MARKET SEGMENTATION ANALYSIS

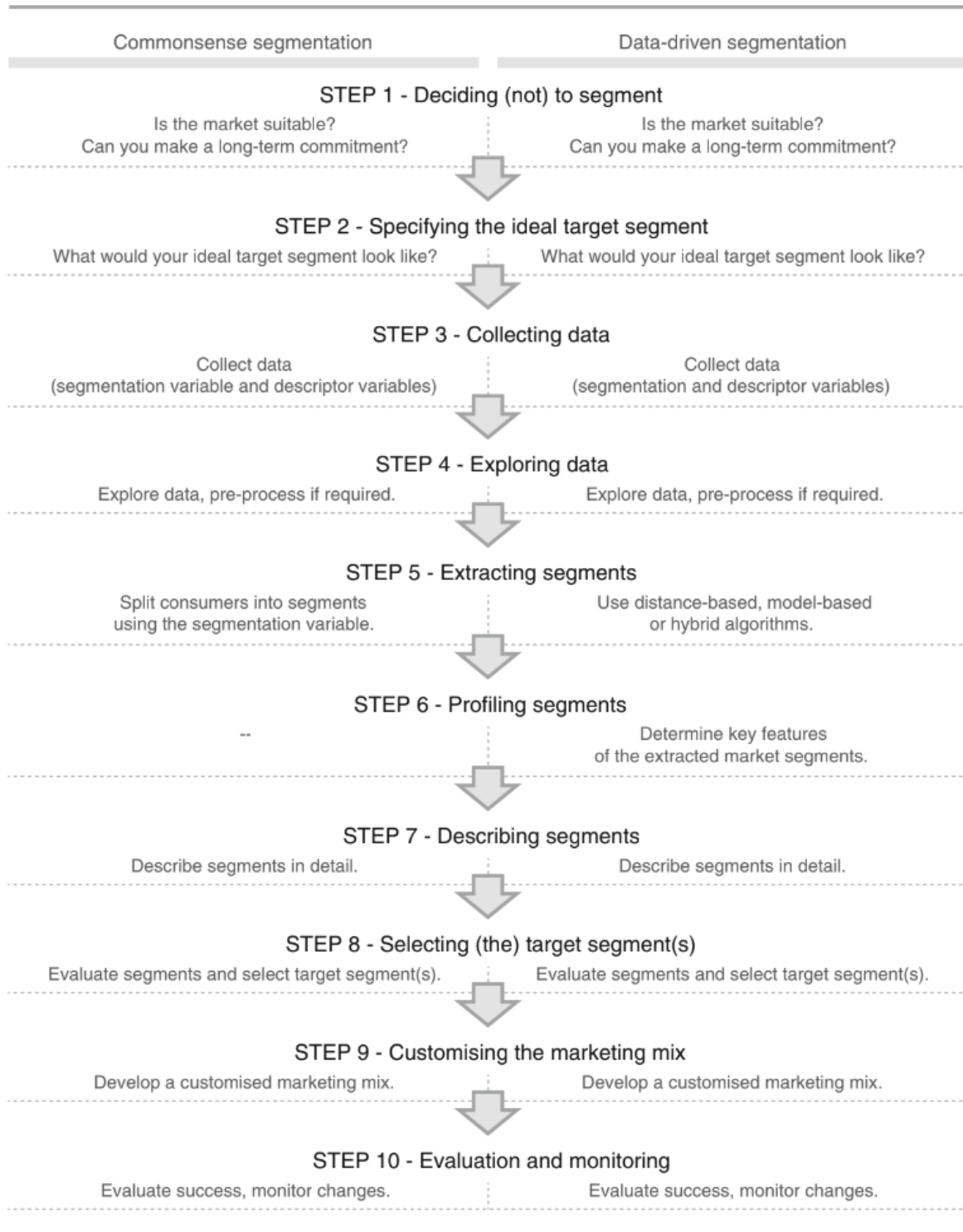## – McDonald's Case study

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Market Segmentation:

Market segmentation is a fundamental process in which a larger market is strategically divided into smaller, distinct consumer groups based on their shared demands, characteristics, and behaviors. By leveraging demographic, geographic, psychographic, and behavioral data sources, companies can effectively target and tailor their marketing strategies to meet the specific needs of these consumer segments. This strategic approach empowers businesses to develop highly customized and impactful marketing campaigns that resonate deeply with their target demographics. Through comprehensive market segmentation, businesses gain invaluable insights into the unique preferences and requirements of diverse consumer groups, enabling them to optimize their products, services, and marketing messages. This strategic alignment with consumer demographics unlocks the potential for enhanced customer engagement, increased market share, and improved profitability. Market segmentation is an integral component of modern marketing, empowering businesses to capitalize on their resources, drive meaningful connections with consumers, and ultimately achieve their organizational objectives with confidence and precision.

