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# MARKET SEGMENTATION

## Step 1: Deciding (not) to Segment:

It is crucial to comprehend the ramifications of pursuing a market segmentation strategy before devoting time and resources to a market segmentation analysis. The main takeaway is that the organisation must make a long-term commitment to the segmentation strategy. Potentially required changes are :

1. Development of new products.

2. Modification of existing products.

3. Changes in pricing and distribution channels. The decision to study the possibility of a market segmentation strategy must be made at the highest executive level and must be consistently conveyed to and reinforced across all organisational levels due to the significant consequences of such a long-term organisational commitment.

Implementation Barriers:

First group of barriers related to the market segmentation

• Lack of leadership

• Pro-active championing

• Commitment, and involvement in the market segmentation process by senior leadership undermines the success of market segmentation.

Second group and other barriers related to the market segmentation.

• Lack of training.

• Lack of a formal marketing function or atleast a qualified marketing expert in the organization.

• Lack of a qualified data manager and analyst in the organization.

• Lack of financial resources.

• Lack of planning or bad planning.

• Lack of structured processes.

• Lack of time to conduct the market segmentation analysis without time pressure.

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**Step 2: Specifying the Ideal Target Segment**

Knock-out criteria:

If market segments identified by the market segmentation analysis meet the requirements to be evaluated using segment attractiveness criteria, the segments are knocked out.

• The segment must be uniform; its participants must be comparable to one another.

• The segment must be distinct, and its members must be clearly distinguishable from those of other segments.

• For it to be worthwhile to invest extra money tailoring the marketing mix for them, the segment must be big enough and contain enough people.

• The segment must complement the organization's strengths, and the organisation must be able to meet the needs of segment participants.

• The segment's participants must be recognisable and visible in the marketplace.

• To make the segment accessible to them with the customised marketing mix, the segment must be approachable; members of the segment must be contactable.

Attractiveness Criteria:

The definitions of attractiveness are not absolutes. Segments are not evaluated as meeting or not meeting beauty criteria. Each market segment is instead given a rating; depending on a particular criterion, it may be more or less attractive. In Step 8 of the market segmentation study, a market segment is chosen as a target segment based on its attractiveness across all criteria.

Implementing a Structured Process

It is beneficial to have a structured method for assessing market segments, according to the segmentation literature in general. Analyse each of the important variables to decide how desirable a market segment is. All of the segmentation team members together after discussing the criteria, should choose a subset of no more than six criteria. The segmentation team should award 100 points for each segment attractiveness criterion. Give each beauty standard weights that reflect their relative importance. Distribute the criteria in this way. Discuss weightings with the other segmentation team members before deciding on a weighting. Submit the recommended segment attractiveness criteria weights to the advisory group for discussion and (if necessary) adjustment, together with the chosen segment attractiveness criteria.

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**Step 3: Collecting Data**

3.1 Segmentation Variables: This term refers to a single measured value, such as a single response in a survey or a single observed category of spending. The phrase "segmentation criterion" refers to the type of data that is utilised to segment the market. Common sense and data-driven market segmentation vary in that the latter is based on numerous segmentation variables as opposed to just one.

3.2 Segmentation criteria: Here, the phrase "segmentation criterion" is used more broadly than "segmentation variable." The phrase "segmentation criterion" refers to the type of data that is utilised to segment the market. It may also be related to a single concept, like advantages desired.

3.2.1 Geographical segmentation: When using geographic segmentation, the only factor employed to create market segments is the consumer's place of residence. Although straightforward, the geographic segmentation strategy is frequently the most suitable. Each consumer may be quickly assigned to a geographic unit, which is the main benefit of geographic segmentation.

3.2.2 Socio- Demographic Segmentation: Age, gender, income, and education are among the segmentation variables used. The benefit of using socio-demographic segmentation criteria is that it is simple to determine which section each consumer belongs to.

3.2.3 Psychographic Segmentation: Due to the difficulty in identifying a single trait in an individual that would give insight into the psychographic dimension of interest, psychographic criteria are inherently more complex than geographic or sociodemographic criteria.

