

Market Segmentation Summary

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Step 1: Deciding (not) to segment:

Market segmentation is the process of dividing a market into distinct groups of consumers with similar needs and wants. This allows businesses to target their marketing efforts more effectively and efficiently. There are total of 10 steps in Market Segmentation.

There are a number of factors that businesses should consider when deciding whether or not to segment their market. These factors include:

- **The size and fragmentation of their market:** If a business's market is small or fragmented, it may not be cost-effective to segment.
- **The needs and wants of their customers:** If a business's customers have different needs and wants, then segmentation may be a good option.
- **Their marketing budget:** Market segmentation can be costly, so it is important to make sure that a business has the budget to implement it effectively.
- **Their resources and expertise:** Does a business have the resources and expertise to conduct market research, develop segmentation strategies, and implement separate marketing campaigns for each segment?

If a business is unsure whether or not market segmentation is right for them, it is a good idea to consult with a marketing expert.

Implications of Committing to Market Segmentation

There are a number of implications to committing to market segmentation. Some of the most important implications include:

- **Long-term commitment:** Market segmentation is a long-term strategy. It takes time and resources to develop and implement a successful segmentation strategy, and businesses need to be willing to make changes to their products, pricing, and marketing campaigns in order to target each segment effectively.
- **Cost:** Market research is essential for identifying and understanding different market segments, and this can be expensive. Additionally, businesses need to invest in developing and implementing separate marketing campaigns for each segment.
- **Complexity:** Market segmentation can be complex, especially for businesses with a large number of products or services. It can be difficult to identify and target distinct market segments, and it can be challenging to develop and implement separate marketing campaigns for each segment.

Implementation Barriers

There are a number of barriers that can prevent businesses from implementing market segmentation effectively. Some of the most common barriers include:

- **Cost:** As mentioned above, market segmentation can be costly, especially for small businesses.
- **Lack of resources:** Many businesses do not have the resources they need to conduct market research, develop segmentation strategies, and implement separate marketing campaigns for each segment.
- **Lack of expertise:** Many businesses do not have the expertise they need to implement market segmentation effectively.
- **Resistance to change:** Some businesses may be resistant to the changes required to implement market segmentation effectively.

Step 2: Specifying the Ideal Target Segment:

Segment evaluation criteria and knock-out criteria are both essential concepts in the process of market segmentation, which is a strategy used by businesses to divide a broader market into smaller, more manageable segments. These criteria help organizations identify and prioritize which market segments are worth targeting with their marketing efforts. Here's an explanation of each:

Segment Evaluation Criteria:

Segment evaluation criteria are the standards or factors used to assess the desirability and suitability of different market segments. They are used to analyse and compare segments to determine which ones align best with the organization's goals and resources. Segment evaluation criteria vary from one organization to another and may include factors such as:

1. **Substantiality:** This criterion assesses the size and potential profitability of a segment. Is the segment large enough to justify marketing efforts, and can it generate sufficient revenue?
2. **Measurability:** Can the characteristics and behaviours of the segment be quantified and tracked? Measurable segments allow for effective marketing strategies and performance evaluation.
3. **Accessibility:** How easy is it to reach and communicate with the members of the segment? Accessibility is crucial for effective marketing.
4. **Homogeneity:** Do the members of the segment share similar characteristics, needs, and preferences? Homogeneous segments are easier to target effectively.
5. **Distinctiveness:** Is the segment distinct from other segments? Distinct segments allow for tailored marketing strategies.

6. **Profitability:** What is the potential profitability of the segment? Factors such as purchasing power and price sensitivity are considered.
7. **Compatibility with Organizational Strengths:** Does the organization have the capability to meet the needs of the segment effectively?
8. **Identifiability:** Can members of the segment be easily identified in the marketplace.
9. **Reachability:** Is there a practical way to reach and engage with the members of the segment?
10. **Competitive Intensity:** What is the level of competition within the segment? Highly competitive segments may require more resources.
11. **Cultural and Ethical Considerations:** Are there cultural or ethical factors to consider when targeting this segment?
12. **Long-Term Growth Potential:** Does the segment offer long-term growth opportunities?

Knock-Out Criteria:

Knock-out criteria, on the other hand, are a subset of segment evaluation criteria and are typically considered as the essential, non-negotiable features or characteristics that a market segment must possess for an organization to consider targeting it. If a segment fails to meet any of the knock-out criteria, it is eliminated from further consideration.

For example, a common knock-out criterion might be substantiality, meaning that a segment must be large enough to be economically viable. If a segment is too small and doesn't meet this criterion, it would be "knocked out" and not pursued as a target market.

