Report on Market Segmentation

Bhoomika Agrahari

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(https://github.com/bhoomika297/feynn-labs-internship/blob/main/McDonald%20case%20study%20R%20to%20Python.ipynb)

INTRODUCTION

Market segmentation is a marketing term that refers to aggregating prospective buyers into groups or segments with common needs and who respond similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another.

Market segmentation is an extension of market research that seeks to identify targeted groups of consumers to tailor products and branding in a way that is attractive to the group. The objective of market segmentation is to minimize risk by determining which products have the best chances of gaining a share of a target market and determining the best way to deliver the products to the market. This allows the company to increase its overall efficiency by focusing limited resources on efforts that produce the best return on investment (ROI).

Types of Market Segmentation

There are four primary types of market segmentation. However, one type can usually be split into an individual segment and an organization segment. Therefore, below are five common types of market segmentation.

Demographic Segmentation

Demographic segmentation is one of the simple, common methods of market segmentation. It involves breaking the market into customer demographics as age, income, gender, race, education, or occupation. This market segmentation strategy assumes that individuals with similar demographics will have similar needs.

Example: The market segmentation strategy for a new video game console may reveal that most users are young males with disposable income.

Firmographic Segmentation

Firmographic segmentation is the same concept as demographic segmentation. However, instead of analyzing individuals, this strategy looks at organizations and looks at a company's number of employees, number of customers, number of offices, or annual revenue.

Example: A corporate software provider may approach a multinational firm with a more diverse, customizable suite while approaching smaller companies with a fixed fee, more simple product.

Geographic Segmentation

Geographic segmentation is technically a subset of demographic segmentation. This approach groups customers by physical location, assuming that people within a given geographical area may have similar needs. This strategy is more useful for larger companies seeking to expand into different branches, offices, or locations.

Example: A clothing retailer may display more raingear in their Pacific Northwest locations compared to their Southwest locations.

Behavioral Segmentation

Behavioral segmentation relies heavily on market data, consumer actions, and decision-making patterns of customers. This approach groups consumers based on how they have previously interacted with markets and products. This approach assumes that consumers prior spending habits are an indicator of what they may buy in the future, though spending habits may change over time or in response to global events.

Example: Millennial consumers traditionally buy more craft beer, while older generations are traditionally more likely to buy national brands.[1]

Psychographic Segmentation

Often the most difficult market segmentation approach, psychographic segmentation strives to classify consumers based on their lifestyle, personality, opinions, and interests. This may be more difficult to achieve, as these traits (1) may change easily and (2) may not have readily available objective data. However, this approach may yield strongest market segment results as it groups individuals based on intrinsic motivators as opposed to external data points.

Steps of Market Segmentation Analysis

Step 1: Deciding (not) to Segment

Implications of Committing to Market Segmentation

The implications of committing to market segmentation are profound and necessitate a careful evaluation before embarking on such a strategy. Market segmentation is described as a long-term commitment, akin to a marriage rather than a casual date. Organizations considering this strategy must be prepared for substantial changes, investments, and a sustained effort.

1) **Long Term Commitment**: Market segmentation is not a one-time endeavor but requires ongoing dedication. Organizations must be willing to make substantial changes and investments, understanding that segmentation is a strategic commitment.

2) **Cost Consideration:** Implementing a segmentation strategy comes with costs, including research, surveys, design efforts, and communication. Cahill emphasizes that the expected increase in sales should justify these costs, making the segmentation strategy more profitable.

3) **Organizational Adjustment**: Pursuing market segmentation may necessitate changes such as developing new products, modifying existing ones, adjusting pricing and distribution channels, and refining communication strategies. These changes can impact the internal structure of the organization.

4) **Strategic Organizational Structure:** Croft recommends organizing around market segments rather than products to maximize the benefits of segmentation. Strategic business units focused on specific segments offer a suitable organizational structure aligned with the evolving needs of market segments.

