Market Segmentation Analysis

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1.Introduction:

1.1 Market Segmentation:

1.1.1 Definition of Market Segmentation:

Market Segmentation the process of dividing a larger market into smaller groups of consumers who have similar needs, characteristics, or behaviours. The purpose of segmentation is to better understand and target specific groups of customers with tailored marketing strategies. By segmenting the market, companies can identify and focus on the most profitable or responsive customer segments, allowing for more efficient resource allocation and marketing efforts.

1.1.2 Strategic and Tactical Marketing:

Marketing is about matching what customers need and want with what companies offer. This involves planning, with two main parts: **strategic and tactical marketing**. Strategic marketing is like deciding which mountain to climb, while tactical marketing is like choosing the gear for the climb. Strategic marketing focuses on long-term goals, like who to target and how to position the company, while tactical marketing deals with short-term actions, like product development and promotion. Good strategic planning is essential for success, as it sets the right direction. Even the best tactical decisions can't fix a bad strategic plan. So, strategic marketing is crucial for a company's success.

1.1.3 Benefits of Market Segmentation:

Market segmentation offers numerous advantages for organizations. It prompts reflection on their strengths and goals, fostering critical insights. When executed effectively, segmentation enhances the alignment between organizational strengths and consumer needs, potentially leading to long-term competitive advantages, including market dominance in niche segments. Advanced segmentation practices like micro-marketing and finer segmentation are emerging, enabled by eCommerce and consumer databases. Tailoring the marketing mix to specific segments increases ROI (Return on Investment) by focusing efforts where they're most impactful. For small businesses, targeting distinct consumer needs can be crucial for survival due to limited resources. Segmentation also enhances sales management by allowing targeted sales efforts. Moreover, it promotes team building within organizations, fostering collaboration across different units and improving communication and information sharing.

1.1.4 The Costs of Market Segmentation:

Market segmentation comes with significant costs for organizations. Conducting thorough segmentation analysis requires substantial time and resources from many individuals. Implementing a segmentation strategy requires additional human and financial resources to develop and execute customized marketing approaches. Ongoing evaluation and monitoring of market dynamics add to the resource commitment. Despite these investments, success is not guaranteed, and a poorly executed segmentation strategy can result in wasted resources and disenfranchised staff. Therefore, organizations must carefully weigh the potential benefits against the substantial upfront investment before deciding to pursue market segmentation.

2.Steps of Market Segmentation Analysis:

2.1. Deciding(not) to Segment (Step-1):

2.1.1 Implications of Committing to Market Segmentation:

Implementing a market segmentation strategy requires a long-term commitment from the organization. Market segmentation is not just a short-term strategy but rather a significant organizational change. It involves substantial investments in research, product development, pricing, distribution channels, and communication. Cahill emphasizes that segmentation is not free and recommends pursuing it only if the expected increase in sales justifies the investment. Croft suggests organizing around strategic business units responsible for segments. Due to the major organizational implications, the decision to pursue segmentation must be made at the highest executive level and consistently communicated throughout the organization.

2.1.2 Implementation Barriers:

Several barriers can hinder the successful implementation of a market segmentation strategy. Lack of leadership and commitment from senior management is a significant barrier, as their involvement is crucial for effective implementation. Organizational culture can also pose challenges, such as resistance to change, short-term thinking, and a lack of market orientation. Additionally, lack of training, formal marketing expertise, qualified data management, and financial resources can impede implementation efforts. Overcoming these barriers requires a resolute sense of purpose, dedication, patience, and proactive identification and removal of obstacles.

2.2. Specifying the Ideal Target Segment (Step-2):

2.2.1. Segment Evaluation Criteria:

In market segmentation analysis, user input is crucial for useful results. It's not just a one-time briefing or at the end, but involvement throughout. After committing to segmentation, organizations play a key role in Step 2 by setting segment evaluation criteria. There are two types: knock-out criteria, which are essential features, and attractiveness criteria, which assess segment appeal. These criteria guide data collection and selecting target segments. The literature offers various criteria options.

2.2.2. Knock-Out Criteria:

Knock-out criteria help decide if market segments are suitable for further assessment. They include factors like homogeneity, distinctiveness, size, matching with organization strengths, identifiability, and reachability of segment members. These criteria ensure segments are sizable, reachable, and align with the organization's capabilities. It's important for senior management, the segmentation team, and the advisory committee to understand these criteria, some of which may require specific definitions, like the minimum viable segment size.

2.2.3. Attractiveness Criteria:

Various factors for the segmentation team to choose from when deciding which criteria are most relevant to their situation. Unlike knock-out criteria, these attractiveness criteria aren't just yes or no; each segment is rated based on how well it fits each criterion. Segments can be more or less attractive depending on different factors. Their overall attractiveness, considering all criteria, decides if they're chosen as a target segment.

2.2.4. Implementing a Structured Process:

In market segmentation, it's widely agreed that following a structured process is beneficial. One popular method is using a segment evaluation plot, which assesses segment attractiveness and organizational competitiveness. These values are determined by the segmentation team based on negotiated criteria. Typically, no more than six factors are used, chosen through investigation and negotiation. It's best done by a team, including representatives from various organizational units, to ensure diverse perspectives and stakeholder involvement. Though the plot isn't completed in the early stages, selecting attractiveness criteria early helps in data collection and target segment selection later. Each criterion is assigned a weight, often through team consensus, with approval from the advisory committee, ensuring broad organizational input and perspective.

