

Summary for Market Segmentation

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(from step 1 to 4)

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Steps of Market Segmentation Analysis

Step 1: Deciding (not) to Segment

1.1 Implications of Committing to Market Segmentation

Market segmentation is a pivotal strategy in contemporary marketing, yet its pursuit demands careful consideration due to its long-term implications for organizations. This summary delves into the significance of committing to market segmentation, emphasizing its enduring nature akin to a marital commitment. It explores the strategic, operational, and organizational adjustments necessitated by segmentation strategies and underscores the imperative of executive-level decision-making and organizational alignment.

1.1.1. Implications of Market Segmentation Strategy:

A. Long-Term Commitment:

- Market segmentation demands a sustained commitment from organizations.
- It requires substantial investments in resources and necessitates enduring adjustments across various facets of the business

B. Strategic Adjustments:

- Implementing segmentation often entails developing new products, modifying existing ones, and adapting pricing and distribution channels
- Communication strategies must be tailored to resonate with diverse market segments, adding to the operational complexity

C. Organizational Restructuring:

- Organizations may need to reorganize around market segments rather than product lines.
- Strategic business units aligned with segments ensure ongoing focus on evolving market needs and facilitate efficient resource allocation.

1.1.2 Executive-Level Decision Making:

- The decision to pursue market segmentation should be made at the highest executive level.
- It necessitates a thorough assessment of potential benefits against the costs and resources required for implementation

1.1.3 Communication and Reinforcement:

- Organizational commitment to segmentation must be systematically communicated and reinforced across all levels and units.
- Continuous alignment ensures sustained focus and commitment to serving diverse market segments effectively

Market segmentation presents significant opportunities for organizations to better serve diverse customer needs and enhance competitiveness. However, its pursuit requires a steadfast, long-term commitment from organizations. Strategic, operational, and organizational adjustments are essential to effectively implement segmentation strategies. Executive-level decision-making and organizational alignment are paramount to ensure sustained commitment and success in leveraging market segmentation for strategic advantage

1.2 Implementation Barriers:

Implementing market segmentation strategies in organizations can face numerous barriers, as highlighted in various books including those by Dibb and Simkin (2008), Croft (1994), and McDonald and Dunbar (1995). This summary report outlines key barriers and suggests strategies for overcoming them.

1.2.1 Key Barriers:

A. Senior Management:

- Lack of leadership and commitment from senior management can hinder successful implementation
- Insufficient resource allocation for analysis and implementation also poses a challenge.

B. Organizational Culture:

- Factors like resistance to change, poor communication, and short-term thinking within the organizational culture can impede progress.
- The absence of a formal marketing function or qualified experts exacerbates these challenges.

C. Training and Knowledge:

- Inadequate understanding of market segmentation fundamentals among senior management and teams can lead to failure.
- The lack of qualified data managers and analysts further complicates matters.

D. Objective Restrictions:

- Financial constraints and structural limitations within the organization may restrict the pursuit of segmentation strategies
- Process-related barriers such as unclear objectives and lack of planning also hinder progress.

E. Operational Challenges:

- Management's reluctance to embrace unfamiliar techniques can hinder acceptance.
- Simplifying segmentation analysis and presenting results in an understandable format can help overcome this barrier.

1.3 Step 1 Checklist:

The Step 1 Checklist acts as a crucial tool for assessing an organization's readiness to undertake market segmentation. It includes key questions, serving as knock-out criteria if not answered affirmatively. Key aspects evaluated include the organization's market orientation, willingness to adapt, long-term perspective, openness to innovation, communication effectiveness, capacity for change, and financial resources. If any of these criteria are not met, serious consideration is warranted before proceeding with segmentation efforts. This checklist underscores the importance of organizational readiness for successful segmentation implementation.

