

Summary Report on Steps of Market Segmentation Analysis

Rakhi Sau

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Step 1: Deciding (not) to Segment

❖ Implications of Committing to Market Segmentation:

- **Strategic Commitment:**
 - Market segmentation is a significant marketing strategy, but it requires a long-term commitment from the organization.
 - It's emphasized that market segmentation is akin to a marriage, not a casual date, suggesting a need for sustained dedication.
- **Organizational Changes and Investments:**
 - Committing to market segmentation necessitates substantial changes and investments.
 - These changes may include developing new products, modifying existing ones, adjusting pricing and distribution channels, and adapting communication strategies.
- **Cost Considerations:**
 - Cahill highlights the costs associated with market segmentation, such as research expenses, surveys, focus groups, and the design of multiple packages and advertisements.
 - The decision to segment should be based on the expectation that the increase in sales justifies the expenses incurred.
- **Profitability Requirement:**

- The truism mentioned is that using segmentation should be more profitable than marketing without it, considering the expenses involved in developing and implementing the segmentation strategy.

- **Internal Organizational Structure:**

- To maximize the benefits of market segmentation, organizations are advised to organize around market segments rather than products.
- Strategic business units aligned with specific market segments provide a suitable organizational structure to focus on evolving segment needs.

- **Executive-Level Decision-Making:**

- Due to the significant organizational commitment, the decision to explore market segmentation should be made at the highest executive level.
- Continuous and systematic communication and reinforcement of the segmentation strategy are essential at all levels and across all organizational units.

In essence, the summary underscores the need for a strategic and long-term commitment to market segmentation, considering the associated costs, potential organizational changes, and the requirement for profitability to justify the strategy. The involvement of top-level executives and ongoing communication is emphasized for successful implementation.

❖ **Implementation Barriers:**

- **Senior Management Barriers:**

- Lack of leadership, pro-active championing, commitment, and involvement by senior leadership can undermine successful market segmentation.
- Inadequate allocation of resources by senior management for both initial analysis and long-term implementation hinders the process.

- **Organizational Culture Barriers:**

- Barriers related to organizational culture include a lack of market or consumer orientation, resistance to change, lack of creative thinking, poor communication, and a reluctance to share information across organizational units.
- Lack of market orientation in the organizational culture can be assessed through a questionnaire developed by Croft (1994).

- **Training and Expertise:**

- Lack of understanding and awareness at senior management and segmentation team levels can lead to the failure of market segmentation.
- The absence of a formal marketing function or a qualified marketing expert in the organization is a significant obstacle.

- **Resource and Objective Restrictions:**

- Objective restrictions, such as limited financial resources or an inability to make required structural changes, can impede the segmentation process.
- Process-related barriers include unclear objectives, lack of planning, absence of structured processes, unallocated responsibilities, and time pressures.

- **Operational Level Challenges:**

- Management's reluctance to use techniques it doesn't understand, as noted by Doyle and Saunders (1985), can hinder acceptance of market segmentation.
- To overcome this, making market segmentation analysis easy to understand and presenting results through graphical visualizations is suggested.

- **Proactive Identification and Resolution:**

- Many barriers can be identified at the outset of a segmentation study and proactively addressed.
- If barriers persist, seriously considering abandoning the exploration of market segmentation as a potential strategy is recommended.

- **Resolute Approach:**

- McDonald and Dunbar (1995) recommend a resolute sense of purpose, dedication, patience, and an understanding of inevitable implementation challenges when proceeding with market segmentation analysis.

Step 2: Specifying the Ideal Target Segment

❖ Segment Evaluation Criteria:

- The process of specifying the ideal target segment involves establishing criteria to evaluate potential segments.
- These criteria could include factors such as market size, growth potential, profitability, and alignment with the organization's objectives.

❖ Knock-Out Criteria:

- Knock-out criteria are factors that, if not met, immediately disqualify a segment from consideration.
- These criteria help streamline the evaluation process by eliminating segments that do not align with essential requirements.

❖ Attractiveness Criteria:

- Attractiveness criteria focus on identifying segments that offer substantial value and align with the company's goals.
- Factors like market demand, competitive landscape, and potential for sustained profitability are considered in determining attractiveness.

❖ Implementing a Structured Process:

- The process of specifying the ideal target segment involves implementing a structured approach.
- This structured process likely includes steps such as data collection, analysis, segmentation modeling, and validation to ensure a systematic and thorough evaluation.

In summary, specifying the ideal target segment involves establishing evaluation criteria, implementing knock-out criteria for disqualification, identifying attractiveness criteria for value, and following a structured process to guide the evaluation steps.

Step 3: Collecting Data

❖ Segmentation Variables:

1. Critical Identification:

- The identification and selection of segmentation variables are crucial steps in the data collection process for market segmentation.

2. Nature of Variables:

- Segmentation variables are characteristics used to divide the market into distinct segments.
- These variables can include demographics (age, gender, income), psychographics (lifestyles, interests, values), and behavioral factors (buying patterns, product usage).

