

# **Market Segmentation with McDonalds case study**

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## **Market Segmentation Summary:**

### **Definition of Market Segmentation**

Market segmentation is a marketing strategy and research process that involves dividing a larger, heterogeneous market into smaller, more homogeneous segments or groups of consumers based on shared characteristics, needs, behaviors, or other relevant factors. The goal of market segmentation is to identify distinct groups within the overall market that can be targeted with tailored marketing strategies and offerings, allowing businesses to better meet the specific needs and preferences of each segment. This approach enables companies to allocate resources more effectively, enhance their marketing efforts, and ultimately increase their chances of success in reaching and appealing to their target customers.

### **Steps of Market Segmentation analysis (1, 2, 3 & 6)**

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

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

Committing to market segmentation carries several important implications. Firstly, it demands a long-term commitment, not a short-lived strategy. Organizations must be prepared to invest time and resources over an extended period. Secondly, substantial changes may be required, such as creating new products or altering pricing and distribution strategies. These changes come with associated costs. Additionally, the decision to pursue segmentation should be made at the highest executive level and communicated consistently throughout the organization. Overall, market segmentation demands dedication, investment, and a strategic outlook, as it's not a one-time effort but a lasting commitment to tailor marketing strategies for distinct consumer groups to achieve long-term success.

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

### **Segment Evaluation Criteria**

Segment evaluation criteria are essential in the process of market segmentation analysis. They serve as guidelines for selecting target segments. There are two main sets of criteria:

**Knock-Out Criteria:** These are the non-negotiable features or characteristics that segments must possess to be considered as potential targets. They represent the fundamental requirements that a segment must meet for consideration.

**Attractiveness Criteria:** These criteria are used to assess the relative appeal of the remaining market segments that meet the knock-out criteria. They help organizations prioritize which segments are most promising for targeting.

These criteria are crucial in Step 2 of market segmentation analysis and play a significant role in guiding subsequent steps, particularly data collection and the final selection of target segments. While the literature offers various segment evaluation criteria, organizations must carefully define and prioritize these criteria to identify the most suitable segments for their marketing strategies.

## **Step 3: Collecting Data**

### **Segmentation Variables**

Segmentation variables are the fundamental attributes or characteristics used in market segmentation to divide a consumer or target market into distinct groups. These variables help identify similarities or differences among individuals or entities within the market.

In commonsense segmentation, a single characteristic, such as gender, is used to split the sample into segments. For example, one segment might consist of women (with the segmentation variable "gender" having a value of 1), and another segment might consist of men (with a value of 0 for the same variable).

In data-driven segmentation, multiple segmentation variables are utilized. These variables can be a combination of demographic, psychographic, behavioral, or other factors. They serve as the basis for identifying naturally occurring or artificially created market segments that are relevant to the organization's marketing strategy.

Descriptor variables, on the other hand, provide additional information about the segments and are used to describe them in detail. These can include socio-demographic factors, media behavior, and other characteristics that help marketers tailor their strategies to effectively reach and serve each segment.

### **Step 6: Profiling Segments**

Profiling segments is a crucial step in data-driven market segmentation, aimed at understanding and characterizing the resulting market segments. Unlike commonsense segmentation, where segment characteristics are predefined (e.g., age groups for age-based segmentation), data-driven segmentation creates segments based on analysis rather than prior assumptions.

Profiling involves defining the characteristics of each segment individually and comparing them to one another. It helps identify what makes each segment unique and how they differ from others. This is especially important when no natural segments exist in the data, and segmentation solutions need to be constructed or reproduced.

Data-driven segmentation can be complex and challenging to interpret. Many managers find it difficult to understand and navigate the results, often perceiving it as a "black box." Profiling aims to provide a clearer picture of each segment's defining characteristics and behaviors, facilitating better interpretation and informed strategic marketing decisions. Graphical statistics approaches are often used to make profiling less tedious and more accessible, reducing the risk of misinterpretation.

### **Case Study on McDonalds**

GitHub link: [https://github.com/alexraju29/Market\\_Segmentation\\_case\\_study](https://github.com/alexraju29/Market_Segmentation_case_study)