3.2.4Behavioural Segmentation: A wide range of possible behaviours can be used for this purpose, including prior experience with the product, frequency of purchase, amount spent on purchasing the product on each occasion (or across multiple purchase occasions), and information search behaviour. The key advantage of behavioural approaches is that, if based on actual behaviour rather than stated behaviour or stated intended behaviour, the very behaviour of interest is used as the basis of segment extraction.

3.3 Data from Survey Studies: Most market segmentation analyses are based on survey data. survey data – as opposed to data obtained from observing actual behaviour can be contaminated by a wide range of biases.

3.3.1 Choice of Variables: All variables relevant to the construct captured by the segmentation criterion need to be included.

3.3.2 Response Options: Answer options provided to respondents in surveys determine the scale of the data available for subsequent analyses. Options allowing respondents to answer in only one of two ways, generate binary or dichotomous data. Such responses can be represented in a data set by 0s and 1s.

3.3.3 Response Styles: A response bias is a systematic tendency to respond to a range of questionnaire items on some basis other than the specific item content (i.e., what the items were designed to measure). Response styles affect segmentation results because commonly used segment extraction algorithms cannot differentiate between a data entry reflecting the respondent's belief from a data entry reflecting both a respondent's belief and a response style.

3.3.4 Sample Size: - It is the act of choosing the number of observations or replicates to include in a statistical sample. The sample size is an important feature of any empirical study in which the goal is

to make inferences about a population from a sample. In practice, the sample size used in a study is usually determined based on the cost, time, or convenience of collecting the data, and the need for it to offer sufficient statistical power.

3.4 Data from Internet Source: Increasingly organisations have access to substantial amounts of internal data that can be harvested for the purpose of market segmentation analysis. . Typical examples are scanner data available to grocery stores, booking data available through airline loyalty programs, and online purchase data.

3.5 Data from Experimental Studies: The data that can form the basis of market segmentation analysis is experimental data. Experimental data can result from field or laboratory experiments. Experimental data can also result from choice experiments or conjoint analyses. The aim of such studies is to present consumers with carefully developed stimuli consisting of specific levels of specific product attributes

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## Step 6: Profiling Segments

### Identifying Key Characteristics of Market Segments

The purpose of the profiling stage is to learn more about the market segments that were produced by the extraction process. Profiling is only necessary when using data-driven market segmentation. The profiles of the segments are established for segmentation using common sense.It is clear that age groups will be the output segments if, for instance, the common sense segmentation uses age as the segmentation variable. At the profiling step, we examine various other market segmentation strategies. This is crucial if the data lacks any natural segmentation and either repeatable or constructive market segmentation methods must be used.

### Traditional Approaches to Profiling Market Segments

Typically, data-driven segmentation solutions are presented to users (clients, managers) in one of two ways: (1) as high level summaries that oversimplify segment characteristics to the point where they are deceptively trivial, or (2) as large tables that give precise percentages for each segmentation variable. The features of segment 2, for instance, are: being motivated by rest and relaxation and not wanting to exceed the intended travel budget. Such tables are difficult to comprehend and make it nearly impossible to obtain a rapid understanding. Additionally, a large portion of sector 2 members are concerned with changing their environment but not with cultural offerings, having an intensive experience of nature, being unconcerned with costs, maintaining good health and appearance, or discovering their creative potential.

### Segment Profiling with Visualisations

Neither the extremely simple tabular representation nor the extremely complicated tabular representation are generally utilised to currently available market segmentation tools heavily rely on graphics, though data visualisation .An essential component of statistical data analysis is the use of graphics. Graphics are especially crucial in exploratory statistical methods, such as cluster analysis, because they shed light on the intricate connections between the variables. Additionally, visualisation offers a straightforward method of tracking changes over time in an era of big and getting bigger and greater data. In the data-driven market segmentation process, visualisations are helpful for closely inspecting one or more segments for each segmentation solution. Segment profile understanding is aided by statistical graphics. Additionally, they make it simpler to evaluate the value of a market segmentation strategy.

