Market Segmentation - Case Study

By

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Market segmentation is a strategic business practice that involves dividing a heterogeneous market into distinct and homogeneous segments based on shared characteristics. This approach recognizes that not all customers are the same and aims to tailor marketing strategies to specific groups with similar needs, preferences, or behaviors. Using data analysis and machine learning techniques, businesses collect and process relevant customer information, identifying patterns and trends to create meaningful segments. The segmentation process helps companies optimize their marketing efforts, product development, and customer communication, ultimately enhancing their ability to meet the diverse demands of various customer groups and drive overall business success.

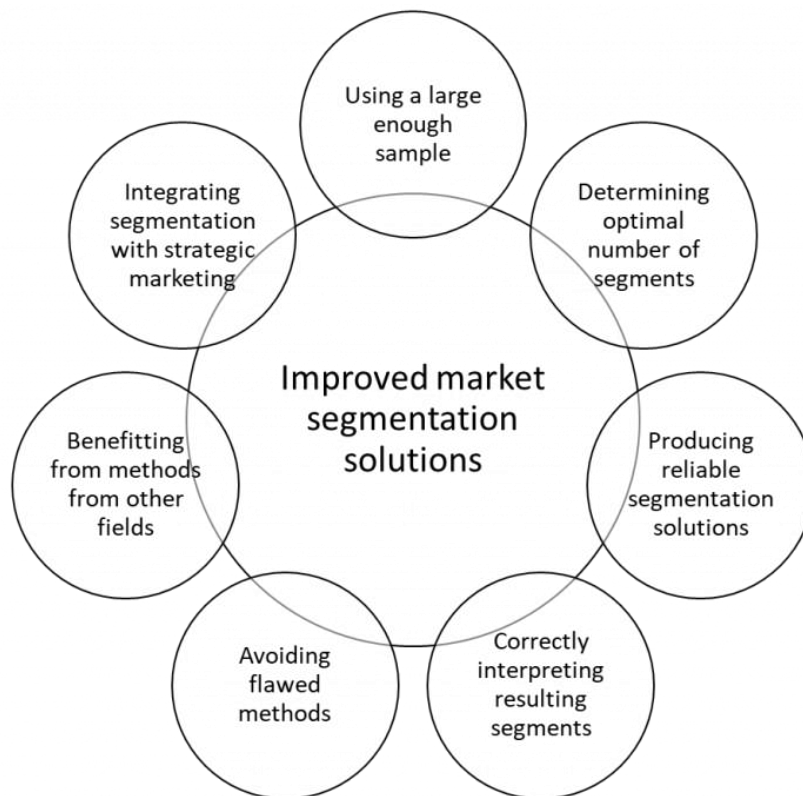STEP 1: Deciding (not) to Segment

STEP 2: Specifying the Ideal Target Segment

STEP 3: Collecting Data

STEP 7: Describing Segments

STEP 8: Selecting Target Segment(s)

STEP 9: Customising the Marketing Mix

Improved market segmentation solutions

- Using a large enough sample
- Determining optimal number of segments
- Producing reliable segmentation solutions
- Correctly interpreting resulting segments
- Avoiding flawed methods
- Benefitting from methods from other fields
- Integrating segmentation with strategic marketing

1. **Deciding (not) to Segment**

   1.1. **Commitment is Key:** Market segmentation is a long-term commitment that requires substantial organizational changes and investments. Before starting, it's crucial for top executives to make this decision and communicate it across all levels of the organization.

   1.2. **Implementation Barriers:** Several barriers may hinder successful segmentation, including a lack of leadership, resources, and a market-oriented culture. Overcoming these barriers is essential for effective implementation.

   1.3. **Checklist for Decision-Making:** A checklist is provided to assess the organization's readiness for segmentation. It includes questions about the organization's market orientation, willingness to change, long-term perspective, openness to new ideas, communication effectiveness, ability to make structural changes, financial resources, and understanding of segmentation concepts.

   1.4. **Team Setup:** Forming a dedicated segmentation team with expertise in marketing, data, and analysis is crucial. The team should also have an advisory committee representing all affected organizational units.

   1.5. **Clear Objectives and Structured Process:** Clearly defining objectives and developing a structured process are essential for a successful segmentation analysis. Assigning responsibilities, ensuring understanding, and allowing sufficient time without pressure are key components.

2. Specifying the Ideal Target Segment

2.1 **Organization's Input:** The organization actively contributes throughout the segmentation process. Two types of criteria: knock-out (essential) and attractiveness (for evaluation)

2.2 **Types:** Knock-out criteria (homogeneity, size, etc.) determine segment eligibility. Attractiveness criteria are diverse, non-binary, used for rating segment appeal.