5) **Decision Making Authority:** Given the major implications of long-term organizational commitment, the decision to explore market segmentation should be made at the highest executive level. Moreover, it requires systematic and continuous communication and reinforcement across all levels and units of the organization.

Implementation Barriers

1) **Senior Management Barrier:**
    - Lack of leadership, pro-active championing, commitment, and involvement by senior leadership can undermine segmentation success.
    - Inadequate resource allocation by senior management for segmentation analysis or long-term implementation can impede progress.

2) **Organizational culture Barrier:**
    - Factors like a lack of market or consumer orientation, resistance to change, insufficient creative thinking, poor communication, and information sharing hinder successful segmentation.
    - Lack of training for senior management and segmentation can lead to failure.

3) **Formal Marketing Function and Expertise:**
    - Lack of a formal marketing function or a qualified marketing expert may pose obstacles to successful segmentation, especially in larger organizations.

4) **Objective Restrictions:**
    - Objective constraints such as limited financial resources, inability to make required structural changes, unclear segmentation objectives, poor planning, and time pressure can be barriers.

Step 2: Specifying the Ideal Target Segment

Segment Evaluation Criteria

In this step user's involvement in various stages, underlining that user input is not limited to the beginning or end but is integral throughout. The organization's commitment to market segmentation involves a significant contribution in Step 2, where conceptual input guides crucial steps like data collection and target segment selection. The organization defines knock-out criteria (non-negotiable features) and attractiveness criteria to assess the remaining market segments. The paragraph notes that the literature offers various criteria without clear distinctions between knock-out and attractiveness criteria.

Knock-Out Criteria

Knock-out criteria are used to determine if market segments resulting from the market segmentation analysis qualify to be assessed using segment attractiveness criteria. The first set of such criteria was suggested by Kotler (1994) and includes substantiality, measurability and accessibility (Tynan and Drayton 1987). Kotler himself and a number of other authors have since recommended additional criteria that fall into the knock-out criterion category

• The segment must be homogeneous; members of the segment must be similar to one another.

• The segment must be distinct; members of the segment must be distinctly different from members of other segments. Step 2: Specifying the Ideal Target Segment.

• 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.

• The segment must be matching the strengths of the organisation; the organisation must have the capability to satisfy segment members' needs.

• Members of the segment must be identifiable; it must be possible to spot them in the marketplace.

• The segment must be reachable; there has to be a way to get in touch with members of the segment in order to make the customised marketing mix accessible to them.

Attractiveness Criteria

In addition to the knock-out criteria, also lists a wide range of segment attractiveness criteria available to the segmentation team to consider when deciding which attractiveness criteria are most useful to their specific situation. Attractiveness criteria are not binary in nature. 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 with respect to a specific criterion. The attractiveness across all criteria determines whether a market segment is selected as a target segment in Step 8 of market segmentation analysis.

Step 3: Collecting Data

Segmentation Variable

It introduces the concept of a "segmentation variable" as the characteristic used to split a sample into market segments. In commonsense segmentation, a single variable (e.g., gender) is used, while data-driven segmentation involves multiple variables. The paragraph illustrates this with tables representing both approaches.

the segmentation variable (e.g., gender) creates segments, and other personal characteristics act as descriptor variables, detailing the segments. In data-driven segmentation, multiple segmentation variables (e.g., benefits sought) lead to naturally existing or artificially created segments. The quality of empirical data is emphasized for developing valid segmentation solutions, whether commonsense or data-driven. It impacts correct segment assignment, accurate segment descriptions, and subsequent marketing strategies. empirical data for segmentation studies can come from various sources, such as surveys, observations (scanner data), or experimental studies. Survey data, while common, may be unreliable in reflecting behavior, making exploration of diverse data sources crucial for effective market segmentation analysis.

Data from Survey Studies

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. But survey data – as opposed to data obtained from observing actual behaviour – can be contaminated by a wide range of biases. Such biases can, in turn, negatively affect the quality of solutions derived from market segmentation analysis.