In summary, segment evaluation criteria encompass a broader set of factors used to assess and prioritize market segments, while knock-out criteria are a specific subset of these criteria, highlighting the essential features that segments must meet to be considered as viable target

markets. Both types of criteria play a crucial role in the strategic decision-making process of market segmentation.

Attractiveness Criteria:

The second set of evaluation criteria is called as attractiveness criteria. The Attractiveness criteria are used to evaluate the relative attractiveness of the remaining market segments – those in compliance with the knock-out criteria. In attractiveness criteria there is wide range of attractiveness criteria so that segmentation team have considers which criteria are mostly used in which situations. These criteria are not binary in nature. Each market segment is rated; it can be more or less attractive with respect to a specific criterion.

Implementing a Structured Process:

The most popular structured approach for evaluating market segments are use of segment evolution plot where showing segment attractiveness along one axis, and organizational competitiveness on the other axis. There are no standard criteria for attractiveness and organizational values so the segment attractiveness and organizational competitiveness values are determined by the segmentation team. Factors which constitute both segments need to be negotiated and agreed upon. To achieve this, a large number of possible criteria has to be investigated before agreement is reached on which criteria are most important for the organization.

This task can complete by team. Team proposes an initial solution and reports their choices to the advisory committee for discussion and possible modification. There are two good reasons to include this process representative.

1. Each organizational unit has a different perspective on the business of the organization.
2. If the segmentation strategy is implemented, it will affect every single unit of the organization.

We cannot complete the segment evolution plot because there is no segment available to access. But there is a huge benefit in selecting the attractiveness criteria for market segments at early stage. At the end of this step segmentation team have a list of attractiveness criteria. Criteria have

weight assign to each and ask team members to distribute 100 points according to criteria. These allocations then have to be negotiated until agreement is reached.

Step 3: Collecting Data:

Segmentation variables

Segmentation variables are specific characteristics or attributes used to divide a larger market or consumer group into smaller, more homogeneous segments. Commonsense segmentation and data-driven segmentation are two distinct approaches used in market segmentation, each relying on different methods and criteria to group consumers into segments.

Commonsense segmentation variable refers to a single characteristic or attribute used to divide a sample of consumers or market into distinct segments. For example, in commonsense segmentation, gender can be a common variable. Using gender as a segmentation variable, a market can be divided into two segments: one for women and another for men.

Descriptor variables are additional personal characteristics that complement the primary segmentation variable, offering a more comprehensive view of market segments. In this case, descriptor variables include age, vacation habits, and vacation benefit preferences, enhancing our understanding of each segment's behavior and needs.

Unlike commonsense segmentation, data-driven segmentation considers multiple factors simultaneously. For instance, it can identify tourist segments seeking relaxation, culture, and social interaction while not prioritizing action and exploration during vacations.

In both commonsense and data-driven segmentation, data quality is crucial for accurately assigning individuals to the right segments and describing them effectively. Empirical data for segmentation can come from surveys, observations, or experiments, but surveys may not always provide an accurate reflection of consumer behavior. Researchers should explore various data sources to find the most representative data for their segmentation efforts.

Segmentation criteria

Before conducting market segmentation, organizations must decide on the segmentation criterion, a fundamental choice that defines the nature of the information used for segmentation. The selection of the criterion requires market knowledge and often depends on factors like profitability, consumer preferences, and product appeal. Whether it's demographic, geographic, or

psychographic segmentation, the focus should be on what works for your specific offering. While psychographic segmentation may seem more attractive, simplicity and alignment with your target audience's needs should take precedence over sophistication. In essence, better segmentation is what aligns with your product's requirements while keeping costs in check.

1) Geographic Segmentation

Geographic segmentation, using consumers' locations of residence as the primary criterion, has traditionally been a fundamental approach for market segmentation. It's often suitable when factors like language or regional preferences are crucial, such as in tourism. For instance, Austria's national tourism organization tailors its offerings to nearby countries with different languages. Global giants like Amazon and IKEA also adjust their services based on geographic locations.

The advantage of geographic segmentation is its ease in assigning consumers to regions for targeted communication. However, it falls short in explaining product preferences, as socio-demographic factors often play a more significant role. Even within the same country, diverse holiday preferences exist due to factors like relationship status and interests, revealing that location alone doesn't fully capture consumer choices.

Geographic information has seen a resurgence in international market segmentation, enabling segmentation across borders. Still, surveys with respondents from diverse cultural backgrounds may introduce biases. For example, Haverila (2013) effectively segmented young mobile phone users across national borders using this approach.

