FEYNN LABS- MARKET SEGMENTATION ANALYSIS

Steps of Market Segmentation Analysis: *(Steps 1, 2, 3 and 5)*

1. **Step 1: Deciding (not) to Segment**
   - **Implications of Committing to Market Segmentation**
     - i. Adopting a market segmentation strategy can affect your company in several ways, both positively and negatively and therefore it is imperative to thoroughly analyse these factors before making this strategic choice.
     - ii. The primary inference is that the company must make a long-term commitment to the segmentation plan. There are expenses associated with conducting the study, setting up focus groups and surveys, creating several packages, and creating several ads and messaging.
     - iii. One of the truisms of the 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.
     - iv. Organizational changes may include new product development, pricing adjustments, and better market communication. Croft (1994) suggests organizing around market segments with strategic business units for improved focus on evolving market needs.
     - v. Because of the major implications of such a long-term organisational commitment, 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 organisational levels and across all organisational units.
   - **Implementation Barriers**
     - i. The first set of obstacles has to do with upper management. The effectiveness of market segmentation is weakened by senior leadership's lack of commitment, proactive advocacy, leadership, and involvement in the process.
     - ii. Insufficient resources for the initial market segmentation analysis or the long-term implementation of a market segmentation plan can also hinder the successful implementation of market segmentation by senior management.
     - iii. Organisational culture connects to a second set of obstacles. The following factors have been identified as impeding the successful implementation of market segmentation: short-term thinking, unwillingness to make changes, office politics, resistance to change and new ideas, lack of creative thinking, poor communication and lack of sharing of information and insights across organisational units, lack of market or consumer orientation.

2. **Step 2: Specifying the Ideal Target Segment**
   - **Segment Evaluation Criteria**
     - i. There are many important factors to take into account when assessing how effective your market segments are. These standards guarantee that your segments are legitimate, useful, and eventually profitable for your company.
     - ii. Here, the organisation must determine two sets of segment evaluation criteria. One set of evaluation criteria can be referred to as *knock-out criteria*. These are the fundamental, non-negotiable characteristics of the target segments that the

organisation would think about pursuing. We might refer to the second set of evaluation criteria as the *attractiveness criteria*. The relative attractiveness of the remaining market segments—those that meet the knock-out criterion—is assessed using these criteria.

- Knock-out Criteria
    i. It is used to determine if market segments resulting from the market segmentation analysis qualify to be assessed using segment attractiveness criteria.
    ii. The segment must be **homogeneous**; members of the segment must be similar to one another.
    iii. The segment must be **distinct**; members of the segment must be distinctly different from members of other segments.
    iv. The segment must be **large enough**; the segment must contain enough consumers to make it worthwhile to spend extra money on customising the marketing mix for them.
    v. The segment must match the strengths of the organisation; the organisation must have the capability to satisfy segment members' needs.
    vi. Members of the segment must be **identifiable**; it must be possible to spot them in the marketplace.
    vii. The segment must be **reachable**; there has to be a way to get in touch with members of the segment to make the customised marketing mix accessible to them.

- Attractiveness Criteria
    i. Attractiveness criteria are not binary. Segments are not assessed as either complying or not complying with attractiveness criteria. Rather, each market segment is rated; it can be more or less attractive concerning a specific criterion.
    ii. The attractiveness across all criteria determines whether a market segment is selected as a target segment in Step 8 of market segmentation analysis.

- Implementing a Structured Process
    i. Both individuals and companies can greatly benefit from the implementation of a systematic process. It increases consistency and efficiency, gives tasks structure and clarity, and eventually produces better outcomes.
    ii. Factors which constitute both segment attractiveness and organisational competitiveness need to be negotiated and agreed upon. To achieve this, a large number of possible criteria have to be investigated before agreement is reached on which criteria are most important for the organisation.
    iii. Ideally, a core team of two to three individuals oversees market segmentation analysis, proposing initial solutions to an advisory committee comprising representatives from various organizational units. This diverse representation ensures different perspectives are considered, as each unit brings unique insights. Additionally, involving all units as stakeholders acknowledges the impact of the segmentation strategy on the entire organization.
    iv. While segment evaluation cannot occur in the initial stages, defining attractiveness criteria early streamlines data collection and later facilitates target segment selection. Typically, the team establishes approximately six criteria, assigning weights to reflect their importance. Negotiation among team members finalizes these weights, with approval from the advisory committee, leveraging its diverse perspectives.