2.3. Collecting Data (Step-3):

2.3.1. Segmentation Variables:

When we want to understand their customers better, they use real-world data. This helps them create groups of customers, or "segments," based on common traits.

One way to do this is by using straightforward traits like gender to split customers into groups. For example, one group might be men and another might be women. Then, they look at other details like age or vacation preferences to learn more about each group.

Another way is to use lots of different traits together to create more precise groups. For example, instead of just looking at gender, they might also consider age, vacation habits, and what people want from their vacations.

Once we've grouped customers, we use other details to understand each group better. This helps them tailor their marketing strategies to each group effectively.

2.3.2. Segmentation Criteria:

Before we start grouping customers, we need to decide what criteria to use. This means we have to choose what kind of information we'll focus on, like where customers live, their age, what they like, or how they behave.

This decision isn't easy and can't just be handed off to someone else. It requires knowing a lot about the market. There are common criteria like where people are, what they're like, what they want, and how they act.

With so many options, which one is best? Well, there's no one-size-fits-all answer. It often depends on what's simplest and most effective for a particular product or service. So, if basic things like age or where people live will do the job, then stick with that. Fancy stuff like understanding people's lifestyles might sound cool, but it's not always the best choice. The key is to use what works best for your product or service, without making things overly complicated or expensive.

2.3.2.1. Geographic Segmentation:

Geographic segmentation means dividing customers based on where they live. It's simple and often works well, like when a country wants to attract tourists from nearby places and needs to speak their languages. Big companies like Amazon and IKEA also use it to adjust their offerings depending on where customers are located.

The good thing about this method is that it's easy to figure out where people are, so it's easy to target them with ads or messages through local media.

But just because people live in the same area doesn't mean they all want the same things. For example, living in a fancy neighbourhood doesn't automatically mean everyone there wants luxury cars. Other factors like age or lifestyle might matter more.

2.3.2.2. Socio-Demographic Segmentation:

Socio-demographic segmentation divides customers based on things like age, gender, income, and education level. It's useful in industries like luxury goods, cosmetics, baby products, retirement villages, and tourism.

The good thing about this method is that it's easy to figure out which group people belong to. Sometimes, socio-demographic factors can explain why people prefer certain products. For example, having children might be why families choose family-friendly vacation spots.

But it doesn't always give the full picture. In many cases, socio-demographic factors alone can't explain why people like certain products. They might only account for a small part of why people make buying decisions. Some experts even argue that values, tastes, and preferences are more important for understanding customer behaviour than demographics.

2.3.2.3. Psychographic Segmentation:

Psychographic segmentation is when people are grouped based on their psychological traits like beliefs, interests, and preferences when buying a product. This approach is good because it digs into why people behave differently, like how tourists who want to learn about other cultures will likely choose destinations rich in cultural experiences. But it's also tricky because it requires reliable and valid measures to understand these psychological dimensions accurately.

2.3.2.4. Behavioural Segmentation:

Behavioural segmentation is a method of dividing customers into groups based on their actions or reported actions. This could include things like how often they buy a product, how much they spend, or how they search for information about it. Research has shown that understanding people's behaviours is often more useful than just looking at where they're from. One big advantage of this approach is that it focuses on what people actually do, not just what they say they'll do. For example, some studies have looked at how much people spend or what brands they choose over time to group them into segments. This kind of data can be really helpful because it's based on real actions, rather than opinions.

2.3.3. Data From Survey Studies:

2.3.3.1. Choice of Variables:

Selecting the right variables for segmentation is crucial. Including unnecessary variables can make surveys longer and lead to respondent fatigue, affecting data quality. Unnecessary variables can also make it harder for algorithms to identify optimal segments.

2.3.3.2. Response Options:

The response options in surveys determine the type of data collected. Binary or metric options are preferred as they simplify segmentation analysis. Ordinal data, common in surveys, can pose challenges for analysis due to undefined distances between responses.

2.3.3.3. Response Styles:

Survey responses can be influenced by biases, like consistent tendencies to agree or disagree. Such biases can affect segmentation results, leading to misinterpretation of segments. Minimizing response styles is essential for accurate segmentation.

2.3.3.4. Sample Size:

Sufficient sample size is crucial for accurate segmentation. Recommendations vary, but generally, a larger sample improves the accuracy of segment extraction. Factors like unequal segment sizes and data quality can influence the required sample size.

2.3.4. Data From Internal Sources:

We can use the internal data, like purchase records or loyalty program data, to understand consumer behaviour for market segmentation. This type of data reflects real consumer actions, avoiding the biases of self-reported data. It's also easy to access if stored properly. However, relying solely on internal data may overlook potential customers who are different from current ones, leading to biased insights.

2.3.5. Data From Experimental Studies:

Experimental studies provide valuable data for market segmentation analysis. These studies can be conducted in real-life settings or controlled laboratory environments. For instance, researchers might test how people react to different advertisements, which can help identify segmentation criteria based on consumer responses.

Another type of experimental data comes from choice experiments or conjoint analyses. In these studies, consumers are presented with various product options that differ in specific attributes. By analysing consumer preferences among these options, researchers can determine how each attribute and attribute level influences consumer choices. This information can also be used as segmentation criteria in market analysis.