MARKET SEGMENTATION ANALYSIS

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INTRO

The purpose of marketing is to match the genuine needs and desires of consumers with the offers of suppliers particularly suited to satisfy those needs and desires.This matching process benefits consumers and suppliers, and drives an organisation’s marketing planning process.

MARKET SEGMENTATION

Market segmentation is the practice of dividing your target market into approachable groups. Market segmentation creates subsets of a market based on demographics, needs, priorities, common interests, and other psychographic or behavioural criteria used to better understand the target audience. By understanding your market segments, you can leverage this targeting in **product, sales, and marketing strategies**.

Common examples of market segmentation include:
Demographic segmentation (e.g., age, gender, income)
Psychographic segmentation (e.g., lifestyle, personality, values)
Behavioral segmentation (e.g., purchasing habits, brand loyalty)
Geographic segmentation (e.g., region, urban vs. rural)
Product segmentation (e.g., by product type, benefit, or feature)

DATA DRIVEN MARKET SEGMENTATION

Data-driven market segmentation is key for business owners to gain insight into consumer behavior. It allows business owners to understand their consumers and their needs on a deeper level, giving marketers important information they need to personalize their engagement with a target audience. When conducting data-driven market segmentation, data analysts and users of market segmentation solutions often assume that market segments naturally exist in the data. Such naturally occurring segments, it is assumed, need to merely be revealed and described. In real consumer data, naturally existing, distinct and well-separated market segments rarely exist.

Steps

- Step 1: Deciding (not) to Segment
- Step 2: Specifying the Ideal Target Segment
- Step 3: Collecting Data
- Step 4: Exploring Data
- Step 5: Extracting Segments

- Step 6: Profiling Segments
- Step 7: Describing Segments
- Step 8: Selecting target segments
- Step 9: Customising the Marketing Mix
- Step 10: Evaluation and Monitoring

Implications of Committing to Market Segmentation

Market segmentation is a powerful marketing approach used by many companies, but it's not always the right choice. Before diving in, understand that this strategy requires a long-term commitment and significant investment. Think of it as a serious relationship, not a casual date. There are costs involved in researching and understanding different segments of the market. You might need to create new products, adjust existing ones, change pricing, and even how you communicate with customers. These changes can impact how your company is structured internally.

To make segmentation work, consider organizing your company around market segments rather than just products. This way, you can focus better on the changing needs of different customer groups. Just remember, before you start, be sure the potential increase in sales is worth the effort. As Cahill (2006) puts it: Segmenting a market is not free. There are costs of performing the research, fielding surveys, and focus groups, designing multiple packages, and designing multiple advertisements and communication messages. Cahill recommends not to segment unless the expected increase in sales is sufficient to justify implementing a segmentation strategy.

Implementation Barriers

Barriers:

- Senior management
- Organisational culture
- Lack of training

Senior management

The first set of obstacles is about the top leaders in the company. When senior managers don't take the lead, show strong support, commit, or get involved in market segmentation, it can harm the process. As McDonald and Dunbar explained, if the head of the company doesn't recognize the need for segmenting the market, understand how it's done, or show real interest, then it's really hard for a senior marketing person to put the findings into action in a meaningful way. Senior managers can also be an obstacle for successful market segmentation by not providing enough resources. This could be at the start when you're analyzing the segments or in the long term when you're actually carrying out the segmentation strategy.

Organisational culture

Another set of obstacles comes from how the company works together. When there's not enough focus on understanding the market or the people who buy the products, when people resist trying new things or thinking creatively, when communication isn't good between different parts of the company, and when everyone is only thinking about short-term gains, it can stop market segmentation from working well. Also, if the company's culture doesn't encourage adapting to changes or if there's too much office politics, it can get in the way of successful market segmentation.

Lack of training
Another potential problem is lack of training. If senior management and the team tasked with segmentation do not understand the very foundations of market segmentation, or if they are unaware of the consequences of pursuing such a strategy, the attempt of introducing market segmentation is likely to fail.

Step 1: Checklist

The checklist has tasks and questions. If the answers to these questions are not positive, it's like a red flag. For instance, if a company doesn't focus on what the market needs, even the best market segmentation analysis won't work well.

Tasks

- 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.