Market segmentation is the process of dividing a larger market into smaller, distinct groups of consumers with similar needs, characteristics, or behaviors. By analyzing demographic, geographic, psychographic, and behavioral data, businesses can identify and target specific consumer segments. This allows them to develop tailored marketing strategies and messages that better resonate with their target audiences. Market segmentation helps companies optimize their resources, improve customer engagement, and increase profitability by delivering products, services, and marketing campaigns that are aligned with the specific needs and preferences of different consumer groups. It is a vital tool in modern marketing, enabling businesses to better understand and cater to the diverse demands of their customers.

10 Steps of Market Segmentation:

Commonsense segmentation	Data-driven segmentation
STEP 1 - Deciding (not) to segment	
Is the market suitable? Can you make a long-term commitment?	Is the market suitable? Can you make a long-term commitment?
STEP 2 - Specifying the ideal target segment	
What would your ideal target segment look like?	What would your ideal target segment look like?
STEP 3 - Collecting data	
Collect data (segmentation variable and descriptor variables)	Collect data (segmentation and descriptor variables)
STEP 4 - Exploring data	
Explore data, pre-process if required.	Explore data, pre-process if required.
STEP 5 - Extracting segments	
Split consumers into segments using the segmentation variable.	Use distance-based, model-based or hybrid algorithms.
STEP 6 - Profiling segments	
--	Determine key features of the extracted market segments.
STEP 7 - Describing segments	
Describe segments in detail.	Describe segments in detail.
STEP 8 - Selecting (the) target segment(s)	
Evaluate segments and select target segment(s).	Evaluate segments and select target segment(s).
STEP 9 - Customising the marketing mix	
Develop a customised marketing mix.	Develop a customised marketing mix.
STEP 10 - Evaluation and monitoring	
Evaluate success, monitor changes.	Evaluate success, monitor changes.

Fig: Market Segmentation Steps

Step 1: Deciding(not) to segment -

Market segmentation is a critical and strategic step in crafting a successful marketing strategy. It involves dividing a larger market into smaller, distinct groups of consumers who exhibit similar characteristics, needs, and preferences. The primary objective of market segmentation is to create targeted and tailored marketing campaigns that deeply resonate with specific consumer segments, thereby driving higher sales and fostering customer loyalty.

Before determining the need for market segmentation, a thorough assessment of market homogeneity and potential benefits must be conducted. If the market displays relative homogeneity with no significant variations in consumer needs or preferences, a broad, undifferentiated marketing strategy targeting the entire market may be more suitable. Conversely, when distinct consumer groups demonstrate discernible differences in needs and preferences, market segmentation enables businesses to customize marketing efforts to effectively cater to each segment's specific requirements. This approach yields a more efficient and impactful marketing campaign, resulting in increased sales and enhanced customer loyalty.

Several factors should be considered when evaluating the viability of market segmentation, including market size, diversity, competition, and available resources. For instance, in smaller markets with limited competition, implementing a segmented marketing strategy can prove easier and cost-effective. However, in larger and more diverse markets with intense competition, segmentation may pose greater challenges and higher implementation costs. When making decisions regarding market segmentation, it is crucial to carefully weigh the potential benefits against the costs associated with implementing and managing a segmented marketing strategy. Such costs may involve conducting market research to identify consumer segments, developing tailored marketing campaigns for each segment, and efficiently managing multiple campaigns. Nevertheless, the benefits derived from market segmentation can be substantial, including amplified sales, increased customer loyalty, and a competitive advantage over non-segmented competitors.

By adopting a strategic and customer-centric approach through market segmentation, businesses can unlock tremendous opportunities for growth and success in their target markets.

Step 2: choosing the ideal target market –

1. Equivalence Standards for Segments: Market segmentation involves employing segment equivalence criteria to determine if two or more segments are comparable enough to be treated as a single entity. These criteria encompass demographic, psychographic, behavioural, geographic, and attitudinal factors. Demographic criteria assess age, gender, income, and education, while psychographic criteria evaluate personality, values, interests, and lifestyle. Behavioural criteria analyse buying behaviour, usage patterns, and brand loyalty, while geographic criteria consider location, climate, and culture. Attitudinal criteria assess beliefs, opinions, and attitudes. The objective is to identify segments that can be combined while still preserving enough uniqueness to effectively cater to their needs and preferences. By

utilizing segment equivalence criteria, businesses can refine their segmentation approach, enhancing the effectiveness of their marketing efforts and ultimately driving increased sales and customer satisfaction.

