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Solo-Project:1

Topic: Market Segmentation steps and Case Study

Step 1: Deciding (not) to segment

Implications of Committing to Market Segmentation

Market segmentation is a key marketing strategy applied in many organizations, but it is not always the best decision to pursue. It is important to understand the implications of pursuing a market segmentation strategy before investing time and resources in a market segmentation analysis. Cahill (2006) recommends not to segment unless the expected increase in sales is sufficient to justify implementing a segmentation strategy. Croft (1994) recommends that organizations need to organize around market segments, rather than organizing around 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.

One of the truisms of segmentation strategy is that using the scheme has to be more profitable than marketing without it, net of the expense of developing and using the scheme itself. Potentially required changes include the development of new products, the modification of existing products, changes in pricing and distribution channels used to sell the product, as well as all communications with the market.

Implementation Barriers

The first group of barriers to successful market segmentation is senior management. Lack of leadership, pro-active championing, commitment and involvement from senior management undermines the success of market segmentation. McDonald and Dunbar (1995) state that unless the chief

executive sees the need for a segmentation review, understands the process and shows an active interest in it, it is virtually impossible for a senior marketing executive to implement the conclusions in a meaningful way. Additionally, senior management can prevent market segmentation by not making enough resources available, either for the initial market segmentation analysis or for the long-term implementation of a market segmentation strategy.

The second and the most important details in this text are the barriers to successful implementation of market segmentation. These include lack of market or consumer orientation, resistance to change and new ideas, lack of creative thinking, bad communication, lack of sharing of information and insights across organisational units, short-term thinking, unwillingness to make changes and office politics. Croft (1994) developed a short questionnaire to assess the extent to which a lack of market orientation in the organisational culture may represent a barrier to the successful implementation of market segmentation. Lack of training is also a potential problem, as senior management and the team tasked with segmentation may not understand the foundations of market segmentation or the consequences of pursuing such a strategy.

The lack of a formal marketing function or qualified marketing expert in the organisation can lead to major stumbling blocks. This is especially important for larger organisations with more market diversity and larger organisations. Additionally, the lack of a qualified data manager and analyst can also be a major stumbling block.

Financial resources are one of the most important obstacles faced by organisations, such as lack of financial resources and the inability to make structural changes. Process-related barriers include not having clarified objectives, lack of planning or bad planning, lack of structured processes, lack of allocation of responsibilities, and time pressure. These obstacles can hinder a company's ability to find the best possible market segmentation outcome.

Doyle and Saunders (1985) note that management science has had a disappointing level of acceptance in industry due to its lack of understanding. To counteract this, it is important to make market segmentation analysis easy to understand and present results in a way that facilitates interpretation by managers, such as using graphical visualisations.

Barriers to market segmentation can be identified and removed from the study, or if they cannot be removed, it is important to consider abandoning the attempt. McDonald and Dunbar (1995, p. 164) recommend a resolute sense of purpose and dedication, tempered by patience and a willingness to appreciate the inevitable problems.

Step 1: Check List

Task	Who is responsible?	Completed?
Ask if the organisation's culture is market-oriented. If yes, proceed. If no, seriously consider not to proceed.		☐
Ask if the organisation is genuinely willing to change. If yes, proceed. If no, seriously consider not to proceed.		☐
Ask if the organisation takes a long-term perspective. If yes, proceed. If no, seriously consider not to proceed.		☐
Ask if the organisation is open to new ideas. If yes, proceed. If no, seriously consider not to proceed.		☐
Ask if communication across organisational units is good. If yes, proceed. If no, seriously consider not to proceed.		☐
Ask if the organisation is in the position to make significant (structural) changes. If yes, proceed. If no, seriously consider not to proceed.		☐
Ask if the organisation has sufficient financial resources to support a market segmentation strategy. If yes, proceed. If no, seriously consider not to proceed.		☐
Secure visible commitment to market segmentation from senior management.		☐
Secure active involvement of senior management in the market segmentation analysis.		☐
Secure required financial commitment from senior management.		☐
Ensure that the market segmentation concept is fully understood. If it is not: conduct training until the market segmentation concept is fully understood.		☐
Ensure that the implications of pursuing a market segmentation strategy are fully understood. If they are not: conduct training until the implications of pursuing a market segmentation strategy are fully understood.		☐
Put together a team of 2-3 people (segmentation team) to conduct the market segmentation analysis.		☐
Ensure that a marketing expert is on the team.		☐
Ensure that a data expert is on the team.		☐
Ensure that a data analysis expert is on the team.		☐
Set up an advisory committee representing all affected organisational units.		☐
Ensure that the objectives of the market segmentation analysis are clear.		☐
Develop a structured process to follow during market segmentation analysis.		☐
Assign responsibilities to segmentation team members using the structured process.		☐
Ensure that there is enough time to conduct the market segmentation analysis without time pressure.		☐