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**Identifying Defining Characteristics of Market Segments**

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. The segment profile plot is the direct visual translation of tables such as Table 8.1. The t() around the data matrix vacmot transposes the matrix such that distances between columns rather than rows are computed. Next, hierarchical clustering of the variables is conducted using Ward's method. Figure 8.1 shows the result. Argument which specifies the variables to be included, and their order of presentation. Here, all variables are shown in the order suggested by hierarchical clustering of variables. shade = TRUE identifies so-called marker variables and depicts them in colour. These variables are particularly characteristic for a segment. All other variables are greyed out. To make the chart even easier to interpret, marker variables appear in colour (solid bars). The remaining segmentation variables are greyed out. The definition of marker variables in the segment profile plot used by default in barchart() is suitable for binary variables, and takes into account the absolute and relative difference of the segment mean to the total mean. Marker variables are defined as variables which deviate by more than 0.25 from the overall mean.

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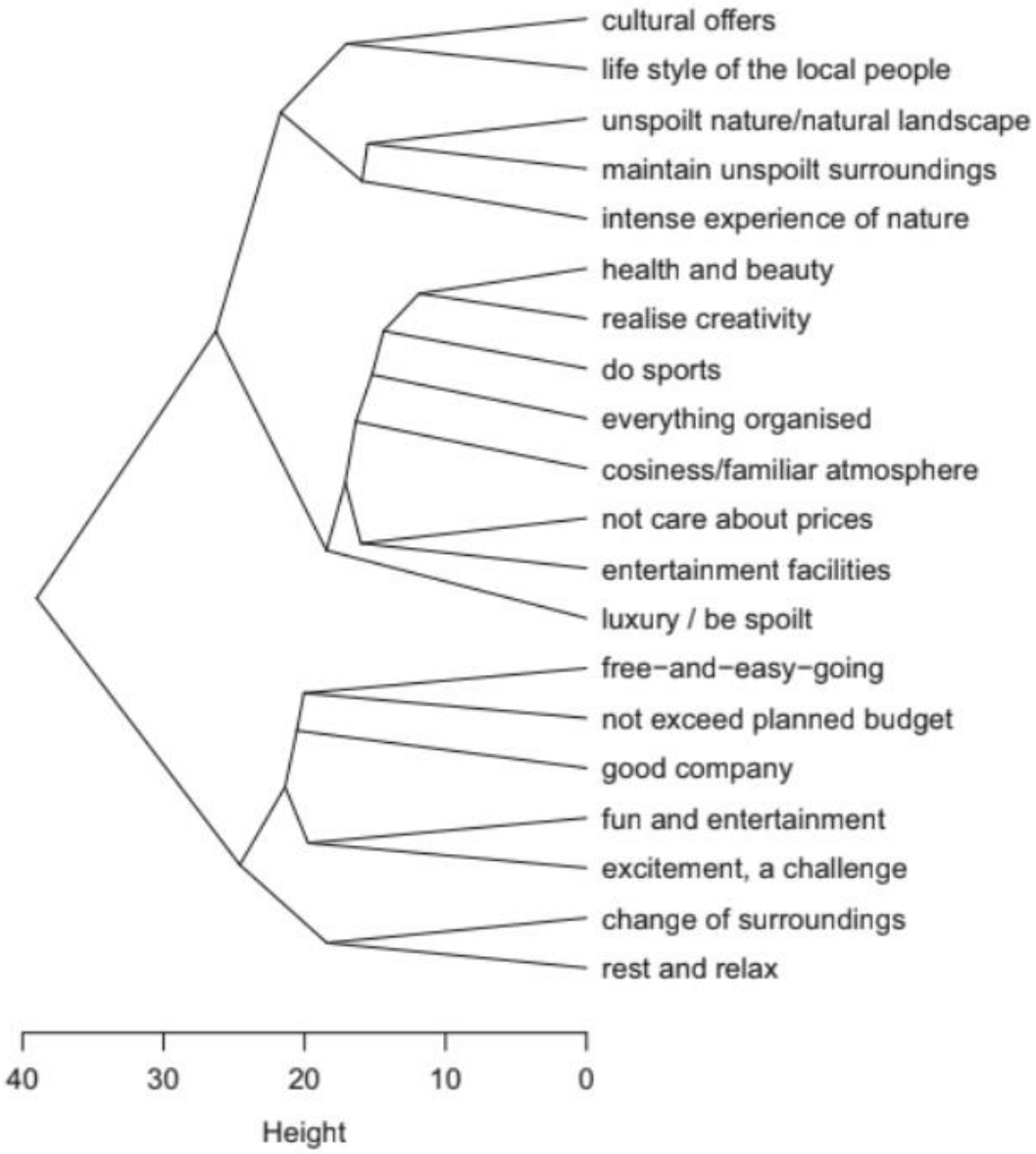