- Choice of Variables
- Response Option
- Response Style
- Sample Size

Data from Internal Sources

Increasingly organisations have access to substantial amounts of internal data that can be harvested for the purpose of market segmentation analysis. Typical examples are scanner data available to grocery stores, booking data available through airline loyalty programs, and online purchase data. The strength of such data lies in the Step 3: Collecting Data fact that they represent actual behaviour of consumers, rather than statements of consumers about their behaviour or intentions, known to be affected by imperfect memory, as well as a range of response biases, such as social desirability bias or other response styles

Data from Experimental Studies

Another possible source of data that can form the basis of market segmentation analysis is experimental data. Experimental data can result from field or laboratory experiments. For example, they can be the result of tests how people respond to certain advertisements. The response to the advertisement could then be used as a segmentation criterion. Experimental data can also result from choice experiments or conjoint analyses. The aim of such studies is to present consumers with carefully developed stimuli consisting of specific levels of specific product attributes. Consumers then indicate which of the products – characterised by different combinations of attribute levels – they prefer.

Step 6: Profiling Segments

Identifying Key Characteristics of Market Segments

The profiling step is crucial in data-driven market segmentation, aiming to understand and characterize the resulting market segments. Unlike commonsense segmentation, where segment profiles are predefined (e.g., age groups for age-based segmentation), data-driven segmentation requires profiling to identify defining characteristics based on segmentation variables, such as benefits sought by consumers.

In data-driven segmentation, the defining characteristics of segments are unknown until after data analysis. Profiling involves characterizing individual market segments and comparing them to others. For instance, if winter tourists in Austria are surveyed about vacation activities, alpine skiing may characterize a segment, but it may not differentiate that segment from others.

Profiling becomes especially important when exploring alternative segmentation solutions, especially in cases where no natural segments exist in the data. It helps in the correct interpretation of segmentation results, which is critical for making strategic marketing decisions. Data-driven segmentation solutions are acknowledged to be challenging to interpret, with managers often facing difficulties in understanding them, as indicated by surveys in marketing literature.

Traditional Approaches to Profiling Market Segments

Interpreting data-driven segmentation solutions, especially when presented in tabular form, poses significant challenges due to the complexity of comparisons between segments and with the total. The sheer number of comparisons makes the task daunting for users, emphasizing the need for more effective ways of presenting and interpreting segmentation results.

1) **Presentation Challenges:**

- Data-driven segmentation solutions are often presented in two ways: overly simplified high-level summaries or complex tables with exact percentages for each segmentation variable.
- Table 8.1 illustrates the mean values of segmentation variables for six segments, where values represent percentages of segment members engaging in each activity.

2) **Interpreting Segment Characteristics:**

- Defining characteristics of segments need to be identified by comparing the percentage values of each segment for each segmentation variable with those of other segments or the total.

3) **Complexity of Interpretation:**

- Profiling all six segments in Table 8.1 requires comparing numerous pairs of numbers (420 comparisons) for each row, considering both comparisons with the total and those between segments.
- When multiple segmentation solutions are presented (e.g., five alternatives with six segments each), the user faces an overwhelmingly tedious task of comparing 2100 pairs of numbers to understand segment characteristics.

4) **Statistical Significance Challenges:**

- Providing information about the statistical significance of differences between segments for each segmentation variable is not statistically correct.
- Segment membership is derived directly from segmentation variables, making segments maximally different and not suitable for standard statistical tests.

Step 8: Selecting the Target Segment

The Targeting Decision

This is the culmination of the market segmentation process, requiring careful consideration of knock-out criteria, evaluation of segment attractiveness, and alignment of organizational and segment preferences for a strategic commitment to the chosen target segment.

Market segmentation is a strategic marketing tool. The selection of one or more target segments is a long term decision significantly affecting the future performance of an organisation. This is when the flirting and dating is over; it's time to buy a ring, pop the question, and commit.

