



TEN STEPS OF MARKET SEGMENT ANALYSIS

HIMANSHU SHARMA
FEYNN LABS

Summary

Step 1: Deciding (not) to Segment

1.1 Implications of Committing to Market Segmentation

- **Understanding Commitment:** Deciding to engage in market segmentation is a significant strategic choice for any business. This decision implies a commitment to understanding and addressing the diverse needs and preferences of different customer groups.
- **Resource Allocation:** It involves allocating resources specifically for the process of segmentation, including time, money, and human resources.
- **Long-term Strategy:** Market segmentation should be viewed as a long-term strategic decision rather than a one-time activity.

1.2 Implementation Barriers

- **Data Collection:** One of the primary barriers is the need for detailed and accurate data about potential market segments.
- **Analysis Expertise:** There is a requirement for expertise in analysing and interpreting the segmentation data.
- **Organizational Willingness:** The organization must be willing to adapt and reorient strategies based on segmentation insights, which might involve significant changes in product development, marketing, and customer service approaches.

1.3 Step 1 Checklist

- **Organizational Readiness:** Assess if the organization is ready to commit to the segmentation process.
- **Resource Assessment:** Determine if the necessary resources (data, tools, expertise) are available or can be procured.
- **Strategic Alignment:** Check if market segmentation aligns with the overall business strategy and long-term goals.
- **Stakeholder Buy-in:** Ensure that key stakeholders understand and support the segmentation initiative.

This first step is crucial as it sets the foundation for the entire segmentation process. It requires a thorough assessment of the organization's capabilities and a strategic decision on whether to proceed with market segmentation.

Step 2: Specifying the Ideal Target Segment

2.1 Segment Evaluation Criteria

- **Defining Criteria:** Establish criteria to evaluate and identify the most suitable market segments. This involves determining which segments are most viable and have the potential to meet the company's objectives.

2.2 Knock-Out Criteria

- **Identifying Deal-Breakers:** Set 'knock-out' criteria to eliminate segments that do not meet essential requirements. These could include factors like insufficient size, lack of profitability, or misalignment with the company's brand or values.

2.3 Attractiveness Criteria

- **Assessing Potential:** Determine the attractiveness of each segment based on factors like size, growth potential, accessibility, and compatibility with the company's capabilities and strategic goals.

2.4 Implementing a Structured Process

- **Structured Approach:** Implement a structured process for segment evaluation. This involves systematic data analysis and decision-making to ensure that the chosen segments are the most appropriate for the company's goals.

2.5 Step 2 Checklist

- **Criteria Validation:** Ensure that the segment evaluation criteria are comprehensive and align with the business objectives.
- **Segment Screening:** Apply knock-out and attractiveness criteria to screen potential segments.
- **Strategic Fit:** Evaluate whether the shortlisted segments align well with the company's strategic direction and resources.
- **Consensus Building:** Involve key stakeholders in the process to build consensus around the target segments.

This step involves refining the segmentation process by identifying valuable segments aligned with company goals through a blend of data analysis and strategic thinking.

Step 3: Collecting Data

3.1 Segmentation Variables

- **Identifying Variables:** Choose relevant variables for segmentation. These can include geographic, socio-demographic, psychographic, and behavioural aspects.

3.2 Segmentation Criteria

- **Geographic Segmentation:** Involves segmenting the market based on location such as regions, cities, or countries.
- **Socio-Demographic Segmentation:** Includes variables like age, gender, income, education, and occupation.
- **Psychographic Segmentation:** Focuses on lifestyle, values, attitudes, and interests of consumers.
- **Behavioural Segmentation:** Based on consumer behaviours such as purchase history, brand loyalty, and product usage.

3.3 Data from Survey Studies

- **Choice of Variables:** Select appropriate variables for surveys.
- **Response Options:** Design surveys with clear and relevant response options.
- **Response Styles:** Consider different styles of responses to ensure accurate data collection.
- **Sample Size:** Determine the optimal sample size for reliable data.

3.4 Data from Internal Sources

- Utilize existing internal data like sales records, customer feedback, and previous marketing campaign results.

3.5 Data from Experimental Studies

- Consider experimental data for more nuanced insights into consumer behaviour and preferences.

