REPORT

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Step 1: Deciding (not) to Segment

- This chapter has mentioned about different barriers faced in market segmentation
- The first one being senior management. Improper leadership and lack of interest from senior executives might affect the market segmentation.
- The second barrier being organizational culture. Lack of ideas and creative thinking might affect the market segmentation.
- Third problem is lack of training.
- Absence of a formal marketing function or qualified marketing expert is a key barrier.
- Financial limitations and resistance to structural changes restrict the segmentation process.
- The solution to this is to checklist. It involves both tasks and critical questions.
- If an organization is not market-oriented, segmentation analysis will likely fail.

STEP 2: Specifying the Ideal Target segment

2.1 Segment Evaluation Criteria

- User input is essential throughout the segmentation process—not just at the start or end.
- Organisations must be involved in defining two sets of criteria
    - **Knock-out criteria**: Non-negotiable conditions a segment must meet.
    - **Attractiveness criteria**: Used to rank the remaining eligible segments.

2.2 Knock-Out Criteria

- These determine if a segment qualifies for further evaluation.
- Based on suggestions from Kotler and others, knock-out criteria include:
    - **Homogeneity**: Segment members are similar.
    - **Distinctiveness**: Segment is clearly different from others.
    - **Substantiality**: Segment is large enough to justify targeting.
    - **Organisational Fit**: Segment aligns with the company's strengths.
    - **Identifiability**: Segment members can be clearly identified.
    - **Accessibility**: Segment can be reached through marketing efforts.

2.3 Attractiveness Criteria

- Used to rate segments based on how appealing they are.
- Help in deciding which qualified segments are most worth targeting.

2.4 Implementing a Structured Process

- A structured approach is used to evaluate segments.

- Common tool used is Segment Evaluation Plot, mapping:
    - Segment Attractiveness (X-axis)
    - Organisational Competitiveness (Y-axis)

STEP 3: Collecting Data

3.1 Segmentation criteria

3.1.1 Geographic Segmentation

- Based on consumers' location (e.g., country, region).
- Simple and practical; useful for targeting by language or local media.
- Easy to assign consumers to segments.
- Limitation: Location doesn't always reflect consumer preferences or behavior.

3.1.2 Socio-Demographic Segmentation

- Uses criteria like age, gender, income, and education.
- Useful for certain industries (e.g., luxury goods, cosmetics, baby products).
- Easy to determine segment membership.
- Limitation: Explains little variance in consumer behavior; not always linked to product preferences.

3.1.3 Psychographic Segmentation

- Based on psychological traits: beliefs, interests, motivations, and lifestyle.
- Better reflects reasons behind consumer behavior.
- Often used in tourism (e.g., travel motives).
- Limitation: Complex and requires reliable measurement tools.

3.1.4 Behavioural Segmentation

- Based on actual or reported behavior (e.g., purchase frequency, spending, brand loyalty).
- Most directly linked to consumer actions.
- Doesn't require assumptions about preferences.
- Limitation: Data may be hard to obtain, especially for new/potential customers.

3.2: Data from Survey Studies

3.2.1. Survey Data Usage

- Most segmentation studies rely on surveys due to their low cost and ease of collection.
- However, survey data can be biased, affecting the quality of segmentation results.

2. Choice of Variables

- Selecting relevant and necessary variables is critical.
- Including too many or irrelevant (noisy) variables can confuse algorithms and reduce segmentation accuracy.
- Avoid redundant questions; conduct qualitative research first to ensure all important aspects are covered.

3. Response Options

- The format of response options influences the type of data:
  - **Binary** : Simple and suitable for distance-based analysis.
  - **Nominal** : Can be transformed into binary for analysis.
  - **Metric** : Most flexible and analysis-friendly.
  - **Ordinal** : Common but problematic for measuring distances.

4. Response Styles

- Biases such as extreme responding or always selecting the midpoint can distort results.
- These response styles may not reflect true opinions but rather habitual patterns.
- Algorithms often can't distinguish between actual beliefs and biased response tendencies.

3.3: Data from Internal sources

- The major disadvantage of internal data is it might be biased by over representing existing customers.
- Common examples of internal data are scanner data and booking data by airlines.

Step 4: Exploring Data

4.1 cleaning of data

- It is used to check if the data contains any implausible values.
- We read the data using read.csv.

4.2 Descriptive analysis

- Descriptive graphical analysis provides better insights to the data. By summary() function we can get the summary of the data.
- We can use various plotting techniques like box plots, scatter plots, histograms.

4.3 pre processing

- For categorical data we use two techniques, one is merging levels and other one is to convert categorical into numerical.

4.4 principal component analysis

- It transforms a multivariate dataset to metric variables.

Step 5: Profiling Segments

5.1 identifying key characteristics

- Profiling is only required when data-driven market segmentation is used.
- The main aim is to know the market segment after extraction step.

5.2 Identifying Defining Characteristics of Market Segments

- **Segment profile plots** show how each segment differs from the overall sample across segmentation variables.
- Variables can be reordered (e.g., by similarity of response patterns) to improve readability.
    - Example: Hierarchical clustering of variables using R (`hclust()` and `dist()` on the transposed data).
- **Profile plots** include:
    - Bars for each segment showing mean values (centroids),
    - Dots representing total sample means for reference,
    - **Marker variables** (characteristic for a segment) shown in color.

5.3 Assessing Segment Separation

- **Segment separation plots** show overlap between segments across all relevant dimensions.
- Simple if few segmentation variables; complex but still insightful with many variables.
- Useful for quickly assessing the **quality and clarity** of segment distinctions.

Step 6: Selecting the Target Segment

- **Purpose**: Segment evaluation helps identify which market segments are most attractive and where the organization is most competitive.
- **Matrix Framework**: Uses a 2D matrix—x-axis for segment attractiveness *and y-axis for* organizational competitiveness.
- **Scoring System**: Segments are rated based on predefined criteria and weights, with higher scores indicating better fit.
- **Visualization**: Segments are plotted as circles on the matrix; circle size can represent factors like revenue or loyalty.
- **Decision Support**: This approach visually supports decision-making by highlighting the best segments to target based on both strategic fit and potential.