation Barriers**

- Implementation barriers are factors which block or obstruct the implementation process and reduce the probability of successful implementation.

The following are the barriers that obstruct the success of market segmentation strategy :

- ❖ The first group of barriers relates to **Senior Management**

- Senior management holds decision-making power
- Without senior management support, it becomes difficult to secure the necessary resources
- Leadership involvement ensures that market segmentation aligns with broader organizational goals and strategies. Without this alignment, segmentation efforts might diverge and not contribute to the company's overarching objectives

- ❖ The second group of barriers relates to **Organisational Culture**

- Market segmentation often requires shifts in strategies, processes, creative thinking and communication, without this the market segmentation implementation would be Unsuccessful

❖ The third group of barriers relates to **Training**

- Without proper training, there's a higher chance of misallocating resources, such as investing in the wrong segments or using ineffective marketing strategies

❖ The fourth group of barriers relates to **Objective Restrictions**

- Limited financial resources can hinder the ability to gather necessary data or develop targeted marketing strategies

✓ **Overcoming these barriers often requires a concerted effort from middle management and those directly involved in the segmentation process to effectively communicate the value and importance of their involvement**

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

- Identifying the ideal target segment is a crucial step in market segmentation

### **Segment Evaluation Criteria:**

- The following 5 market segmentation criteria should be useful when planning your own company's market segmentation strategy:
  1. Measurable
  2. Substantial
  3. Accessible
  4. Differentiable
  5. Actionable
- A good understanding of the principles of market segmentation is an important building block of your marketing strategy
- There are two sets of segment evaluation criteria:
  - **Knock-out criteria**
  - **Attractiveness criteria**

## **Knock-out criteria:**

- Knock-out criteria are used to assess market segments based on market segmentation analysis
- This criteria includes substantiality, measurability, and accessibility
- Additional criteria have been suggested, including homogeneity, distinctness, size, matching organizational strengths, identifying members, and reachability
- These criteria must be understood by senior management, the segmentation team, and the advisory committee
- While most criteria do not require further specification, some do, such as specifying the exact minimum viable target segment size
- Understanding these criteria is crucial for successful market segmentation and marketing strategies

## **Attractiveness Criteria:**

- This criteria is for the segmentation team to consider when deciding which ones are most useful for their specific situation
- Attractiveness criteria are not binary, as each market segment is rated based on a specific criterion
- Attractiveness criteria are first negotiated by the team and applied to determine the overall relative attractiveness of each market segment
- Members of the segmentation team must select which criteria they want to use to determine the attractiveness of potential target segments and assess the relative importance of each attractiveness criterion to the organization



## **Implementing a Structured Process:**

- A structured process is beneficial for assessing market segments. The most popular structured approach is the use of a segment evaluation plot, which shows segment attractiveness and organizational competitiveness
- The segmentation team determines these values, as there is no standard set of criteria for all organizations
- The task should be completed by a team of people, with a core team of two to three people primarily in charge of market segmentation analysis. This team can propose an initial solution and report their choices to the advisory committee, which consists of representatives from all organizational units
- Selecting attractiveness criteria for market segments at this early stage ensures that all relevant information is captured when collecting data and makes selecting a target segment easier
- Ideally, approval from the advisory committee is sought, as it contains representatives from multiple organizational units with a range of different perspectives on specifying segment attractiveness criteria

## **Step.3: Collecting Data**

### **Segmentation Variables:**

- Empirical data is the foundation of both commonsense and data-driven market segmentation. It's used to identify or create market segments and describe them in detail later in the process
- In commonsense segmentation, a single characteristic like gender is used as the "segmentation variable" to split the sample into segments
- . In data-driven segmentation, multiple segmentation variables are used to naturally or artificially create useful market segments

### **Segmentation Criteria:**

- Choosing the best segmentation criterion requires prior market knowledge and requires a simplest approach

#### **1) Geographic Segmentation:**

- Geographic information is the primary segmentation criterion used in market segmentation, often focusing on a consumer's location of residence
- This approach is often the most appropriate for targeting tourists from countries, as language differences across countries can be pragmatic reasons for treating them as different segments
- The advantage of geographic segmentation is that each consumer can be easily assigned to a geographic unit, allowing for targeted communication messages and communication channels

## **2) Socio-Demographic Segmentation:**

- Socio-demographic segmentation criteria, such as age, gender, income, and education, can be useful in certain industries like luxury goods, cosmetics, baby products, retirement villages, and tourism resort products
- socio-demographics may not be the strongest base for market segmentation

## **3) Psychographic Segmentation:**

- Psychographic segmentation involves grouping people based on psychological criteria, such as beliefs, interests, preferences, aspirations, or benefits sought when purchasing a product
- This method is more complex than geographic or sociodemographic criteria, making it useful for understanding consumer behaviour

## **4) Behavioral Segmentation:**

- Behavioral approaches group people by the most relevant similarity, avoiding the need for psychological constructs
- Examples include actual expenses of consumers, purchase data across product categories, and brand choice behaviour over time
- However, behavioural data may not always be readily available, especially for incorporating potential customers who have not previously purchased the product

**Data from Survey Studies:**

- Surveys are a common and cost-effective way to collect data for market segmentation

**Choice of Variables:**

- When designing a survey, it's important to choose the right variables or characteristics to study. These variables should be relevant to the segmentation goals, such as demographic details (age, gender, income), psychographic traits (attitudes, lifestyle), and behavioral patterns (purchase frequency, brand loyalty)

**Data from Internal Sources:**

- Internal data sources refer to data that an organization already possesses, such as customer databases, sales records, and transaction histories

**Data from Experimental Studies:**

- Experimental studies involve manipulating certain variables to observe their impact on consumer behavior

## **Step 8: Selecting (the) Target Segment(s)**

### **The Targeting Decision:**

- Targeting is the process of evaluating the attractiveness of the consumer segments, as well as determining how to attract the consumers. A firm's choice of consumer segment largely depends on the product and service they are offering. It also determines the marketing strategy the company will employ. Markets that are undifferentiated are suitable for mass marketing
- Three factors influence a company's selection of segments
  1. First of all, companies consider the characteristics of the segments.

Characteristics include are how fast or slow a segment is growing and how profitable it is
  2. Secondly, the company considers its own competencies and resources to address the needs of the segments
  3. Lastly, a company considers the competition in the segment, both current and in the future

## **Market Segment Evaluation:**

- The factors that help evaluate the right segment to target are
  1. Market Size
  2. Market Growth
  3. Market Profitability
  4. Market Sensitivity
  5. Bargaining Power Of Customers
  6. Bargaining Power Of Suppliers
  7. Barriers To Entry
  8. Barriers To Exit
  
- When evaluating the target segments, marketers must compare the market attractiveness and the company's capability to meet the needs of that market

## **Replication Of Mc-Donalds Case Study In Python**

Github Link- <https://github.com/VANAPALLI-DIMPLE-SATYA-DEEPAK/Replication-Of-Mc-Donalds-case-study>