3.6 Step 3 Checklist

- **Comprehensive Data Collection:** Ensure that the data collected covers all necessary segmentation variables.
- **Quality of Data:** Verify the quality and reliability of the data sources. Data
- **Relevance:** Check if the data is relevant and recent to ensure accurate segmentation.
- **Ethical Considerations:** Ensure that data collection methods are ethical and comply with legal standards.

This step is vital for the segmentation process as it involves gathering the necessary data to identify and understand the potential market segments. It requires a careful selection of variables and data sources to ensure a comprehensive and accurate understanding of the market.

Step 4: Exploring Data

4.1 A First Glimpse at the Data

- **Initial Review:** Start with an initial examination of the collected data to get a general understanding of its structure and content.

4.2 Data Cleaning

- **Removing Irregularities:** Clean the data by removing inconsistencies, missing values, and outliers.
- **Ensuring Accuracy:** Verify the accuracy and completeness of the data to ensure reliable analysis.

4.3 Descriptive Analysis

- **Understanding Data Characteristics:** Conduct a descriptive analysis to understand basic features of the data such as mean, median, mode, range, and standard deviation.
- **Identifying Patterns:** Look for patterns or trends in the data that could indicate potential segments.

4.4 Pre-Processing

- **Categorical Variables:** Convert categorical variables into a format suitable for analysis.

- **Numeric Variables:** Normalize or scale numeric variables to ensure comparability.

4.5 Principal Components Analysis (PCA)

- **Dimensionality Reduction:** Use PCA to reduce the dimensionality of the data, helping to identify the most significant variables.
- **Insight Extraction:** Extract insights from PCA to understand underlying structures in the data.

4.6 Step 4 Checklist

- **Data Quality Assurance:** Confirm that the data is clean, accurate, and well-organized.
- **Analytical Readiness:** Ensure the data is prepared for advanced analytical techniques.
- **Initial Insights:** Note any initial insights or patterns that emerge from the exploratory analysis.
- **Preparation for Segmentation:** Verify that the data is now in a suitable state for extracting segments.

This step is critical for preparing the data for segmentation. It involves detailed exploration and preparation of the data to ensure that subsequent segmentation is based on accurate and meaningful information. The process of cleaning, analysing, and pre-processing the data sets the stage for effective segmentation.

Step 5: Extracting Segments

5.1 Grouping Consumers

- **Consumer Grouping:** Begin the process of grouping consumers based on similarities in the data. This is the core of the segmentation process.

5.2 Distance-Based Methods

- **Distance Measures:** Use distance measures to determine how similar or different data points are.
- **Hierarchical Methods:** Apply hierarchical clustering methods to build a tree of clusters. Example: Tourist Risk Taking
- **Partitioning Methods:** Implement methods like k-Means and k-Centroid clustering, improved k-Means, hard competitive learning, neural gas, and topology representing networks. Examples include self-organising maps and neural networks.

- **Hybrid Approaches:** Combine different methods for more robust clustering. Examples: Two-Step Clustering, Bagged Clustering

5.3 Model-Based Methods

- **Finite Mixtures of Distributions:** Use mixtures of different distribution types like normal and binary distributions. Example: Australian Travel Motives
- **Finite Mixtures of Regressions:** Apply mixtures of regression models.
- **Extensions and Variations:** Explore different extensions and variations of these models for better fit.

5.4 Algorithms with Integrated Variable Selection

- **Biclustering Algorithms:** Utilize biclustering for simultaneous clustering of rows and columns. Example: Australian Vacation Activities
- **Variable Selection for Clustering Binary Data (VSBD):** Implement specific algorithms for binary data.
- **Variable Reduction:** Use factor-cluster analysis for reducing variables while clustering.

5.5 Data Structure Analysis

- **Cluster Indices:** Use internal and external cluster indices to assess cluster quality.
- **Gorge Plots:** Implement gorge plots for visual analysis of clusters. Global Stability Analysis: Evaluate the overall stability of the segmentation. Example: Tourist Risk Taking
- **Segment Level Stability Analysis:** Assess the stability of individual segments across solutions.

5.6 Step 5 Checklist

- **Effective Grouping:** Ensure that consumer groups are formed effectively based on the chosen methods.
- **Method Suitability:** Confirm that the selected methods are suitable for the data and segmentation objectives.
- **Quality of Segments:** Evaluate the quality and distinctiveness of the extracted segments.
- **Stability of Segmentation:** Assess the stability and reliability of the segmentation results.