2.3 **Structured Process:** A systematic approach (e.g., segment evaluation plot) aids in assessment. The team decides factors for segment attractiveness and organizational competitiveness.

2.4 Checklist:
- Team discussions and agreements on knock-out criteria.
- Advisory committee involvement for input.
- Study and agreement on attractiveness criteria.
- Point distribution reflecting importance.
- Weighting agreement presented to the advisory committee.

3. Collecting Data

Empirical data crucial for commonsense and data-driven segmentation. Data quality impacts correct case assignment, accurate descriptions, and targeted strategies. Surveys, observations, and experiments are potential data sources. Actual consumer behaviours reflection enhances segmentation quality.

3.1. **Segmentation Criteria:** Key criteria options: geographic, sociodemographic, psychographic, behavioural, profitability, preferences, barriers, consumer interactions. Simpler, effective criteria recommended; resist unnecessary sophistication. Pragmatic criterion selection based on organizational experience is vital.

3.2. **Geographic Segmentation:** Uses location for market segmentation. Simple assignment and targeted communication to local areas. Imperfect but resurging interest for cross-border studies.

3.3. **Socio-Demographic Segmentation:** Criteria include age, gender, income, education. Useful for certain industries but has limitations. Limited insight into motivations and preferences.

3.4. **Psychographic Segmentation:** Groups based on psychological characteristics. Reveals motivations better than demographics. Requires reliable measures of psychological constructs.

3.5. **Behavioural Segmentation:** Groups based on actual or reported behaviour. Provides sharp insights but challenges in obtaining reliable behavioural data. Powerful for revealing motivations when available.

7. Describing Segments

7.1. **Developing a Complete Picture of Market Segments:** This subtopic emphasizes the importance of creating a comprehensive understanding of market segments. It involves collecting and analyzing data to build detailed profiles of each segment, considering various characteristics and behaviours.

7.2. **Using Visualizations to Describe Market Segment:** Visualizations are powerful tools for conveying segment characteristics effectively. This section discusses the use of visual aids, focusing on nominal and ordinal descriptor variables and metric descriptor variables. The goal is to present complex information in an accessible and understandable format.

7.3. **Testing for Segment Differences in Descriptor Variables:** This part explores statistical methods to test for differences among segments in descriptor variables. It involves conducting tests to determine if there are significant variations in characteristics across different segments, providing insights into the uniqueness of each segment.

7.4. **Predicting Segments from Descriptor Variables:** Here, various statistical techniques are discussed for predicting segments based on descriptor variables. Methods such as binary logistic regression, multinomial logistic regression, and tree-based methods are explained. The aim is to develop models that can predict segment membership, aiding in practical decision-making.

8. Selecting Target Segment(s)

8.1. **The Targeting Decision:** This subtopic delves into the decision-making process for selecting the target segment. It discusses the criteria and considerations involved in evaluating potential segments and making the strategic decision of which segment(s) to target.

8.2. **Market Segment Evaluation:** The focus here is on the comprehensive evaluation of market segments. Factors such as segment size, growth potential, competition, and compatibility with organizational capabilities are considered. This evaluation is crucial for identifying the most viable target segment.

8.3. **Checklist:** The checklist provides a systematic guide for ensuring that all relevant factors are considered in the process of selecting the target segment. It serves as a tool to organize and validate the decision-making steps, minimizing oversights.
- Use the selected segments from Step 5.
- Visualise segment profiles to learn about what makes each segment
- distinct.
- Use knock-out criteria to check if any of the segments currently under
- consideration should already be eliminated because they do not
- comply with the knock-out criteria.
- Pass on the remaining segments to **Step 7** for describing.

9. Customising the Marketing Mix

9.1. **Implications for Marketing Mix Decisions:** This subtopic discusses how the characteristics of the chosen target segment influence marketing mix decisions. It explores the implications on product development, pricing strategies, distribution channels, and promotional activities.

9.2. **Product:** The focus is on tailoring the product to meet the specific needs and preferences of the target segment. This involves product features, design, branding, and any customization necessary to align with segment expectations.

9.3. **Price:** Pricing strategies are discussed in this section, emphasizing how they should reflect the perceived value of the product or service within the target segment. Different pricing approaches based on segment characteristics are explored.

9.4. **Promotion:** This part covers promotional activities, including advertising, public relations, and marketing communication. It explores how promotional efforts can be customized to resonate with the chosen target segment, considering their preferences and communication channels.

GitHub Link for McDonalds-Case-Study:

https://github.com/sathishkannan-b/MC-DONALDS-Case-Study-Under-Feynn-Labs