Step 2: Specifying the Ideal Target Segment:

2.1 Segment Evaluation Criteria:

In the third layer of market segmentation analysis, user input plays a central role. For effective results, the organization's involvement should extend beyond a mere briefing at the start or marketing mix development at the end. The organization's active participation, especially in defining segment evaluation criteria, is critical throughout the process. This involvement guides subsequent steps, particularly data collection and target segment selection. The organization must establish two sets of evaluation criteria: knock-out criteria, which are non-negotiable features for targeting segments, and attractiveness criteria, used to assess remaining segments. While the literature doesn't always distinguish between these

criteria, a diverse range of proposed criteria is available. These criteria are essential for the segmentation team to evaluate and select the most attractive market segments effectively

2.2 Knock-Out Criteria:

Knock-out criteria serve as fundamental filters in market segmentation, determining if identified market segments are suitable for further evaluation. Proposed initially by Kotler (1994) and expanded upon by subsequent authors, these criteria include attributes like homogeneity, distinctiveness, size, organizational alignment, identifiability, and reachability of segment members. Understanding these criteria is crucial for senior management, the segmentation team, and the advisory committee involved in the process. While most criteria are straightforward, some may require specific definitions, such as minimum viable segment size. This summary provides an overview of the importance and components of knock-out criteria in market segmentation analysis.

2.3 Attractiveness Criteria:

Apart from the essential knock-out criteria, there's a broad set of segment attractiveness criteria for the segmentation team to ponder. While knock-out criteria are a yes/no assessment, attractiveness criteria involve rating each segment's appeal on a sliding scale. Segments aren't simply categorized as suitable or unsuitable; rather, they're assessed based on their attractiveness across various factors. The culmination of attractiveness ratings helps determine which segments are chosen as targets in Step 8 of the segmentation analysis. This overview underscores the nuanced evaluation process involved in segment selection.

2.4 Implementing a Structured Process:

In market segmentation analysis, adopting a structured approach is widely acknowledged as beneficial, as indicated by scholars such as Lilien and Rangaswamy (2003) and McDonald and Dunbar (2012). One effective method involves using a segment evaluation plot, which juxtaposes segment attractiveness and organizational competitiveness. The segmentation team determines the values for these factors, considering various criteria essential for organizational success. Collaboration among team members from diverse organizational units is key to ensuring comprehensive perspectives. While the segment evaluation plot is not finalized in the initial stages, early selection of attractiveness criteria streamlines subsequent data collection and target segment selection. By the end of this step, the team should have a concise list of approximately six weighted criteria, reflecting their importance to the organization. Negotiating these weights and seeking approval from the advisory committee ensures alignment with organizational objectives and stakeholder perspectives

2.5 Step 2 Checklist:

The Step 2 Checklist guides the segmentation team through essential tasks in market segmentation. They begin by agreeing on knock-out criteria like homogeneity and size, which automatically eliminate unsuitable segments. These criteria are then presented to the advisory committee for discussion. Next, the team studies criteria for segment attractiveness and selects a maximum of six. Each member allocates 100 points across these criteria based on importance. They discuss and agree on weightings, presenting them to the advisory committee for further discussion. This checklist ensures a structured approach to defining criteria and weightings for segment evaluation.

Step 3: Collecting Data

3.1 Segmentation Variables:

Market segmentation relies on empirical data to create targeted marketing strategies. Two approaches, commonsense and data-driven segmentation, use different methods to identify segments. Commonsense segmentation typically involves using a single variable like gender to divide consumers, while data-driven segmentation uses multiple variables, such as benefits sought, for segment creation. Quality data is crucial for accurate segmentation and effective marketing. Sources of empirical data include surveys, observations, and experiments, with preference given to data reflecting actual consumer behaviour. Surveys, while common, may not always accurately capture behaviour, emphasizing the importance of exploring diverse data sources for reliable segmentation analysis.

3.2 Segmentation Criteria:

Before diving into market segmentation, organizations must determine the criteria they'll use to divide their audience. These criteria, known as segmentation criteria, range from geographic and sociodemographic factors to psychographic and behavioural traits. The choice of criteria depends on the organization's understanding of its market. While numerous options exist, it's wise to opt for the simplest criterion that effectively targets the desired audience. This approach ensures efficient segmentation without unnecessary complexity or cost.