Step 2: Specifying the Ideal Target Segment

Segment Evaluation Criteria

The third layer in the given figure of market segmentation depends mainly on the user input.

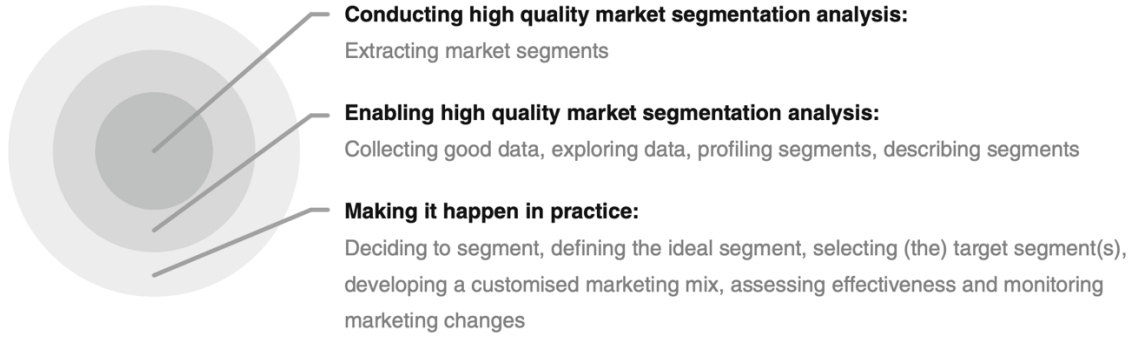

Fig. 2.1 The layers of market segmentation analysis

It is imperative to comprehend that in order for a market segmentation analysis to yield meaningful outcomes for an organization, the inclusion of user input must transcend mere initial briefings or the finalization of a marketing mix. Instead, active user engagement is necessary throughout multiple stages, intricately intertwining with the technical dimensions of the market segmentation analysis process.

A particular set of evaluative standards can be denoted as "knock-out criteria," representing the indispensable and non-negotiable characteristics of segments that the organization deems viable for targeting. On the other hand, a second set of evaluation criteria, known as "attractiveness criteria," is employed to assess the comparative desirability of the remaining market segments, those adhering to the knock-out criteria.

Knock-out criteria (Must be understood by senior management)

Knock-out criteria serve the purpose of ascertaining whether market segments derived from the market segmentation analysis are eligible for evaluation using segment attractiveness criteria. The initial set of such criteria, proposed by Kotler (1994), comprises substantiality, measurability, and accessibility (Tynan and Drayton 1987). Subsequently, Kotler and other esteemed authors have put forth supplementary criteria that fall within the realm of knock-out criteria.

• **Homogeneity:** The segment must exhibit homogeneity, wherein its constituents demonstrate congruence in their characteristics or attributes.
• **Distinctiveness**: The segment must possess distinctiveness, indicating that its members manifest conspicuous dissimilarities from individuals belonging to other segments.
• **Size Adequacy:** The segment must boast sufficient magnitude, encompassing a substantial populace, thereby justifying the allocation of additional resources towards the customization of the marketing mix for this particular segment.
• **Alignment with Organizational Strengths:** The segment should align harmoniously with the strengths and capabilities of the organization, facilitating the organization's adeptness in fulfilling the needs and requisites of segment members.
• **Identifiability:** Members of the segment must be discernible, enabling their identification within the marketplace.
• **Reachability**: The segment must be accessible, signifying the presence of viable means to establish contact and communication with segment members, ensuring the seamless accessibility of the tailored marketing mix.

While size is non-negotiable, the exact minimum viable target segment size needs to be specified.