2. Knock-out Criteria: Knock-out criteria act as specific factors or characteristics that exclude a segment from consideration in the market segmentation process. These criteria assist businesses in narrowing down potential segments and directing resources toward more promising opportunities. Examples of knock-out criteria include size, profitability, accessibility, compatibility, regulatory compliance, and competition. By eliminating unsuitable segments, businesses can focus on segments that offer the highest potential for growth and profitability, avoiding the wastage of resources. The use of knock-out criteria streamlines the segmentation process, enhancing the effectiveness of marketing efforts and enabling businesses to concentrate on the most viable segments.

3. Attractiveness Criteria: The assessment of market segment attractiveness is not binary but rather based on a spectrum of alignment. Each segment is rated according to how well it aligns with specific criteria. This approach allows businesses to prioritize the most promising market segments based on their goals and available resources. By utilizing attractiveness criteria, businesses can allocate resources to segments that offer the greatest potential for success, while avoiding those with limited prospects. The specific criteria used may vary, but the goal is to develop a targeted marketing strategy that caters to the unique needs and preferences of customers within each segment. This tailored approach leads to increased sales and customer loyalty, as businesses align their efforts with the most attractive market segments.

Step 3: Collecting Data -

In the process of market segmentation, the collection of data about potential customers is a critical and fundamental step. This involves gathering information to gain a deeper understanding of customer needs and preferences, enabling the creation of a targeted marketing strategy that effectively reaches the desired audience. Various methods of data collection are available to businesses, including surveys, focus groups, interviews, observation, secondary data, social media, and customer feedback. Surveys are widely used and provide valuable insights into demographic, psychographic, behavioural, and attitudinal factors. Focus groups allow for qualitative data collection, offering rich insights into customer needs and preferences. Interviews are particularly useful in gathering detailed information about customer behaviour and preferences. Observing potential customers in their natural environment provides valuable firsthand insights. Businesses can also leverage secondary data sources to gain insights into market trends and demographics, informing the segmentation process. Social media platforms serve as a valuable source of data, offering insights into customer preferences and behaviour. Additionally, collecting customer feedback through online reviews, customer support interactions, and feedback forms is crucial. Continuous monitoring and updating of data are essential to ensure the ongoing effectiveness of marketing efforts. By employing a combination of data collection methods, businesses can develop a comprehensive understanding of their customers and tailor their marketing strategies to meet their specific needs and preferences. This data-driven approach

enhances the efficiency and success of marketing campaigns, resulting in improved customer satisfaction and business performance.

Step 4: Exploring Data -

Exploring data is a crucial step in the market segmentation process, aimed at identifying inconsistencies and systematic contaminations that may impact the quality of the analysis. It involves preprocessing the data, if necessary, to ensure its integrity and reliability. Additionally, it is important to consider the number of segmentation variables in relation to the available sample size, with a recommended minimum of 100 consumers per variable. During data exploration, evaluating the correlation among segmentation variables is essential. High correlation between variables can lead to redundant information and potentially skew the segmentation results. In such cases, it is advisable to select uncorrelated variables to ensure a more accurate and meaningful segmentation outcome. By conducting a thorough examination of the data, addressing inconsistencies and contaminations, and considering the appropriate number and correlation of segmentation variables, businesses can ensure the robustness of their market segmentation analysis. This data exploration process lays the foundation for effective segmentation and enables businesses to make informed decisions regarding their target audience, marketing strategies, and resource allocation, ultimately leading to improved business outcomes.

Step 5: Extracting segments -

Extracting segments is a critical step in the market segmentation process, aimed at dividing a larger market into smaller subgroups of customers with similar characteristics, needs, and preferences. Various types of segmentation can be utilized to achieve this goal.

1. Demographic segmentation focuses on dividing the market based on demographic variables such as age, gender, income, education, and occupation. This allows businesses to target specific consumer groups with tailored marketing strategies.

2. Geographic segmentation involves dividing the market based on geographic location, such as region, city, or climate. This approach recognizes that consumer needs and preferences can vary based on their geographical context.

3. Psychographic segmentation considers consumers' personality traits, values, attitudes, and lifestyles. By understanding consumers on a deeper psychological level, businesses can create more personalized and emotionally appealing marketing messages.

4. Behavioural segmentation segments the market based on customers' purchasing patterns, usage rate, brand loyalty, and other behavioural aspects. This enables businesses to target consumers who exhibit similar behaviours and tailor their marketing efforts accordingly.