3.2.1 Geographic Segmentation:

In marketing, geographic segmentation, which divides markets based on consumers' locations, is a fundamental strategy, especially for reaching diverse audiences across regions. It's a tactic often used by organizations like tourism boards and global retailers such as Amazon and IKEA. By tailoring messages and offerings to specific geographic areas, companies can effectively target their desired markets. However, it's important to note that living in the same area doesn't necessarily mean people share the same preferences or behaviours. Despite this limitation, geographic segmentation is gaining renewed attention in international market studies, where researchers aim to identify segments across borders. These studies require careful consideration of cultural differences and biases to ensure accurate results.

3.2.2 Socio-Demographic Segmentation:

Socio-demographic segmentation, which divides consumers based on factors like age, gender, income, and education, is commonly used in various industries such as luxury goods, cosmetics, and tourism. While it offers clear segment identification and can sometimes explain specific product preferences, it may not always provide deep insights into consumer behaviour. Research suggests that socio-demographics explain only a small portion of consumer behaviour compared to factors like values and preferences.

3.2.3 Psychographic Segmentation:

Psychographic segmentation is about sorting people based on their beliefs, interests, and what they want from products. It's trickier than other types of segmentation because it dives into the mind. But once you figure it out, you can really understand why people buy stuff. It's like finding out that some travellers love exploring new cultures, so they'll choose destinations with lots of history and art. It's a bit tough to do, but if you get it right, you can connect with customers in a way that feels personal to them.

3.2.4 Behavioural Segmentation:

Instead of just looking at where people live or basic demographics like age and income, market researchers can also group them based on their behavior. This could be how often they buy something, how much they spend, or even how they search for information. Research suggests that understanding what people do can sometimes be more useful for grouping them than just their basic characteristics. The advantage of this approach is that it's based on real actions rather than just what people say they'll do. However, getting this kind of data can sometimes be a challenge, especially if you're trying to include people who haven't bought your product yet.

3.3 Data from Survey Studies

Market segmentation often relies on survey data, which is easy and affordable to collect. However, survey data can be influenced by biases, affecting the quality of segmentation solutions. Several key aspects need to be considered when using survey data.

3.3.1 Choice of Variables:

It's crucial to select the right variables for segmentation, avoiding unnecessary ones that can make surveys lengthy and tiresome for respondents. Noisy or irrelevant variables can obscure the identification of optimal market segments.

3.3.2 Response Options:

Binary or metric response options are preferable for segmentation analysis as they facilitate statistical procedures. Other response options, such as ordinal scales, may complicate distance measurement and analysis.

3.3.3 Response Styles:

Surveys may capture biases like response styles, where respondents consistently answer in a particular way regardless of the question. These biases can impact segmentation results and must be minimized during analysis.

3.3.4 Sample Size:

Sample size is critical for segmentation analysis. Larger sample sizes generally lead to more accurate segmentation solutions. However, the relationship between sample size and solution accuracy varies based on market and data characteristics. A sample size of at least 100 respondents per segmentation variable is recommended for reliable results.

Collecting high-quality, unbiased survey data with appropriate variables, response options, and sample sizes is essential for effective market segmentation analysis. Internal data sources offer valuable insights but may be biased toward existing customers

3.4 Data from Internal Sources:

In today's business world, companies are using their own data to understand their customers better. This data includes things like what people buy in stores, their travel bookings, and what they purchase online. One big advantage of this data is that it shows what people actually do, rather than just what they say they'll do. It's also easy to get since it's often automatically collected.

ut there's a catch: this data might mainly show what current customers are doing, leaving out potential new customers. This could give a skewed picture of the market. So while internal data is helpful, companies need to be careful not to rely solely on it for understanding their customers.

3.5 Data from Experimental Studies:

Experimental data is another useful source for market segmentation. It comes from tests and studies, like trying out different ads to see how people react. These tests can happen in real life or in a controlled lab. Another type involves asking people to choose between different products with different features. Their choices help figure out what matters most to them when they decide what to buy.