Attractiveness Criteria

Attractiveness criteria do not exhibit a binary nature. Market segments are not evaluated simply as conforming or non-conforming to attractiveness criteria. Instead, each market segment is subjected to a rating process, wherein it can be deemed more or less attractive in relation to a specific criterion. The cumulative attractiveness across all criteria ultimately governs the selection of a market segment as a target segment in Step 8 of the market segmentation analysis.

Implementing a structured process

The most popular structured approach for evaluating market segments in view of selecting them as target markets is the use of a segment evaluation plot showing segment attractiveness along one axis, and organisational competitiveness on the other axis.
The ascertainment of segment attractiveness and organizational competitiveness values is contingent upon the deliberations of the segmentation team. Such an endeavor becomes indispensable due to the absence of a standardized set of criteria that can be universally employed by all organizations.

The constituents of both segment attractiveness and organizational competitiveness necessitate a process of negotiation and consensus-building. To this end, an extensive array of potential criteria must be meticulously examined prior to arriving at a consensus regarding the most pivotal criteria for the organization. It is recommended, in accordance with McDonald and Dunbar (2012), to limit the number of factors to no more than six, serving as the foundation for calculating these evaluative standards.

Ideally, this intricate task should be undertaken by a collective body of individuals. If a core team, consisting of two to three members, assumes primary responsibility for the market segmentation analysis, they may propose an initial solution and subsequently present their choices to the advisory committee, which encompasses representatives from all organizational units. This platform serves as a forum for comprehensive discussions and potential modifications. The inclusion of representatives from diverse organizational units in this process serves two primary purposes. Firstly, each unit possesses a unique vantage point concerning the organization's operations, thereby contributing disparate perspectives to the deliberative process. Secondly, as the implementation of the segmentation strategy impacts every single unit within the organization, it becomes imperative to engage all units as key stakeholders in the market segmentation analysis.

Shifting our focus to the segment evaluation plot, it becomes apparent that its completion in Step 2 of the market segmentation analysis is implausible since no segments are available for assessment at that juncture. Nonetheless, selecting the attractiveness criteria for market segments at this nascent stage of the process engenders substantial benefits. A meticulous understanding of the precise factors that hold significance for the organization in relation to market segments ensures the comprehensive encapsulation of all pertinent information during the data collection phase in Step 3. Moreover, it streamlines

the task of selecting a target segment in Step 8, as the groundwork has been laid well before the actual segments are brought to the fore.

At the culmination of this step, the market segmentation team ought to possess a roster of approximately six segment attractiveness criteria. Each criterion should be imbued with a weightage denoting its relative importance vis-à-vis other criteria within the organization. The customary approach to weighting, entails soliciting the team members' allocation of 100 points across the segmentation criteria. These allocations subsequently undergo a process of negotiation until a consensus is achieved. Ideally, seeking the approval of the advisory committee is prudent, given its composition of representatives from diverse organizational units, thereby offering multifaceted perspectives to the challenge of delineating segment attractiveness criteria.

Step 2 checklist

Task	Who is responsible?	Completed?
Convene a segmentation team meeting.		☐
Discuss and agree on the knock-out criteria of homogeneity, distinctness, size, match, identifiability and reachability. These knock-out criteria will lead to the automatic elimination of market segments which do not comply (in Step 8 at the latest).		☐
Present the knock-out criteria to the advisory committee for discussion and (if required) 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 you have agreed upon with the segmentation team. Distribute them in a way that reflects the relative importance of each attractiveness criterion.		☐
Discuss weightings with other segmentation team members and agree on a weighting.		☐
Present the selected segment attractiveness criteria and the proposed weights assigned to each of them to the advisory committee for discussion and (if required) adjustment.		☐

Step 3: Collecting Data

Segmentation variables

Market segmentation is a pivotal process in the realm of marketing, aimed at partitioning a heterogeneous market into distinct and homogenous segments. Step 3 of this segmentation journey revolves around the collection of data essential for the effective implementation of the segmentation strategy. This stage entails the identification and selection of appropriate segmentation variables, criteria, and techniques, ensuring the acquisition of pertinent information from the target market.

Segmentation variables constitute the foundation upon which the market is dissected into meaningful segments. These variables can be broadly categorized into four principal types: geographic segmentation, socio-demographic segmentation, psychographic segmentation, and behavioral segmentation.

