Detailed Market Segmentation Steps with Case Study Based on *Market Segmentation Analysis* by Dolnicar et al.

Gajendra Diwedi

What is Market Segmentation?

- Market segmentation is the process of dividing a broad consumer or business market into sub-groups of consumers based on shared characteristics.

- These characteristics may include demographic, geographic, psychographic, or behavioral factors.

- The goal is to identify distinct groups that may require separate marketing strategies or mixes.

- Segmentation allows firms to target specific audiences more effectively, increasing relevance and impact.

- It also helps in resource allocation by focusing efforts on the most profitable or strategic segments.

- Effective segmentation improves product development, communication, and customer satisfaction.

Step 1: Deciding (Not) to Segment

- Assess if segmentation aligns with long-term strategic goals.

- Identify customer heterogeneity and need for differentiated approaches.

- Evaluate internal readiness: data, skills, systems.

- Understand costs of segmentation vs. benefits.

- Consider organizational barriers or resistance to change.

- Ensure top management commitment to the segmentation initiative.

Case Study - McDonald's:

- Identified diverse customer attitudes toward food quality and health.

- Leadership initiated segmentation to stay competitive.

- Formed internal task force for segmentation strategy.

- Leveraged analytics infrastructure for insights.

- Chose to proceed due to complexity in customer behavior.

- Ensured cross-functional alignment.

Step 2: Specifying the Ideal Target Segment

- Define knock-out criteria (e.g., segment must be reachable, profitable).

- List attractiveness factors: size, growth, brand fit, loyalty.

- Use structured decision models (e.g., scoring matrices).

- Engage cross-departmental stakeholders.

- Ensure criteria support corporate strategy.

- Assign weights to reflect priority of each criterion.

Case Study - McDonald's:

- Used six criteria including size, loyalty, price sensitivity.

- Knocked out segments not eating out often.

- Developed matrix comparing candidate segments.

- Two top segments: "Convenience Seekers" and "Health Skeptics."

- Weighted factors to reflect market strategy.

- Aligned choices with product innovation goals.

Step 3: Collecting Data

- Choose segmentation base: demographic, behavioral, psychographic.

- Design comprehensive survey instruments.

- Ensure representative sample for analysis.

- Account for response bias and survey design.

- Include relevant profiling variables for future steps.

- Validate through pilot testing.

Case Study - McDonald's:

- Surveyed 1453 Australians on 11 brand perceptions.

- Included demographic and behavioral variables.

- Binary format for simplicity (YES/NO).

- Avoided bias via alternating question framing.

- Covered variables like price perception, taste, speed.

- Data collected for profiling and modeling.

Step 4: Exploring Data

- Clean data (remove NA, duplicates, outliers).

- Convert formats (categorical to numeric).

- Run descriptive statistics (mean, mode, histograms).

- Detect correlations to avoid multicollinearity.

- Conduct PCA for dimensionality reduction.

- Verify variable distributions for modeling readiness.

Case Study - McDonald's:

- Converted YES/NO to binary.

- Ran frequency tables and correlation matrices.

- Detected overlap between certain variables.

- Dropped redundant variables after PCA.

- Standardized categorical data entries.

- Ensured data integrity pre-modeling.

Step 5: Extracting Segments

- Choose method: k-means, hierarchical, or mixture models.

- Run multiple cluster counts (3–6) for evaluation.

- Use metrics (Silhouette, Dunn index) for validity.

- Check segment stability with multiple seeds.

- Evaluate cluster interpretability and business relevance.

- Prefer models that allow uncertainty (e.g., model-based).

Case Study - McDonald's:

- Used k-means on 11 perception variables.

- Selected 4 clusters based on Silhouette score.

- Segments: "Loyal Fans," "Health Skeptics," "Neutral Occasional," and "Convenience Seekers."

- Segment interpretations aligned with business logic.

- Validated via repetition and visualization.

- Prepared for profiling based on these clusters.

Step 6: Profiling Segments

- Analyze demographics and behaviors for each segment.

- Visualize segment characteristics via bar charts or heatmaps.

- Create descriptive personas for communication.

- Identify statistically significant differences.

- Use external variables not used in clustering.

- Avoid stereotypes; base profiles on data.

Case Study - McDonald's:

- "Loyal Fans": Young adults, price-driven.

- "Health Skeptics": Older, moderate income, health-aware.

- "Neutral Occasional": Rare visits, moderate attitudes.

- "Convenience Seekers": Urban, employed professionals.

- Used bar plots for visualization.

- Included loyalty and channel use in profiles.

Step 7: Describing Segments

- Develop rich profiles using demographics, lifestyle, and media usage.

- Compare segments using statistical tests (ANOVA, chi-square).

- Highlight defining traits and differences.

- Visualize results using box plots and mosaic plots.

- Test predictor variables with regression models.

- Use results to create segment narratives.

Case Study - McDonald's:

- Used chi-square and ANOVA to identify distinct traits.

- "Loyal Fans" watched more TV ads and used coupons.

- "Health Skeptics" preferred fresh food channels.

- Applied logistic regression to predict segment membership.

- Segments showed significant media and attitude differences.

- Outputs fed into campaign and product planning.

Step 8: Selecting the Target Segment(s)

- Evaluate segments based on strategy and capability fit.

- Score segments on criteria like size, responsiveness, cost to serve.

- Identify which segment aligns best with core value proposition.

- Consider long-term loyalty potential.

- Check for feasibility in reaching the segment.

- Prioritize segment(s) for targeting.

Case Study - McDonald's:

- Scored segments based on six strategic criteria.

- "Convenience Seekers" aligned with operational strengths.

- "Loyal Fans" showed highest repeat purchase behavior.

- Decision: prioritize "Convenience Seekers," support "Loyal Fans."

- Feasibility and profitability were major drivers.

- Targeting plan approved by executive board.

Step 9: Customising the Marketing Mix

- Adapt product features for target segment preferences.

- Tailor pricing strategy to perceived value and sensitivity.

- Choose distribution channels relevant to the segment.

- Design promotional messages that resonate with segment values.

- Integrate feedback loops for refinement.

- Ensure consistency across all marketing touchpoints.

Case Study - McDonald's:

- Introduced healthier snack menu for "Convenience Seekers."

- Adjusted pricing bundles for value perception.

- Promoted quick-service guarantees in city stores.

- Ran digital campaigns on apps popular with target users.

- Used feedback from segment loyalty program to improve.

- Maintained consistent "fast and easy" branding.

Step 10: Evaluation and Monitoring

- Track KPIs tied to segmentation goals (e.g., sales, retention).

- Monitor segment evolution over time.

- Detect segment hopping or instability.

- Re-evaluate segmentation as markets shift.

- Use A/B testing to refine messages and offers.

- Update models and profiles periodically.

Case Study - McDonald's:

- Tracked repeat purchase rates per segment.

- Found "Neutral Occasional" segment shrank over time.

- Detected some "Health Skeptics" shifting to competitors.

- Refined media mix after campaign analysis.

- Used loyalty app data for continuous monitoring.

- Revisited segmentation annually for relevance.