Socio-demographic segmentation

Socio-demographic segmentation relies on criteria like age, gender, income, and education, which can be valuable in specific industries. For instance, it's useful in luxury goods (linked to high income), cosmetics (gender-specific targeting), baby products (gender-related), retirement villages (age-related), and tourism resorts (family-oriented). The advantage lies in the ease of assigning consumers to segments. While socio-demographics may explain some product preferences, they often fall short in providing comprehensive market insights. Research indicates that demographics explain only about 5% of consumer behavior variance. Some experts argue that values, tastes, and preferences hold more influence over consumers' buying decisions, making them more valuable for segmentation.

2) Psychographic segmentation

Psychographic segmentation involves categorizing people based on psychological criteria like beliefs, interests, preferences, aspirations, or the benefits they seek when buying a product. It

encompasses a range of measures related to the mind. One prominent form of psychographic segmentation is benefit segmentation, which focuses on identifying specific benefits consumers seek. Psychographic criteria are inherently more complex than geographic or socio-demographic factors because they require considering multiple variables to capture the psychological dimension effectively. This approach allows for a richer understanding of consumer behavior and preferences.

This approach to segmentation offers a more insightful understanding of consumer behavior by delving into the underlying reasons behind it. For instance, tourists primarily motivated by cultural exploration are more likely to choose destinations rich in cultural treasures. This approach has been frequently employed in data-driven market segmentation in tourism, using travel motives as a basis. However, it comes with the challenge of increased complexity in determining consumer segment memberships. Moreover, its effectiveness relies on the reliability and validity of the measures used to capture psychographic dimensions of interest.

3)Behavioural segmentation

Behavioural segmentation involves grouping individuals based on their actual behaviours or reported behaviors, such as prior product experience, purchase frequency, spending patterns, or information-seeking behavior. When using actual behavior as the basis for segmentation, it focuses on the most relevant similarity among consumers. This approach can be advantageous because it avoids the need for developing measures for psychological constructs and directly uses the behavior of interest for segmentation. However, obtaining behavioural data may not always be feasible, especially when including potential customers who haven't previously purchased the product in the segmentation analysis.

Step 4: Exploring Data

Exploratory data analysis is the process of cleaning and pre-processing data to identify measurement levels, investigate univariate distributions, and assess dependency structures between variables. It also helps to identify measurement levels, investigate univariate distributions, and assess dependency structures between variables. Results from the data exploration stage provide insights into the suitability of different segmentation methods for extracting market segments.

The first step before beginning data analysis is to clean the data. In this step, collected data is explored to extract information about it. Which kind of data it contains, size of database, which

attribute is more effective, how data can be segmented etc. So, after data collection, exploratory data analysis cleans and – if necessary – pre-processes the data. This exploration stage also offers guidance on the most suitable algorithm for extracting meaningful market segments. At a more technical level, data exploration helps to (1) Identify the measurement levels of the variables

(2) Investigate the univariate distributions of each of the variables

(3) Assess dependency structures between variables.

In R we obtain a numeric summary of the data with command `summary`, which returns the range, quartiles, and mean for numeric variables. Graphical methods for numeric data include histograms, boxplots, scatter plots and Bar plots.

Principal components analysis (PCA) is a technique used to transform a multivariate data set containing metric variables into a new data set with uncorrelated and ordered principal components. PCA works off the covariance or correlation matrix of several numeric variables. In most cases, the transformation obtained from PCA is used to project high-dimensional data into lower dimensions for plotting purposes. In this case, only a subset of principal components is used.

Step: 5 Extracting Segments

Data-driven market segmentation analysis is exploratory by nature, as consumer data sets are typically not well structured. The results from any method used to extract market segments from such data will depend on the assumptions made on the structure of the segments implied by the method.

Many segmentation methods used to extract market segments are taken from the field of cluster analysis. In that case, market segments correspond to clusters. It is important to explore market segmentation solutions derived from a range of different clustering methods. It is also important to understand how different algorithms impose structure on the extracted segments. Market segmentation aims at grouping consumers into groups with similar needs or behaviour. Then we need to apply various clustering algorithm to check results, i.e.; Kmeans, DBScan, Hierarchical, mean-shift, etc.

Step: 6 Profiling Segments

The aim of the profiling step is to get to know the market segments resulting from the extraction step. Profiling consists of characterising the market segments individually, but also in comparison

to the other market segments. In this step we inspect the number of alternative market segmentation solutions. Profiling is a correct interpretation of the resulting segments, which is critical to making good strategic marketing decisions. A good way to understand the defining characteristics of each segment is to produce a segment profile plot. The segment profile plot shows – for all segmentation variables – how each market segment differs from the overall sample.