Geographic segmentation

Geographic segmentation, regarded as the foundational criterion in market segmentation, focuses on the consumer's place of residence .Typically, this approach utilizes location as the sole basis for forming market segments. While simplistic, geographic segmentation is often the most suitable choice. For instance, when the national tourism organization of Austria aims to attract tourists from neighboring countries, accommodating multiple languages such as Italian, German, Slovenian, Hungarian, and Czech becomes a pragmatic necessity. Language variations among countries provide a practical rationale for treating tourists from different neighboring nations as distinct segments. Similarly, global companies like Amazon tailor their online Kindle descriptions by prompting customers to indicate their country of residence, offering country-specific information. IKEA offers a similar product range worldwide, yet slight variations in offerings, pricing, and online purchasing options are based on the customer's geographic location.

The primary advantage of geographic segmentation lies in its ease of assigning each consumer to a specific geographic unit. Consequently, targeting communication messages and selecting appropriate communication channels, such as local newspapers, radio stations, and TV channels, become straightforward when reaching the chosen geographic segments.
However, a significant drawback is that residing in the same country or area does not automatically indicate shared characteristics relevant to marketers, such as desired product benefits. For instance, individuals residing in affluent suburbs may appear as a suitable target market for luxury cars, but location rarely explains differences in product preferences. Even in the case of luxury suburbs, it is more likely that socio-demographic criteria account for both similar residential choices and similar car preferences. This situation is best illustrated in the context of tourism, where people from the same country of origin can have diverse ideal vacation preferences based on factors like being single or traveling as a family, and having interests in sports or culture.

Despite the potential limitations of using geographic information as the sole segmentation variable, the aspect of location has witnessed a resurgence in international market segmentation studies aiming to identify market segments across geographic boundaries. This approach presents challenges as the segmentation variable(s) must hold meaning across all included geographic regions, while accounting for potential biases that may arise when surveys are completed by respondents from diverse cultural backgrounds. An example of such an international market segmentation study is demonstrated by Haverila, who extracted market segments of young mobile phone users across national borders.

Socio-demographic segmentation

Typical socio-demographic segmentation criteria encompass factors such as age, gender, income, and education. These criteria hold significant value in certain industries. For instance, luxury goods often target individuals with high incomes, while cosmetics consider gender as a distinguishing factor (even when expanding their reach to men, the female and male segments are treated distinctly). Similarly, baby products cater to gender-specific needs, retirement villages focus on age-related requirements, and tourism resorts tailor their offerings based on whether customers have small children or not.

Similar to geographic segmentation, socio-demographic criteria offer the advantage of easily determining consumer segment memberships. In some

cases, socio-demographic factors can provide insights into specific product preferences. For example, the presence of children is a determining factor for families opting for a family-oriented vacation village, whereas as a couple, their vacation choices may have been entirely different. However, in many instances, socio-demographic criteria alone do not fully explain product preferences, thus offering limited market insights for optimal segmentation decisions. According to Haley (1985), demographics account for only approximately 5% of the variation in consumer behavior. Yankelovich and Meer assert that socio-demographics do not serve as a robust foundation for market segmentation, advocating instead for values, tastes, and preferences, which exert greater influence on consumers' purchasing decisions.

Psychographic segmentation

When individuals are categorized based on psychological factors such as their beliefs, interests, preferences, aspirations, or desired product benefits, the term employed is "psychographic segmentation." Haley elucidates that "psychographics" was meant to encompass all aspects of the mind. Benefit segmentation, pioneered by Haley stands as one of the most prevalent forms of psychographic segmentation. Another widely utilized approach is lifestyle segmentation, which examines individuals' activities, opinions, and interests.

Psychographic criteria inherently possess greater complexity than geographic or socio-demographic criteria, as it is challenging to pinpoint a solitary characteristic that offers insight into the desired psychographic dimension. Consequently, most psychographic segmentation studies employ multiple variables, such as various travel motives or perceived risks associated with vacations.