The deviation figures of 0.25 and 50% have been empirically determined to indicate substantial differences on the basis of inspecting many empirical data sets, but are ultimately arbitrary and, as such, can be chosen by the data analyst and user as they see fit. In particular if the segmentation variables are not binary, different thresholds for defining a marker variable need to be specified. Good visualisations facilitate interpretation by managers who make long-term strategic decisions based on segmentation results. Such long-term strategic decisions imply substantial financial commitments to the implementation of a segmentation strategy. Good visualisations, therefore, offer an excellent return on investment.

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**Assessing Segment Separation**

Segment separation can be visualised in a segment separation plot. The segment separation plot depicts – for all relevant dimensions of the data space – the overlap of segments. Segment separation plots are very simple if the number of segmentation variables is low, but become complex as the number of segmentation variables increases. Buteven in such complex situations, segment separation plots offer data analysts The artificial data visualised in Fig. 8.4 are two-dimensional. So no projection is required. The original data is plotted in a scatter plot in the top row of Fig. 8.4. The colour of the observations indicates true segment membership. The different cluster hulls indicate the shape and spread of the true segments. Dashed cluster hulls contain (approximately) all observations. Solid cluster hulls contain (approximately) half of the observations. The plot is still not trivial to assess, but it is easier to interpret than the segment separation plot shown in the figure containing additional information. Figure 8.6 is hard to interpret, because natural market segments are not present. This difficulty in interpretation is due to the data, not the visualisation. And the data used for this plot is very representative of consumer data only: members of this market segment do not wish to exceed their planned travel budget. Opposite to this segment, at the bottom of the plot is segment 4 (blue shaded area), members of which care about the life style of local people and cultural offers. Each segment separation plot only visualises one possible projection. So, for example, the fact that segments 1 and 5 in this particular projection overlap with other segments does not mean that these segments overlap in all projections. However, the fact that segments 6 and 3 are well-separated in this projection does allow the conclusion – based on this single projection only – that they represent distinctly different tourists in terms of the travel motives.

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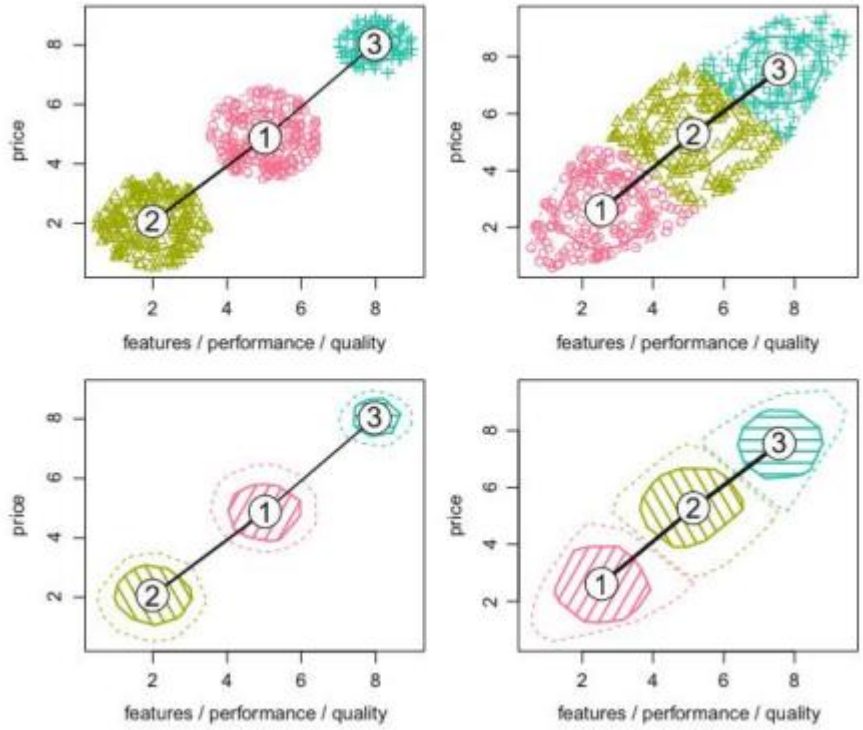