3. Step 3: Collecting Data

- ○ Segmentation Variables
  - i. The variable in the empirical data employed in commonsense segmentation to divide the sample into market groups is referred to as the *segmentation variable*.
  - ii. The remaining individual characteristics that are present in the data—in this example, age, the number of vacations taken, and details regarding the five advantages people seek or do not seek while on vacation—are referred to be *descriptor variables*.
  - iii. Data-driven market segmentation is different from commonsense in that it is based on numerous segmentation variables rather than just one.
- ○ Segmentation Criteria
  - i. The decision of which segmentation criterion to use cannot easily be outsourced to either a consultant or a data analyst because it requires prior knowledge about the market.
  - ii. The most common segmentation criteria are geographic, socio-demographic, psychographic and behavioural.
    1. Geographic Segmentation
    2. Socio-Demographic Segmentation
    3. Psychographic Segmentation
    4. Behavioural Segmentation
- ○ Data from Survey Studies
  - i. Most market segmentation analyses are based on survey data. Survey data is cheap and easy to collect, making it a feasible approach for any organisation.
  - ii. But survey data – as opposed to data obtained from observing actual behaviour – can be contaminated by a wide range of biases.
    1. Choice of Variables
    2. Response Options
    3. Response Styles
    4. Sample Size

4. Step 4 *(Done by Team Members)*
5. Step 5: Extracting Segments
   - ○ Grouping Consumers:
     - i. Market segmentation analysis is exploratory due to unstructured consumer data. The results of any method used to extract market segments depend on the assumptions made on the segment structure implied by the method. Segmentation methods shape the segmentation solution.
     - ii. There is no single best algorithm for all data sets. If consumer data is well-structured, and well-separated, distinct market segments exist, tendencies of different algorithms matter less. If, however, data is not well-structured, the tendency of the algorithm influences the solution substantially. In such situations, the algorithm will impose a structure that suits the objective function of the algorithm.
     - iii. Many segmentation methods are taken from the field of cluster analysis, where market segments correspond to clusters. Selecting a suitable clustering method requires matching the data analytic features of the resulting clustering with the context-dependent requirements desired by the researcher. Understanding how different algorithms impose structure on the extracted segments is important.
   - ○ Distance-based Methods:
     - i. Distance-based methods use a notion of similarity between observations (consumers) to find groups of similar observations (market segments).

        ii.   Distance Measures: Distance-based methods use distance measures based on the data's scale level such as Euclidean Distance, and Manhattan Distance.

        iii.   Hierarchical Methods: Hierarchical clustering methods mimic the human approach to dividing a set of n observations into k groups.

- Partitioning Methods:
    - i. Ideal for small data sets with up to a few hundred observations. Larger data sets struggle with dendrograms and pairwise distances.
    - ii. Clustering methods creating a single partition are more suitable for data sets with over 1000 observations. Distances between each consumer in the data set and the centre of the segments are computed instead of computing all pairs of observations.
    - iii. K-Means and K-Centroid Clustering: K-means clustering is a popular partitioning method used to divide consumers into market segments.

- Model-Based Methods:
    - i. Distance-based methods have been used in market segmentation analysis for a long time. Model-based methods, pioneered by Wedel and Kamakura, are an alternative to these methods. Mixture methodologies have gained significant interest from applied marketing researchers and consultants.

- Algorithms with Integrated Variable Selection:
    - i. Most algorithms extract segments from data, assuming each variable contributes to the segmentation solution.
    - ii. However, some segmentation variables contain redundant or noisy variables. Preprocessing methods can identify these variables.

- Data Structure Analysis:
    - i. Market segmentation is exploratory, making traditional validation impossible. Validation in market segmentation involves assessing the reliability or stability of solutions after modifying data or the algorithm.
    - ii. Stability-based data structure analysis provides insights into data properties, guiding methodological decisions.

- Segment Level Stability Analysis:
    - i. Selecting the best global segmentation solution doesn't guarantee a single market segment.
    - ii. It's crucial to assess both the global and segment-level stability of market segments to avoid discarding solutions with individual segments, as most organizations only need one target segment.