The psychographic approach boasts the advantage of providing deeper insights into the underlying drivers of consumer behavior. For instance, individuals whose primary motivation for vacations is cultural exploration are highly likely to opt for destinations brimming with cultural treasures. Consequently, travel motives have frequently served as the foundation for data-driven market segmentation in the tourism industry. However, the psychographic approach carries the drawback of increased complexity when determining consumer segment memberships. Furthermore, the efficacy of the psychographic approach heavily relies on the reliability and validity of empirical measures employed to capture the desired psychographic dimensions.

Data from Survey Study

Survey data is cheap and most of the organizations use this data as it is a more feasible approach for the organization.

Selection of variables

The selection of variables is crucial in achieving high-quality market segmentation. In data-driven segmentation, relevant variables capturing the segmentation criterion must be included while avoiding unnecessary ones. Unnecessary variables can lead to longer and tedious questionnaires, resulting in respondent fatigue and lower response quality. Moreover, including unnecessary variables increases the complexity of segmentation without adding valuable information, hindering the extraction of optimal market segments. These extraneous variables, known as noisy or masking variables, impede algorithms from identifying the correct segmentation solution. Noisy variables offer no meaningful contribution to segment identification and instead complicate the algorithm's task. To mitigate this issue, careful development of survey questions and selective variable inclusion is recommended during data collection and variable selection stages. It is advised to ask necessary and unique questions while refraining from redundancy. Conducting exploratory research prior to questionnaire development ensures critical variables are not overlooked. By following a two-stage process of qualitative exploration and quantitative survey research, important insights can be gathered and incorporated into the questionnaire, avoiding omission of crucial variables.

Response options

The answer options provided to respondents in surveys play a crucial role in determining the scale of the data for subsequent analysis, particularly in segmentation analysis. Different response options generate different types of data that may or may not be suitable for segmentation. Binary or dichotomous responses, represented as 0s and 1s, are well-suited for segmentation analysis as the distance between the two values is clearly defined. Nominal variables, where respondents select one option from an unordered list, can be transformed into binary data by creating a binary variable for each option.

Metric data, such as numerical responses, are highly suitable for segmentation analysis as they allow for various statistical procedures, including distance

measurements. However, ordinal data, where respondents indicate their agreement on an ordered scale with a limited number of response options, pose challenges. The distance between adjacent answer options is not clearly defined, making it difficult to apply standard distance measures without strong assumptions.

Ideally, meaningful binary or metric response options should be provided to respondents to avoid complications in data-driven segmentation analysis. Visual analogue scales, where respondents indicate a position on a continuous line, are an effective way to capture fine nuances and generate metric data. Binary response options have shown better performance compared to ordinal options in many contexts, particularly when formulated in a level-free manner.

Response styles

Survey data is susceptible to the influence of biases that can distort the responses provided by respondents. One prominent bias is known as response bias, which refers to a consistent pattern of responding to questionnaire items based on factors unrelated to the intended content of the items. These biases reflect a respondent's response style, displaying a systematic tendency to provide certain types of responses regardless of the specific questions asked.

Various response styles can be observed in survey answers, such as a propensity to choose extreme options (e.g., STRONGLY AGREE, STRONGLY DISAGREE), consistently opting for the midpoint (NEITHER AGREE NOR DISAGREE), or exhibiting agreement with all statements. These response styles impact the results of segmentation analysis because common algorithms cannot distinguish between a respondent's true beliefs and their response style. Consequently, segments may appear to possess certain characteristics or preferences when, in reality, it is a reflection of a response style rather than genuine attitudes.

For instance, in a market segmentation study based on responses about tourists' spending habits in different vacation activities (e.g., DINING OUT, VISITING THEME PARKS, USING PUBLIC TRANSPORT), a segment indicating "YES" to all items might be mistakenly interpreted as a highly lucrative market segment comprising high-spending tourists. However, it could merely be a result of a response style. To ensure accurate market segmentation, it is crucial to minimize the risk of capturing response styles during data collection. If attractive market segments emerge with response patterns potentially

influenced by response styles, additional analyses are necessary to identify and exclude such biases. Alternatively, respondents impacted by response styles may need to be excluded when targeting those market segments.