This step is about the actual segmentation of the market based on the data prepared in the previous steps. It involves using various clustering methods and analytical

techniques to group consumers into distinct segments. This phase is crucial as it defines the market segments that will be targeted in the marketing strategy.

Step 6: Profiling Segments

6.1 Identifying Key Characteristics of Market Segments

- **Characteristic Identification:** Determine the defining characteristics of each market segment. This includes understanding the unique attributes, needs, and behaviours of the consumers in each segment.

6.2 Traditional Approaches to Profiling Market Segments

- **Traditional Methods:** Utilize traditional profiling methods, which may involve demographic, geographic, psychographic, and behavioural dimensions to describe each segment.

6.3 Segment Profiling with Visualizations

- **Visual Profiling:** Employ visual tools to help in understanding and communicating the characteristics of each segment.
 - i. **Identifying Defining Characteristics:** Use visualizations to highlight the unique aspects of each segment.
 - ii. **Assessing Segment Separation:** Visual tools can also be used to assess how distinct each segment is from the others.

6.4 Step 6 Checklist

- **Comprehensive Profiling:** Ensure that the profiling comprehensively covers the key characteristics of each segment.
- **Accuracy of Profiles:** Verify the accuracy and representativeness of the profiles created for each segment.
- **Usefulness of Visualizations:** Assess whether the visualizations effectively aid in understanding and differentiating the segments.
- **Strategic Relevance:** Check that the profiles are relevant and useful for strategic decision-making in marketing.

This step is about creating detailed profiles for each identified market segment. It involves analysing and summarizing the unique characteristics and needs of each segment, often using both traditional methods and visualizations. This profiling is essential as it forms the basis for developing tailored marketing strategies for each distinct segment.

Step 7: Describing Segments

7.1 Developing a Complete Picture of Market Segments

- **Comprehensive Description:** Focus on developing a thorough and detailed description of each segment, encompassing all relevant characteristics and behaviours.

7.2 Using Visualizations to Describe Market Segments

- **Enhancing Understanding:** Employ visual tools to enhance understanding and presentation of segment characteristics.
 - i. **Nominal and Ordinal Descriptor Variables:** Visualize categories and orders within segments.
 - ii. **Metric Descriptor Variables:** Use visual tools to illustrate quantitative data related to segments.

7.3 Testing for Segment Differences in Descriptor Variables

- **Comparative Analysis:** Perform tests to identify significant differences between segments in various descriptor variables. This helps in understanding the uniqueness of each segment.

7.4 Predicting Segments from Descriptor Variables

- **Predictive Modelling:** Use models to predict segment membership based on descriptor variables.
 - i. **Binary Logistic Regression:** Employed for predictions in two-segment scenarios.
 - ii. **Multinomial Logistic Regression:** Useful when dealing with multiple segments. Tree-Based Methods: Implement decision trees and similar approaches for segment prediction.

7.5 Step 7 Checklist

- **Depth of Description:** Ensure that the descriptions of each segment are deep and encompass all relevant aspects.
- **Effectiveness of Visualizations:** Check if visualizations effectively convey the characteristics of each segment.
- **Accuracy of Predictive Models:** Verify the accuracy and reliability of the models used in predicting segment membership.
- **Differential Analysis:** Confirm that the comparative analysis clearly highlights the differences between segments.

In this step, the focus is on a detailed and nuanced description of each market segment. It involves both qualitative and quantitative analysis, using visual tools and predictive modelling to understand and communicate the unique aspects of each segment. This descriptive detail is crucial for tailoring marketing strategies and messages to each distinct segment.

Step 8: Selecting (the) Target Segment(s)

8.1 The Targeting Decision

- **Making the Choice:** Decide which of the identified segments to target. This decision is based on the segment's alignment with the company's objectives and resources.

8.2 Market Segment Evaluation

- **Evaluating Segments:** Assess the potential of each segment in terms of profitability, size, accessibility, and alignment with the company's strategic goals.
- **Comparative Analysis:** Compare segments against each other to determine which offer the best opportunities for success.

8.3 Testing for Segment Differences in Descriptor Variables

- **Comparative Analysis:** Perform tests to identify significant differences between segments in various descriptor variables. This helps in understanding the uniqueness of each segment.