3. Purpose in Segmentation:

- Segmentation variables play a fundamental role in defining and understanding different customer segments.
- They help in creating meaningful and actionable segments based on relevant criteria.

4. Variable Selection Importance:

- The choice of segmentation variables directly influences the effectiveness of the segmentation strategy.
- Variables should be selected based on their relevance to the business goals and the characteristics that significantly differentiate customer groups.

5. Alignment with Criteria:

- Segmentation variables should align with the criteria established in the earlier stages of market segmentation, including both knock-out and attractiveness criteria.

6. Data Collection Focus:

- The data collection process revolves around gathering information related to chosen segmentation variables to better understand the target audience.

In essence, segmentation variables are pivotal elements in the market segmentation process, shaping the way data is collected and analyzed to identify and define distinct market segments based on relevant characteristics.

❖ **Segmentation Criteria:**

1. Guiding Data Collection:

- Segmentation criteria are fundamental principles used to evaluate and categorize market segments.
- They guide the collection of relevant data to assess the segments effectively.

2. Types of Criteria:

- Segmentation criteria include both knock-out and attractiveness criteria.
- Knock-out criteria are essential, non-negotiable features that segments must possess to be considered for targeting.
- Attractiveness criteria are used to evaluate the relative appeal of remaining market segments that comply with knock-out criteria.

3. User Involvement:

- User input is crucial for determining segmentation criteria, emphasizing that involvement should not be limited to the beginning or end of the process but should span most stages.

4. Conceptual Contribution in Step 2:

- In Step 2 of market segmentation analysis, the organization contributes conceptually to determine two sets of segment evaluation criteria: knock-out and attractiveness criteria.

5. Comprehensive Nature:

- The literature does not typically distinguish sharply between the two types of criteria but suggests a wide array of potential segment evaluation criteria at different levels of detail.

6. Negotiation and Agreement:

- Factors constituting both segment attractiveness and organizational competitiveness need negotiation and agreement.
- A team approach is recommended, and criteria importance should be agreed upon through discussion and negotiation.

7. Early Selection Benefits:

- Selecting attractiveness criteria early in the process ensures that relevant information about market segments is captured during data collection (Step 3).
- This upfront work facilitates the selection of a target segment in Step 8.

In summary, segmentation criteria are pivotal in guiding the collection of data for market segmentation. These criteria, encompassing both knock-out and attractiveness aspects, are determined with user input and conceptual contributions from the organization, emphasizing the need for negotiation, agreement, and early selection benefits for effective segmentation analysis.

Certainly, here's a detailed summary based on the provided content about collecting data for market segmentation using different sources:

❖ **Data from Survey Studies:**

1. Common Methodology:

- Surveys are a prevalent and effective method for collecting data in market segmentation studies.
- Surveys are designed to directly gather information from the target audience to understand preferences, behaviors, and attitudes.

2. Direct User Input:

- Surveys allow for direct engagement with the target audience, providing insights into their perceptions and preferences.
- Questions can be tailored to gather specific information relevant to segmentation variables and criteria.

❖ **Data from Internal Sources:**

1. Organizational Data Utilization:

- Internal sources within the organization, such as customer databases and sales records, are leveraged for data collection.
- Proprietary information from internal sources enhances the understanding of customer segments.

2. Customer Behavior Insights:

- Internal data sources provide valuable insights into customer behavior, preferences, and interactions with the organization.
- Customer-related data aids in refining segmentation variables and criteria.

Data from Experimental Studies:

1. Experimental Approach:

- Experimental studies involve conducting experiments to gather specific data for market segmentation.

- Experiments may focus on understanding consumer behavior, preferences, or responses to different marketing strategies.

2. Insights Generation:

- Experimental studies offer insights into how potential segmentation variables impact consumer responses.
- These studies contribute to a deeper understanding of customer segments and their reactions to marketing efforts.

In summary, collecting data for market segmentation involves employing surveys for direct user input, utilizing internal sources within the organization for customer-related insights, and conducting experimental studies to generate specific insights into consumer behavior and preferences. Each method contributes to a comprehensive understanding of market segments.

Step 6: Profiling Segments

❖ Identifying Key Characteristics of Market Segments:

- **Aim of Profiling Step:**

- Data-Driven vs Commonsense Segmentation:**

- Profiling is essential in data-driven market segmentation to understand characteristics of resulting segments.
 - Not required in commonsense segmentation where segment profiles are predefined based on obvious variables like age groups.

- **Profiling in Data-Driven Segmentation:**

- Unknown Characteristics:**

- In data-driven segmentation, defining characteristics of resulting segments are unknown until after data analysis.
 - Profiling aims to identify these defining characteristics with respect to segmentation variables.

- Characterizing and Comparing Segments:**

- Profiling involves characterizing market segments individually and comparing them to other segments.
 - Essential for understanding differentiation between segments.