Sample size

Statistical analyses often come with recommended sample sizes, but market segmentation analysis lacks such guidelines. When the sample size is inadequate, segmentation algorithms struggle to determine the correct number of market segments Few studies address this problem. Formann suggests a rule of thumb: the sample size should be at least 2p (preferably five times 2p), where p is the number of segmentation variables. Qiu and Joe (2015) propose a recommendation of $10 \cdot p \cdot k$ for constructing artificial data sets, where k is the number of segments. Dolnicar et al. conducted extensive simulation studies and suggest a sample size of at least $60 \cdot p$. Market characteristics, data quality, and response biases affect segment recovery. For accurate results, it is essential to have a sample size of at least 100 respondents per segmentation variable, high-quality unbiased data, and appropriate data characteristics.

Data from internal sources

Increasingly, organizations have access to substantial amounts of internal data for market segmentation analysis. Examples include scanner data in grocery stores, booking data from airline loyalty programs, and online purchase data. Such data represent actual consumer behavior, free from biases like imperfect memory or social desirability. Moreover, this data is often automatically generated and easily accessible. However, a drawback is that internal data may be biased towards existing customers, lacking information about potential new customers with different consumption patterns.

Data from experimental studies

Another potential data source for market segmentation analysis is experimental data, which can be obtained from field or laboratory experiments. For instance, these experiments can involve testing how individuals respond to particular advertisements, with the response serving as a segmentation criterion. Experimental data can also stem from choice experiments or conjoint analyses, where consumers are presented with carefully designed stimuli featuring different levels of specific product

attributes. By indicating their preferences among the product variations, valuable information on the impact of each attribute and level on consumer choice can be obtained and used for segmentation.

Step 6: Profiling Segments

Identifying Key Characteristics of market segments

The profiling step in market segmentation aims to understand the resulting market segments from the extraction process, particularly in data-driven segmentation. Unlike commonsense segmentation where segment profiles are predefined (e.g., age groups), data-driven segmentation requires profiling to identify the defining characteristics of the segments based on segmentation variables. Profiling involves characterizing each segment individually and comparing them to other segments. Interpreting data-driven segmentation results can be challenging for managers, often presented in lengthy reports lacking clarity or rushed presentations. Graphical statistics approaches can help make profiling less tedious and prone to misinterpretation.

Traditional approaches to profiling market segments

We have used Australian vacation dataset .The Australian vacation motives data set was used for segment extraction using the neural gas clustering algorithm. Data-driven segmentation solutions are often presented in two ways: simplified summaries that overlook important segment characteristics or large tables with exact percentages for each segmentation variable, which are difficult to interpret. A table illustrates the mean values of segmentation variables by segment, but comparing these values to identify defining segment characteristics is cumbersome. Profiling all six segments in the table requires comparing numerous pairs of numbers, making it a time-consuming task. Presenting multiple alternative segmentation solutions further exacerbates the complexity, requiring users to compare a vast number of pairs of numbers. Providing information on statistical significance is not valid since segment membership is derived from the segmentation variables, and segments are intentionally created to maximize differences, making standard statistical tests inappropriate for assessing significance.

Segment Profiling with Visualisation

Both simplistic and complex tabular representations commonly used for presenting market segmentation solutions often neglect the power of graphics, despite graphics being an integral part of statistical data analysis. Graphics are especially valuable in exploratory analysis, like cluster analysis, as they provide insights into complex variable relationships and allow for easy monitoring of data trends. Experts recommend utilizing visualization techniques to enhance the interpretability of market segmentation analysis results. Visualizations enable a detailed examination of segments within each segmentation solution, aid in understanding segment profiles, and facilitate the evaluation of the solution's usefulness. Numerous examples demonstrate the prior use of visualizations in segmentation analysis, emphasizing their utility in supporting decision-making processes when selecting the most appropriate solution from the multiple alternatives generated during the data-driven segmentation process.

Identifying Defining Characteristics of market segments

To better understand the defining characteristics of each segment, a segment profile plot is a useful tool. This plot visually represents how each market segment differs from the overall sample across all segmentation variables. It serves as a direct translation of tables, such as A table into a graphical format. The order of variables in figures and tables does not have to follow their appearance in the dataset. If variables have a meaningful order, it should be retained; otherwise, rearranging variables can improve visualizations.