8.4 Step 8 Checklist

- **Alignment with Objectives:** Ensure the chosen segments align with the company's overall business objectives.
- **Resource Allocation:** Confirm that the necessary resources (budget, personnel, technology) are available to effectively target the selected segments.
- **Market Potential:** Evaluate the market potential of the segments in terms of growth, profitability, and sustainability.
- **Stakeholder Agreement:** Gain consensus among key stakeholders on the target segments.

This step is about making strategic decisions on which market segments to target. It involves a careful evaluation of each segment's potential and alignment with the

company's goals and resources. The aim is to select segments that offer the most promise for successful engagement and profitability.

Step 9: Customising the Marketing Mix

9.1 Implications for Marketing Mix Decisions

- **Strategic Adjustments:** Understand how segmentation affects decisions related to the marketing mix (Product, Price, Place, Promotion).
- **Tailored Approaches:** Develop tailored marketing strategies for each target segment to address their specific needs and preferences.

9.2 Product

- **Product Differentiation:** Customize or develop products to meet the unique needs of each target segment.
- **Product Variation:** Offer variations of a product to cater to different segments.

9.3 Price

- **Pricing Strategies:** Implement pricing strategies that reflect the purchasing power and perceived value of the product in each segment.
- **Discounts and Incentives:** Consider segment-specific discounts or incentives to enhance appeal.

9.4 Place

- **Distribution Channels:** Choose distribution channels that best reach each target segment.
- **Location Strategy:** Tailor the location strategy to ensure product availability where the target segments are most likely to shop.

9.5 Promotion

- **Promotional Activities:** Design promotional activities that resonate with the characteristics and preferences of each segment.
- **Communication Channels:** Utilize the most effective communication channels for reaching each segment.

9.6 Step 9 Checklist

- **Marketing Mix Alignment:** Ensure that the marketing mix elements are well-aligned with the characteristics and needs of the target segments.
- **Effectiveness of Strategies:** Assess the effectiveness of product, price, place, and promotion strategies for each segment.
- **Resource Optimization:** Confirm that resources are being optimally used for marketing to each segment.
- **Consistency with Brand Image:** Maintain consistency with the overall brand image and values in all segment-specific marketing activities.

This step is focused on customizing the marketing mix for each target segment identified in the previous steps. It involves adapting products, pricing, distribution (place), and promotional strategies to meet the specific needs and preferences of each segment. This customization is essential for effectively engaging with each segment and maximizing the impact of marketing efforts.

Step 10: Evaluation and Monitoring

10.1 Ongoing Tasks in Market Segmentation

- **Continuous Improvement:** Market segmentation is not a one-time activity but requires ongoing evaluation and adaptation.
- **Responding to Changes:** Be prepared to modify segmentation and marketing strategies in response to market changes, consumer behaviour shifts, or competitive actions.

10.2 Evaluating the Success of the Segmentation Strategy

- **Success Metrics:** Establish metrics to measure the success of the segmentation strategy, such as market share growth, customer satisfaction, and profitability.
- **Performance Analysis:** Regularly analyse these metrics to assess the effectiveness of the segmentation and the marketing efforts directed at each segment.

10.3 Stability of Segment Membership and Segment Hopping

- **Monitoring Stability:** Monitor the stability of segment membership over time.
- **Addressing Segment Hopping:** Be aware of and address instances where customers move between segments (segment hopping), which may necessitate adjustments in marketing strategies.

10.4 Segment Evolution

- **Adapting to Evolution:** Recognize that market segments can evolve. Stay attuned to these changes and adapt strategies accordingly. Example: Winter Vacation Activities

10.5 Step 10 Checklist

- **Effectiveness of Evaluation Methods:** Ensure that the methods used to evaluate the segmentation strategy are effective and provide actionable insights.
- **Adaptability to Market Dynamics:** Assess the ability of the organization to adapt to changes in market segments and consumer behaviour.
- **Long-term Viability:** Evaluate the long-term viability of the chosen segments and the sustainability of the marketing strategies employed.
- **Feedback Integration:** Incorporate feedback from evaluations into future segmentation and marketing strategies.

This final step is about the ongoing evaluation and monitoring of the market segmentation strategy. It involves regularly assessing the effectiveness of the segmentation and the tailored marketing approaches for each segment. This step is crucial for ensuring that the segmentation remains relevant and effective over time, adapting to changes in the market and consumer behaviour.

Github Link:

https://github.com/hsallrounder/Market-Segment-Analysis_Fast-Food