- Inspection of Alternative Solutions:**

- Inspecting alternative segmentation solutions is crucial, especially when no natural segments exist in the data.
- Important for reproducible or constructive segmentation approaches.

- **Interpretation Challenges:**

Difficulty in Interpreting Data-Driven Solutions:

- Data-driven segmentation solutions are challenging for managers to interpret correctly.
- Studies reveal that many marketing managers struggle with understanding and interpreting these solutions.

Quotes from Marketing Managers:

- Managers express difficulties such as contradictions in results, lack of clear executive summaries, rushed and insufficiently conclusive presentations, and presentations often perceived as meaningless.

- **Approaches to Profiling:**

Traditional vs Graphical Statistics:

- Traditional and graphical statistics approaches to segment profiling are discussed.
- Graphical statistics approaches are highlighted as less tedious and less prone to misinterpretation.

In summary, profiling in data-driven segmentation is crucial for understanding and characterizing market segments. The interpretation of data-driven solutions poses challenges for managers, with graphical statistics approaches being recommended for a clearer and less prone-to-error presentation.

❖ **Traditional Approaches to Profiling Market Segments**

- **Descriptive Statistics:**

- Utilize basic descriptive statistics such as mean, median, mode, and measures of dispersion (variance, standard deviation) to summarize and describe the central tendencies of each segment.

- **Cross-Tabulations:**

- Conduct cross-tabulations to examine the relationship between different variables within each segment.
- This method helps identify patterns and associations, providing insights into how variables are distributed within segments.

- **Chi-Square Analysis:**

- Apply chi-square analysis to test the independence of variables within segments.
- This statistical test assesses whether observed distributions of variables within segments differ significantly from what would be expected by chance.

- **ANOVA (Analysis of Variance):**

- Employ ANOVA to compare means across multiple segments.
- ANOVA helps determine if there are statistically significant differences in the means of continuous variables between various segments.

- **Cluster Analysis:**

- Implement cluster analysis to group similar segments based on chosen variables.
- This technique identifies natural groupings within the data, assisting in segment characterization.

- **Discriminant Analysis:**

- Use discriminant analysis to identify which variables contribute most to segment differences.
- This method helps prioritize the most distinguishing characteristics of each segment.

- **Factor Analysis:**

- Apply factor analysis to identify underlying factors that explain the observed correlations between variables within segments.
- This method reduces data complexity by identifying common factors that contribute to observed patterns.

- **Conjoint Analysis:**

- Employ conjoint analysis to assess preferences and trade-offs within each segment.
- This technique helps understand how different attributes influence consumers' choices within specific segments.

- **Traditional Reports:**

- Present results through traditional reports, which may include tables, charts, and statistical summaries.
- While effective, these reports may be perceived as challenging to interpret, especially by managers not well-versed in statistical methods.

❖ Segment Profiling with Visualisations

1. Graphical Statistics:

- Graphical statistics approaches are utilized for segment profiling to enhance the clarity and accessibility of results.

2. Advantages of Visualizations:

- Visualizations provide a more intuitive and user-friendly way to communicate complex segmentation results.
- They offer a quicker and more engaging understanding of segment characteristics compared to traditional statistical reports.

3. Graphical Representations:

- Use various types of graphical representations, such as charts, graphs, and diagrams, to illustrate key segment characteristics.
- Common visualizations include bar charts, pie charts, scatter plots, and radar charts.

4. Cluster Analysis Visualizations:

- Apply visualizations to represent the outcomes of cluster analysis, showing how segments naturally group based on chosen variables.
- Dendrogram charts can illustrate hierarchical relationships between segments.

5. Discriminant Analysis Plots:

- Utilize discriminant analysis plots to visually highlight the variables that contribute the most to segment differences.
- These plots make it easier to identify distinguishing characteristics.

6. Conjoint Analysis Graphics:

- Present conjoint analysis results through visual graphics, illustrating preferences and trade-offs within each segment.
- Visual representations of attribute importance and utility scores enhance interpretation.

7. Heatmaps:

- Use heatmaps to represent the intensity of relationships between variables within segments.
- Color-coded heatmaps provide a quick overview of patterns and correlations.

8. Segment Comparison Charts:

- Develop charts that compare different segments side by side, allowing for easy visual comparison of characteristics.
- Stacked bar charts or radar charts can effectively represent multiple segments.

9. Interactive Dashboards:

- Create interactive dashboards that enable users to explore segment characteristics dynamically.
- Interactive features enhance user engagement and facilitate deeper exploration of segmentation data.

10. Storytelling Through Visuals:

- Construct a narrative using visualizations to tell a compelling story about each segment.
- Visual storytelling helps in conveying key insights and implications for marketing strategies.

In summary, segment profiling with visualizations leverages graphical statistics to present market segment characteristics in a visually appealing and informative manner. Visualizations enhance the interpretation of complex segmentation data, making it more accessible to a wider audience, including managers who may find traditional statistical reports challenging to interpret.

Case Study: Fast Food

<https://github.com/rakhisau/Feynn-Labs-Internship>