To create a segment profile plot, hierarchical clustering of the variables can be performed using techniques like Ward's method. The resulting order of variables can then be used to generate the plot. Each segment is represented by a panel, and the plot displays the cluster centers (centroids) for each segment. The dots in the plot represent the total mean values of the segmentation variables across the entire dataset, serving as reference points for comparison.

Marker variables, which are particularly characteristic of a segment, can be highlighted in color (solid bars) in the segment profile plot. By default, marker variables are defined based on their deviation from the overall mean, using thresholds such as an absolute difference of 0.25 or a relative difference of 50%. However, these thresholds can be adjusted based on the data analyst's or user's preference, especially for non-binary segmentation variables.

The segment profile plot, provides the same information but in a more easily interpretable format. It allows for quick identification of segment characteristics, such as preferences, interests, and priorities. Comparatively, interpreting the segmentation solution through a segment profile plot is faster and more straightforward than analyzing a table, regardless of its structure.

A study comparing the interpretation of market segmentation results using different presentation formats found that graphical statistics, like the segment profile plot, significantly reduced processing time and cognitive effort. Eye-tracking data showed that participants spent less time and effort interpreting the segment profile plot compared to tables. This indicates that well-designed visualizations, such as segment profile plots, can enhance managers' understanding of segmentation results and support their long-term strategic decision-making process. Investing time in creating good visualizations offers a valuable return on investment when implementing segmentation strategies with substantial financial implications.

Assessing Segment Separation

A segment separation plot provides a visual representation of segment overlap in the data space. It offers a concise overview of the segmentation solution and the data's characteristics. Fig. 8.4 illustrates sample segment separation plots, displaying scatter plots with colored observations based on segment membership, cluster hulls indicating segment shape and spread, and neighborhood graphs showing segment similarity. For high-dimensional data, projection techniques such as principal components analysis are employed to create these plots. Fig. 8.6 demonstrates the interpretation of segments, highlighting distinctive features. It's important to note that each plot represents a specific projection, and overlapping segments in one projection may not necessarily overlap in other projections.

Step 8: Selecting the Target Segment(s)

The Targeting decisions

Once a global market segmentation solution has been selected, the segments undergo a thorough examination in Step 6. Step 7 involves describing these segments in detail. In Step 8, the task is to choose one or more market

segments for targeting. The segmentation team builds upon the outcomes of Step 2, where knockout criteria for segments were established and segment attractiveness criteria were determined. Ideally, the knockout criteria were already applied in earlier steps, ensuring that the selected segments are sufficiently large, homogeneous, distinct, identifiable, reachable, and aligned with the organization's capabilities. However, it is advisable to double-check the compliance of the remaining segments with the knockout criteria. The next step is to assess the attractiveness of the segments and evaluate the organization's competitive advantage in each segment. The team must consider which segments the organization desires to target and commit to, as well as which competitors are most appealing to each segment and the likelihood of the organization being chosen. These considerations form the foundation for the final decision on target segments.

Market Segment Evaluation

Numerous books, such as McDonald and Dunbar (1995) and Lilien and Rangaswamy (2003), recommend using a decision matrix to visualize segment attractiveness and organizational competitiveness for target market selection. Decision matrices like the Boston matrix, General Electric/McKinsey matrix, and directional policy matrix aid in evaluating alternative segments and selecting target markets. In the example, a generic segment evaluation plot is used, with the x-axis representing segment attractiveness and the y-axis indicating organizational competitiveness. Segments are depicted as circles, and their sizes can reflect additional criteria like turnover or loyalty. No single measure defines attractiveness or competitiveness, so users refer back to their ideal target segment criteria specified in Step 2. The actual value of each segment for attractiveness criteria is determined based on grouping, profiling, and description in Steps 6 and 7. Weighted values for each segment's attractiveness criteria are summed up and plotted on the x-axis. The same process applies to organizational competitiveness. The plot, along with the bubble size indicating factors like profit potential, serves as a basis for discussions. Segments with low attractiveness or mismatched preferences may be eliminated, while those with high attractiveness and affinity are considered, balancing with profit potential. The segment evaluation plot aids in making informed decisions within the segmentation team.

Step 9: Customising the Marketing Mix

Implications for Marketing Mix Decisions

Marketing was initially seen as a toolbox for selling products, with marketers utilizing various ingredients to achieve optimal sales results. Borden (1964) identified 12 ingredients in the marketing mix, such as product planning, pricing, branding, and promotions. However, the most commonly recognized marketing mix consists of the 4Ps: Product, Price, Promotion, and Place (McCarthy 1960).