1) **Undifferentiated Marketing (Mass Marketing)**

Sometimes there are no strong distinctions in customer characteristics. In cases like this, the costs involved in developing separate marketing mixes for separate target markets doesn't make financial sense. That's when a company may decide to use a single marketing mix for the entire market.

2) **Differentiated Marketing (Segmented Marketing)**

Now let's take that same apple pie (the entire market), but instead of taking the whole thing, we're going to take only some of it. Perhaps we'll take just a few slices, or maybe we'll take more. It depends on how many target markets you want to serve. That's the premise of differentiated marketing.

3) **Concentrated Marketing**

Concentrated marketing doesn't mean that the company hasn't identified other target markets; it simply means that it chooses not to serve all of them. Some markets may not be attractive; other markets may not align with the company's business strengths. Therefore, the company focuses on just one target market with a single marketing mix. It channels all of its marketing efforts toward that specific segment with the aim of "owning" it over its competitors and creating strong brand loyalty.

Market Segment Evaluation

Segment size and growth

A hotel is depending on filling rooms with guests. Therefore a target market needs to be large enough worth pursuing unless the selected segment is growing fast. It may be profitable if it reaches a bigger size in a few years and with targeted marketing.

Segment structural attractiveness

Another reason for choosing a specific segment is if the competition is weak and has no intention to go after this target audience. Suppose there are few substitutes, the attractiveness increases. A less attractive market is when few buyers dominate the market, such as very few large corporate customers. Powerful agents could also make a target group less attractive due to price pressure. Lack of transportation to the destination is another drawback. Consider all these reasons when evaluating the attractiveness of market segments.

Step 9: Customising the Marketing Mix

With any of the strategies described above, the marketing team must come together to develop a marketing mix tailored to the needs of each segment being targeted. This marketing mix is the unique combination of product, promotion, place, and price designed expressly to fit a designated market segment.

Product:

The ideal product for these alumni isn't just a generic philanthropic donation. Instead, it is a giving opportunity that reflects their significant anniversary. For this reason, the alumni organization introduces a new "product" or type of donation opportunity: a class legacy fund that encourages alumni to contribute with other classmates to a common fund. When they do, they can select the areas they want their donation to benefit, such as scholarships, library, technology, and endowed professorship, etc.

Promotion:

Getting the attention of busy alumni scattered across the world is a challenge. People are most likely to pay attention when a message is coming from someone they know personally, and so the alumni organization decides to capitalize on classmate relationships. It recruits several well-connected people from each class to post on social media and send email messages to fellow classmates about an upcoming reunion as well as the legacy-fund donation opportunity. The email message asks people to share with other former classmates who may not have heard about the reunion and class legacy fund. Happily, this message begins to go viral, working through pre-existing networks to spread the word. The organization also sends a letter about the class legacy fund to older alumni who are less likely to be active with email or digital technology.

Place/Distribution:

As people learn about the class legacy fund, the alumni organization wants to make sure the donation opportunity is easy for anyone to act on. For this reason, they offer a variety of different ways to contribute: mail a check; dial a phone number; donate on a Web site using PayPal or a credit card; donate via phone using a mobile app. People can even come to the annual reunion activities and contribute to the legacy fund in person.

Price:

For a voluntary donation, "price" can be tricky. On one hand, the alumni organization wants to encourage donations of any size to the class legacy funds, no matter how small. On the other hand, it also wants to encourage alumni to consider making larger donations when possible. Based on publicly available income data, the alumni organization recognizes that most recent graduates have lower average salaries and disposable income compared to those who have been working their fields for a decade or more. Acting on this information, it adjusts the range of “suggested donation” levels for each class. Recent alumni marking a 5-year anniversary are invited to contribute between $25 and $250. Alumni marking 10- and 15-year anniversaries are invited to contribute between $50 and $500 to class legacy funds. Alumni with 20 or more years see suggested donation amounts ranging from $150 to $2,500 or more.