Step 2: Specifying the Ideal Target Segment

Once a business decides to segment, the next step is defining what an ideal segment looks like. This involves identifying the characteristics of the customers who would most benefit from or be interested in the product. Key considerations include:

- **Demographics**: Age, gender, income, education, family status.
- **Geographics**: Where the customers are located (local, regional, national, global).
- **Psychographics**: Customer interests, values, lifestyles.
- **Behavioral**: Purchasing behavior, loyalty, product usage. Businesses should have a clear vision of the "ideal" customer profile to guide the segmentation process.

Step 3: Collecting Data

Once the ideal segment is defined, businesses collect data from various sources to inform their segmentation efforts. The type of data needed depends on the segmenting criteria:

- **Primary Data**: Collected through surveys, interviews, or focus groups where businesses directly interact with customers.
- **Secondary Data**: Data gathered from existing sources like market research reports, public databases, or social media.
- **Internal Data**: Data businesses already have, such as transaction histories, customer service records, or web analytics. Effective segmentation relies on accurate and comprehensive data collection.

Step 4: Exploring Data

With data in hand, businesses begin exploring and analyzing it to find potential patterns. This step often involves:

- **Data Cleaning**: Removing or correcting any inaccuracies or missing information in the data.
- **Exploratory Data Analysis (EDA)**: Using statistical methods or visualization tools (like graphs and plots) to understand the underlying structure and relationships in the data.
- **Identifying Variables for Segmentation**: Based on the EDA, businesses identify variables (e.g., customer demographics, purchase behaviors) that could be useful for segmenting the market.

Step 5: Extracting Segments

Once key variables are identified, businesses use segmentation techniques to divide the market into distinct groups. This can be done using:

- **Cluster Analysis**: A machine learning technique that groups similar customers together based on chosen attributes (e.g., income, age, buying behavior).
- **Factor Analysis**: A statistical method used to reduce the number of variables while maintaining as much information as possible, revealing underlying dimensions.
- **Latent Class Analysis**: A method for finding subgroups within the data when the group structure is not clear.

The goal is to extract segments that are **distinct, homogeneous within each segment, and measurable**.

Step 6: Profiling Segments

After segments are extracted, businesses create detailed profiles for each segment. These profiles should describe the characteristics of each segment in detail:

- **Demographic profile**: Age, gender, income level, family status.
- **Behavioral profile**: Purchase history, buying motivations, brand loyalty.
- **Psychographic profile**: Lifestyle, values, hobbies, and interests.
- **Geographic profile**: Urban vs. rural, climate, regions. Profiling helps businesses understand how to tailor their strategies for each segment and informs decision-making for the next steps.

Step 7: Describing Segments

Describing segments involves creating a clear summary of each segment's key features. Businesses need to understand:

- **Needs and wants of the segment**: What drives their buying decisions.
- **Pain points**: What problems the segment is trying to solve.
- **Expectations**: What customers expect from a product or service. The description should help identify the best ways to reach and serve each segment effectively.

Step 8: Selecting Target Segments

Not all segments are worth pursuing. Businesses must select the segments that are:

- **Attractive**: Profitable, growing, and reachable through marketing efforts.
- **Aligned with business objectives**: The segment should match the company's strategic goals and vision.
- **Feasible**: The business should have the necessary resources to serve the segment effectively. Businesses may choose **one or multiple segments** based on the potential for growth and profitability (e.g., concentrated marketing for a single segment, differentiated marketing for multiple segments).

Step 9: Customizing the Marketing Mix

Once the target segments are selected, businesses adjust their **marketing mix** (the 4 Ps: Product, Price, Place, and Promotion) for each segment:

- **Product**: Tailoring the product or service to meet the unique needs of the segment.
- **Price**: Setting the right price that appeals to the segment while maintaining profitability.
- **Place (distribution)**: Ensuring the product is available where and when the segment needs it (physical stores, online platforms, etc.).
- **Promotion**: Crafting targeted messages that resonate with the segment through appropriate channels (social media, TV ads, email, etc.). Each aspect of the marketing mix should be customized to best fit the segment's characteristics and preferences.

Step 10: Evaluation and Monitoring

Segmentation is not a one-time process; it needs continuous evaluation and monitoring:

- **Performance Tracking**: Assessing how well the segmentation strategy is performing in terms of sales, customer satisfaction, and market share.
- **Adjusting Segments**: Markets evolve, and customer preferences change. Businesses should update segments periodically based on new data or shifts in the market.
- **Feedback**: Gathering feedback from customers to see if the marketing efforts are addressing their needs and desires. Evaluation and monitoring ensure that businesses remain relevant and continue meeting the needs of their target segments effectively.