Market segmentation is not an isolated marketing strategy but works in conjunction with other strategic areas, particularly positioning and competition. The segmentation-targeting-positioning (STP) approach views segmentation as a sequential process within this framework. It begins with market segmentation, followed by targeting a specific segment, and finally, positioning the product to differentiate it from competitors and align with segment needs.

While the segmentation-targeting-positioning process follows a sequence, it's important not to rigidly adhere to it. It may be necessary to move back and forth between segmentation and targeting before committing to long-term target segments. The target segment decision affects the development of the marketing mix, which includes the 4Ps.

To maximize the benefits of market segmentation, it is crucial to customize the marketing mix for the target segment. This may involve designing new products, adjusting prices, selecting appropriate distribution channels, and developing tailored communication and promotion strategies.

The organization can structure the entire market segmentation analysis around one of the 4Ps, which influences the choice of segmentation variables. For pricing decisions, variables like price sensitivity and deal proneness are relevant. Advertising decisions can be informed by benefits sought, lifestyle segmentation, and psychographic variables. Distribution decisions can consider store loyalty, patronage, and benefits sought when selecting a store. However, market segmentation analysis is typically not conducted solely for one specific P. The detailed description of the target segment resulting from Step 7 guides the organization in developing or adjusting the marketing mix to effectively serve the chosen target segment.

Product

When targeting segment 3, a destination with a rich cultural heritage could consider developing a product like "MUSEUMS, MONUMENTS & MUCH, MUCH MORE," accompanied by an activities pass. This would help members of the segment locate and engage in activities they are interested in during the vacation planning process. Additionally, promoting the destination's gardens as a significant attraction specifically for this segment could be beneficial.

Price

The expenditures of segment 3 members, indicate that they have higher vacation expenditures per person per day compared to other tourists. This suggests that the destination targeting segment 3 may not need to offer the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product at a discounted price. In fact, there is potential to attach a premium price to this product. This demonstrates how the price dimension can be utilized to optimize the targeted marketing approach.

Place

The place dimension of the marketing mix involves decisions regarding product distribution to customers. In the case of segment 3 and the destination with a rich cultural heritage, information on how members of segment 3 booked their accommodation during their last domestic holiday is valuable. It enables the destination to ensure that the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product is available for booking through the preferred distribution channels of segment 3. Members of segment 3 differ from other tourists by frequently booking their hotel online. This highlights the importance of providing an online booking option for the hotel and considering online booking preferences for other products and services.

Promotion

When designing the marketing mix, promotion decisions play a crucial role. This includes developing an advertising message that resonates with the target market and determining the most effective communication channels. For segment 3, identifying the best information sources to reach them and informing them about the "MUSEUMS, MONUMENTS & MUCH, MUCH MORE" product is essential. Comparing their information sources for choosing a destination and preferred TV stations, it is evident that segment 3 relies more on tourist centers for information and shows a preference for Channel 7. This

insight can be utilized to design promotional strategies such as providing information packs both in physical tourist centers and online, as well as developing a media plan that maximizes exposure on Channel 7 for targeted communication of the product.

Step 9 checklist

Task	Who is responsible?	Completed?
Convene a segmentation team meeting.		☐
Study the profile and the detailed description of the target segment again carefully.		☐
Determine how the product-related aspects need to be designed or modified to best cater for this target segment.		☐
Determine how the price-related aspects need to be designed or modified to best cater for this target segment.		☐
Determine how the place-related aspects need to be designed or modified to best cater for this target segment.		☐
Determine how the promotion-related aspects need to be designed or modified to best cater for this target segment.		☐
Review the marketing mix in its entirety.		☐
If you intend to target more than one segment: repeat the above steps for each of the target segments. Ensure that segments are compatible with one another.		☐
Present an outline of the proposed marketing mix to the advisory committee for discussion and (if required) modification.		☐

Case Study

Link to my colab notebook

https://colab.research.google.com/drive/1zkIrHYwyVcmiJ0Rz58aI1gsbEfuqsc9Q#scrollTo=OoiMjo1M6L4J