# MARKET SEGMENTATION

# CASE STUDY

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## Market Segmentation

Market segmentation involves splitting a bigger market into smaller groups of customers or enterprises with shared demands or features. Market segmentation identifies segments of a market and tailors marketing methods to better fit their requirements and preferences. Market segmentation involves examining demographic, geographic, psychographic, and behavioral data to identify specific groupings of consumers or enterprises. Effective market segmentation helps organizations focus resources on the most promising categories and create more relevant marketing efforts.

## The Benefits and cost Market Segmentation

Market segmentation provides numerous benefits, including better understanding of consumer differences, aligning organizational strengths with consumer needs, achieving long-term competitive advantage and market dominance, and increasing return on investment. It can enhance teamwork, communication, and information sharing inside organizations. Implementing market segmentation demands significant investment of both human and financial resources, and a flawed approach might result in costly expenses with little added return. Market segmentation is crucial for identifying and targeting certain groups of customers with unique requirements and preferences. Organizations must make an informed decision on whether to follow this strategy.

#  Steps of Market Segmentation Analysis

## Step 1: Deciding (not) to Segment:

The initial stage in market segmentation study is to determine whether or not to segment the market. McDonald's, being a worldwide brand, has decided to segment its market to meet the different demands and tastes of its consumers. By segmenting its market, McDonald's may identify and target certain client groups with customized products and services. However, committing to market segmentation has ramifications and implementation challenges that must be considered.

## Implications of Committing to Market Segmentation:

One of the most significant implications of market segmentation is the higher costs associated with developing and promoting unique products and services for each consumer group. McDonald's has surmounted this difficulty by developing a globally recognized core menu while also offering tailored goods to suit to distinct consumer tastes. This strategy has enabled McDonald's to remain consistent while also adjusting to local markets.

## Implementation Barriers:

Implementation challenges can include a lack of data and resources, stakeholder resistance, and difficulty developing an effective segmentation strategy. To tackle these challenges, McDonald's has engaged in data analysis and market research to better understand its consumers' requirements and preferences. Furthermore, McDonald's has created a structured procedure for market segmentation study, which we will go over in the next sections.

# Step 2: Specifying the Ideal Target Segment:

The second phase in market segmentation study is to identify the best target segment for the firm. This entails assessing a variety of segment parameters, including segment size, profitability, accessibility, and compatibility with the company's resources and capabilities.

## Segment Evaluation Criteria:

McDonald's examines segment criteria using three key criteria: demographics, psychographics, and behavior. Age, income, education, and occupation are all demographic characteristics. Psychographic criteria include personality, lifestyle, values, and attitudes. Behavioral factors include using frequency, loyalty, and desired advantages.

## Knock-Out Criteria:

McDonald's employs knock-out criteria to exclude consumer categories that are unprofitable for the firm. McDonald's, for example, may discontinue a segment that is either too small or unprofitable to justify the cost of developing and marketing products for that segment.

## Attractiveness Criteria:

McDonald's also assesses segment attractiveness using criteria such as growth potential, competition, and compatibility with the company's resources. For example, McDonald's may opt to target a segment with significant growth potential and little competition, allowing the company to capitalize on its core skills.

**Implementing a Structured Process:** McDonald's has used a multistage market segmentation analysis approach. First, the organization performs market research to determine client wants and preferences. Second, the organization assesses segment criteria using demographic, psychographic, and behavioral aspects. Third, the organization uses knock-out criteria to exclude unviable portions. Finally, the organization assesses the remaining categories using attractiveness criteria to choose the best target market.

# Step 3: Collecting Data:

The third phase in market segmentation analysis is to gather information that will be utilized to define client segments. McDonald's obtains data from a variety of sources, including surveys, internal reports, and experimental investigations.

## Segmentation Criteria:

McDonald's uses four primary segmentation criteria: geographic, sociodemographic, psychographic, and behavioral. Geographic segmentation is the process of partitioning a market depending on its geographic location, such as country or region. Socio-demographic segmentation divides the market according to demographic criteria such as age, income, and occupation.

## Geographic Segmentation:

This entails separating the market into several geographical units, such as countries, regions, states, cities, or neighborhoods. McDonald's might utilize this criterion to target certain places where their items are in high demand. For example, they could select high-traffic locations or areas with a high number of potential clients, such as college campuses or commercial districts.

## Socio-Demographic Segmentation:

This criterion divides the market based on demographic characteristics such as age, gender, income, education, occupation, and family size. McDonald's might utilize this criterion to determine which demographics are more likely to be interested in their products. For example, businesses could target families with children by providing kids' meals, or college students by offering student discounts.

## Psychographic Segmentation:

This criterion classifies the market according to lifestyle, personality features, values, and interests. McDonald's might utilize this characteristic to target customers who have a similar lifestyle or value system. For example, they might cater to health-conscious clients by providing salads and grilled alternatives, or eco-friendly people by highlighting their sustainable methods.

## Behavioral Segmentation:

This criterion divides the market depending on customers' attitudes toward the product or service. This includes things like their usage rate, loyalty, attitude toward the brand, and response to promotional messaging. McDonald's might utilize this characteristic to target customers who make frequent purchases or who are more devoted to their brand. For example, companies could provide loyalty programs or special discounts to returning clients.

## Data from Survey Studies:

Survey studies obtain primary data from clients via questionnaires, interviews, or focus groups. McDonald's could conduct survey research to learn about client preferences, attitudes, and actions about its products. For example, businesses could undertake surveys to learn about customers' impressions of their brand or to determine the most popular menu items.

## Choice of Variables:

The variables used in a survey study define the type of information received from clients. McDonald's could select variables like as menu preferences, pricing, service quality, or branding based on the research objectives.

**Response Options:**

Response options are the various ways customers can react to survey questions, such as multiple-choice, rating scales, and open-ended inquiries. McDonald's may employ multiple response options depending on the type of information they wish to collect. For example, they could utilize rating scales to determine consumer satisfaction levels or open-ended inquiries to collect specific feedback on their products.

**Response Styles:**

Response styles describe how customers answer to survey questions, such as socially desired responses or acquiescence bias. McDonald's could employ ways to reduce response styles in order to collect accurate information from customers.

**Sample Size:**

The sample size refers to the number of customers who participated in the survey study. McDonald's would need to choose an acceptable sample size based on the level of accuracy necessary and the research budget.

**Data from Internal Studies:**

Internal data sources include sales statistics, customer feedback, and employee surveys. McDonald's might use this information to better understand customer behavior and preferences for their goods.

**Data from Experimental Studies:**

Experimental studies acquire primary data via controlled experiments, such as A/B testing or product trials. McDonald's could conduct experimental tests to evaluate new items or marketing methods before introducing them into the market.

## Data from Experimental Studies:

Obtained via laboratory or field research, as well as from choice experiments or conjoint analysis.