5. Benefit segmentation involves dividing the market based on the specific benefits or solutions customers seek from a product or service. By understanding the unique needs and

desired outcomes of different customer segments, businesses can develop targeted value propositions.

6. Cultural segmentation recognizes the influence of cultural factors, such as ethnicity, religion, and language, on consumer behaviour. This approach acknowledges the diversity within the market and allows for culturally sensitive marketing strategies.

7. Occasion segmentation considers the specific occasions or situations in which customers use a product or service. By understanding the context in which consumers engage with a brand, businesses can design relevant marketing campaigns.

8. Technographic segmentation focuses on customers' technology adoption and usage, such as their social media habits or device preferences. This helps businesses tailor their marketing strategies to align with consumers' digital behaviours.

By utilizing these various segmentation approaches, businesses can gain a comprehensive understanding of their target market and develop more effective marketing strategies. Combining multiple segmentation types can provide a more nuanced view of customer segments, enabling businesses to meet their specific needs and preferences, ultimately leading to increased customer satisfaction, higher sales, and improved business success.

Step 6: Profiling segments -

Profiling segments is a crucial and strategic process within market segmentation, involving the meticulous collection and analysis of data to develop detailed profiles of each segment. This profiling process entails gathering information from diverse sources, including demographic, psychographic, and behavioural data, to differentiate one segment from another. To gather this data, marketers employ research methods such as surveys and focus groups to gain deep insights into the needs, preferences, and behaviours of individuals within each segment. The resulting profiles offer a comprehensive understanding of the typical customer within each segment, encompassing factors such as age, gender, income, lifestyle, values, interests, and purchasing habits.

The purpose of segment profiling is to equip marketers with a comprehensive understanding of each segment, enabling the development of highly targeted marketing strategies and campaigns that cater to the unique needs and preferences of each segment. By tailoring messages and offers to resonate with specific segments, marketers can achieve higher response rates, increased sales, and enhanced customer loyalty. It is crucial, however, to conduct segment profiling ethically and in full compliance with privacy laws and regulations. Marketers should avoid making assumptions or resorting to stereotypes based on limited data, and instead rely on a broad and representative sample of data to ensure comprehensive and accurate profiles of each segment.

Effective segment profiling enables marketers to personalize their marketing efforts, ensuring that messages and offers are highly relevant and resonate with the specific characteristics and preferences of each segment. By understanding the nuances and unique traits of each segment, marketers can deploy resources more efficiently and effectively, maximizing the impact of their marketing campaigns and ultimately driving business success.

Step 7: Describing segments -

To gain a comprehensive understanding of market segments, it is essential to carefully select appropriate descriptor variables for further data analysis. These variables serve as additional indicators that provide valuable insights into the characteristics of each segment. Once the descriptor variables have been chosen, visualisation techniques can be employed to identify any discernible differences among the segments. Categorical or ordinal descriptor variables can be effectively represented using mosaic plots, while metric descriptor variables can be visually displayed through box-and-whisker plots.

In order to determine the significance of the descriptor variables and their impact on the segmentation, it is crucial to conduct statistical tests. These tests, such as ANOVA (Analysis of Variance) or chi-square tests, are employed depending on the type of variable under analysis. By assessing the statistical significance of the descriptor variables, marketers can discern the factors that truly differentiate each segment. This insight empowers them to develop more precise and targeted marketing strategies that align with the specific needs and preferences of each segment.

Employing statistical tests to evaluate descriptor variables adds a rigorous and evidence-based approach to segment analysis. By identifying the statistically significant variables, marketers can uncover the key drivers that set each segment apart and subsequently refine their marketing strategies accordingly. This analytical approach enhances decision-making by providing a deeper understanding of the market dynamics and enabling the development of tailored marketing initiatives that resonate with the unique characteristics of each segment.

Step 8: Selecting the target segments -

After profiling and evaluating various market segments for their attractiveness and competitiveness, it is crucial to identify the potential target markets that align with the strategic goals of the business. To make informed decisions, a weighted calculation approach can be employed to determine the overall attractiveness and relative competitiveness of each segment based on predetermined criteria. These criteria may include factors such as market size, growth potential, profitability, fit with the company's capabilities, and alignment with the organization's objectives.

By assigning appropriate weights to each criterion, a comprehensive evaluation of the segments can be conducted. This weighted calculation enables a systematic and objective assessment, allowing for a more accurate comparison between segments. The resulting values can then be plotted on a segment evaluation plot, which visually depicts the attractiveness and competitiveness of each segment. This plot provides a clear and concise overview, facilitating a straightforward comparison of the potential target markets.