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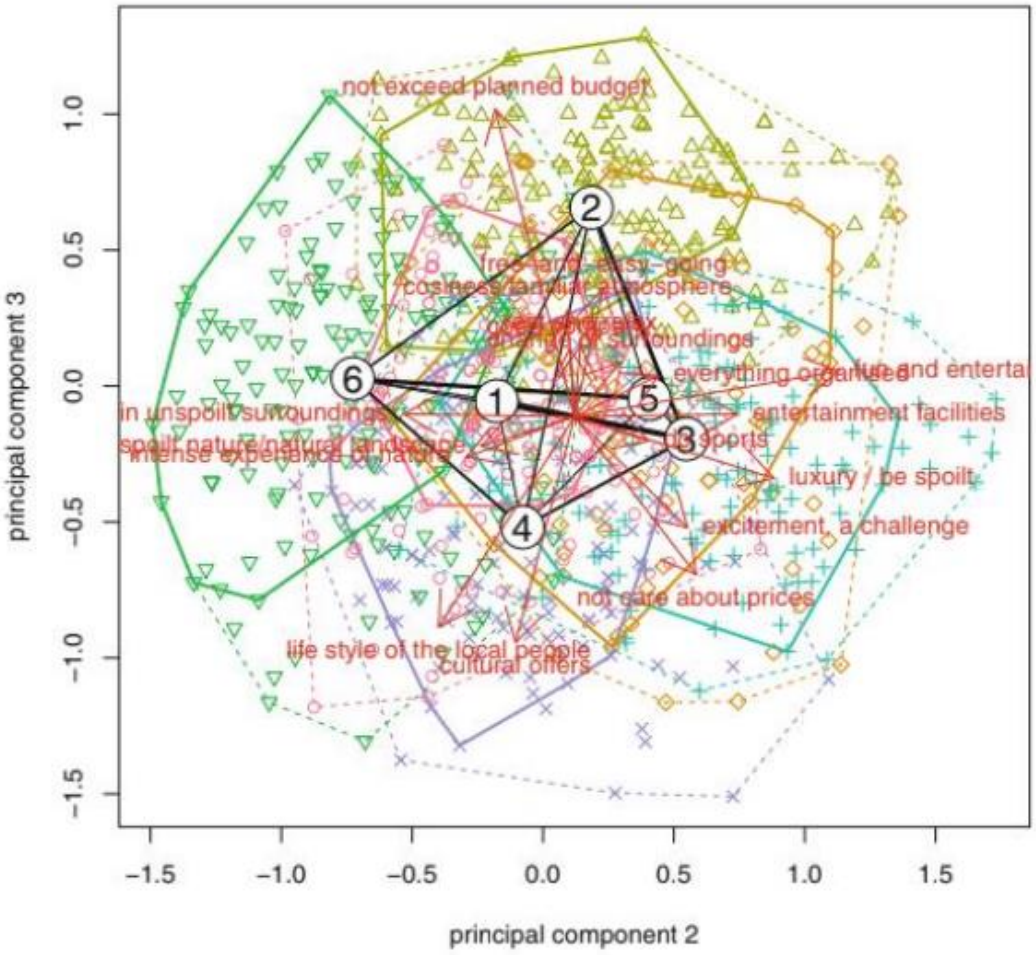

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