3.6 Step 3 Checklist:

The team meets to figure out which traits can help split consumers into different groups. They also discuss what other details they need to understand each group better. Then, they decide the best way to gather data without mistakes. Finally, they start collecting the data they need.

Step 4: Exploring Data:

4.1 A First Glimpse at the Data:

In the initial phase of our analysis, we delve into the dataset to gain insights and prepare it for further examination. This involves a process known as exploratory data analysis (EDA), where we clean and preprocess the data to ensure its suitability for analysis. Through EDA, we assess various aspects of the dataset such as the types of data we have, how it's distributed, and whether any information is missing. Utilizing a dataset focused on travel motives reported by 1000 Australian residents, we demonstrate the steps involved in this exploration. It's worth noting that before diving into analysis, the dataset can be conveniently explored using spreadsheet software. Following the exploration phase, we engage in data cleaning to rectify any discrepancies and ensure the dataset's integrity. This includes addressing issues like missing data, as observed in our dataset's income information. By systematically cleaning and preparing the data, we lay a solid foundation for subsequent analysis and insights generation.

4.2 Data Cleaning:

This section underscores the importance of data cleaning before analysis. It ensures accurate recording and consistent labelling of variables. For metrics like age, ranges are predefined to spot outliers indicating errors. Categorical variables like gender are checked for valid values. In the Australian travel dataset, "Income2" categories need sorting. Using R, categories are reordered, ensuring reproducibility. Cross-tabulation verifies correctness before overwriting the original dataset. All transformations are documented for reproducibility and future analysis. This disciplined approach ensures consistency and efficiency in ongoing analysis and monitoring.

4.3 Descriptive Analysis:

Descriptive Analysis stresses the importance of understanding data before jumping into complex analyses. It explains how we use numbers and graphs to get insights from our data. In R, a software for data analysis, we can get a summary of our data using the `summary()` command. This gives us numbers like the range and average for numbers, and counts for

categories. We can also use graphs like histograms and boxplots to see our data visually. For example, histograms show how often different values occur, while boxplots give a summary of our data's spread.

One cool thing we do in R is creating graphs to see patterns in our data. For instance, we can use a dot chart to see how many people agree with different travel motives. This helps us understand what's important to people when they travel. Overall, these simple tools help us understand our data better and make smarter decisions during analysis.

4.4 Pre-Processing:

This section explains how we prepare our data for analysis. For categorical variables, we might merge similar categories to make things simpler. For example, if income categories have few responses in higher ranges, we might group them together. We can also turn categorical data into numbers if it makes sense. For instance, turning YES/NO responses into 1s and 0s. This helps us analyse the data more easily. For numeric variables, we might want to standardize them. This means putting them all on the same scale so that one variable doesn't overshadow others. We do this by subtracting the average and dividing by the standard deviation, these steps help us make sense of our data and ensure that our analysis is accurate.

4.5 Principal Components Analysis:

Principal Components Analysis (PCA) simplifies data by creating new variables that capture its most important aspects. Using R's **prcomp()** function, we can perform PCA and visualize the data in two dimensions. This helps us identify patterns and relationships between observations. Additionally, PCA helps us identify redundant variables by showing which ones are highly correlated. Removing redundant variables can simplify our analysis while retaining important information. Overall, PCA is a useful tool for exploring complex datasets and understanding their underlying structure.

4.6 Step 4 Checklist:

In Step 4 Checklist, the focus is on preparing the data for segmentation analysis. This involves examining the data for inconsistencies and cleaning it if necessary. Additionally, the data may need to be pre-processed to ensure it is in a suitable format for analysis. A crucial consideration is the number of segmentation variables relative to the sample size; ideally, there should be at least 100 consumers for each variable. If there are too many variables, a subset may need to be selected using appropriate methods. It's also important to check for correlations among segmentation variables to avoid redundancy. Once the data is cleaned, pre-processed, and appropriately selected subset, it can be passed on to Step 5 for segment extraction.