When selecting target segments, it is important to consider the compatibility of multiple segments if the strategy involves targeting more than one market. Compatibility ensures that

the selected segments can be effectively and efficiently targeted without conflicting or diluting the marketing efforts. Compatibility can be assessed based on factors such as shared customer characteristics, synergies in marketing approaches, and the feasibility of serving multiple segments concurrently.

By carefully evaluating the attractiveness and competitiveness of each segment and considering their compatibility, businesses can identify the most promising target market(s). This strategic decision ensures that marketing resources and efforts are directed towards segments that offer the greatest potential for success, ultimately leading to improved customer acquisition, retention, and business performance.

Step 9: Customising the marketing mix -

The decision of which segment to target is a pivotal factor in shaping the marketing mix, as it significantly influences product development, pricing strategy, promotion and messaging, and distribution strategy. Each element of the marketing mix must be customized to effectively meet the needs and preferences of the target segment. Here's an elaboration on how the target segment decision impacts the development of the marketing mix:

a) Product development: The target segment decision guides the refinement of specific product features and benefits. By understanding the unique requirements and desires of the target segment, companies can tailor their products to align with customer expectations. For instance, if the target segment values convenience, the product may incorporate user-friendly features or streamlined packaging.

b) Pricing strategy: The target segment decision helps determine the optimal price points for the product. Companies must consider the target customers' perceived value and willingness to pay. If the target segment prioritizes affordability, the pricing strategy may focus on competitive pricing or offering cost-effective options.

c) Promotion and messaging: The target segment decision influences the selection of marketing messages and channels to effectively reach and resonate with the target customers. By understanding their preferences, values, and communication habits, companies can craft compelling messages and utilize appropriate channels. For example, if the target segment consists of environmentally conscious individuals, emphasizing the product's sustainability features in eco-friendly advertisements may be more impactful.

d) Distribution strategy: The target segment decision identifies the most suitable distribution channels to make the product accessible to the target customers. Whether through online platforms, brick-and-mortar retailers, or a combination of both, the distribution strategy must align with the target segment's shopping habits and preferences. For instance, if the target segment prefers online shopping, establishing a robust e-commerce presence and partnerships with relevant online platforms may be advantageous.

In summary, the target segment decision is pivotal in customizing the marketing mix, enabling companies to align their strategies with the specific needs, preferences, and behaviours of the chosen segment. By tailoring product offerings, pricing, promotion, and

distribution strategies accordingly, businesses can enhance customer satisfaction, strengthen brand loyalty, and ultimately drive business success.

Step 10: Evaluation and monitoring -

Evaluation and monitoring are critical components of market segmentation that enable marketers to assess the effectiveness of their segmentation strategies and make informed decisions to enhance performance over time. This ongoing process involves tracking and analysing key metrics, such as customer satisfaction, sales, and market share, to evaluate the impact of segmentation efforts. By employing robust evaluation and monitoring practices, marketers can gain valuable insights into the strengths and weaknesses of their segmentation approach, allowing for necessary adjustments and improvements.
The evaluation phase involves systematically assessing the outcomes and results of the segmentation strategy. This includes measuring customer satisfaction levels to gauge the extent to which the segmented marketing efforts have resonated with the target audience. Additionally, monitoring sales performance provides valuable insights into the effectiveness of the segmentation strategy in driving customer acquisition and retention, as well as revenue generation. Market share analysis allows marketers to understand their positioning within the market and track changes in market dynamics.

Continuous monitoring is crucial to keep a pulse on market trends and evolving customer preferences. By regularly evaluating and benchmarking performance against predefined goals and industry standards, marketers can identify areas for optimization and implement proactive measures to maintain a competitive edge. This involves monitoring key performance indicators (KPIs) specific to each segment and employing data-driven techniques to identify patterns, trends, and opportunities.

To facilitate effective evaluation and monitoring, marketers can leverage advanced analytics tools and technologies. These tools enable the collection, integration, and analysis of data from various sources, providing comprehensive insights into the segmentation strategy's impact. By harnessing data analytics capabilities, marketers can uncover valuable patterns, correlations, and actionable insights that inform strategic decision-making and enhance segmentation effectiveness.

In conclusion, evaluation and monitoring play a vital role in market segmentation by enabling marketers to assess the performance and impact of their strategies. By systematically tracking and analysing key metrics, marketers can identify areas for improvement, capitalize on opportunities, and refine their segmentation approach over time. Ongoing evaluation and monitoring ensure that segmentation efforts remain relevant, customer-centric, and aligned with the dynamic market landscape, ultimately driving sustained success for businesses.

Github Link for Jupyter Notebook in Python –

https://github.com/rishits321/InternshipFeynn/tree/main/Feynn_T1