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Market Segmentation

(McDonald's Case Study) Git-hub link: [vincent-isaac/Market-Segmentation (github.com)](github.com)

Steps of Market Segmentation Analysis

1 Step 1: Deciding (not) to Segment

1.1 Implications of Committing to Market Segmentation

Market segmentation is a marketing strategy followed by most organizations. Sometimes, it is not the best decision to make because it requires a lot of time, resources, and money. Market segmentation is a long-term strategy, Organizations should be willing to make substantial changes and investments.

1.2 Implementation Barrier

The first group of barriers relates to senior management. Lack of leadership, proactive championing, commitment, and involvement in the market segmentation process by senior leadership undermines the success of market segmentation. If the senior management doesn't understand or so any interest, it is impossible to continue with the strategy.

A second group of barriers relates to organizational culture. If the organization is not open-minded and is ready to accept changes and adapt to them, then it may represent a barrier to the successful implementation of market segmentation.

Another obstacle may be objective restrictions faced by the organization, including a lack of financial resources, the inability to make the structural changes required, will not be able to guide teams through the process, and not being able to continue for a long time.

To implement market segmentation organization needs a resolute sense of purpose and dedication is required, tempered by patience and a willingness to appreciate the inevitable problems which will be encountered in implementing the conclusions.

1.3 Checklist

If Organizations are to implement a market segmentation strategy then, they must be ready to face problems, adapt, be patient, ready to make financial investments and structural changes, and have involved and committed senior management to guide teams.

Task	Who is responsible?	Completed?
Ensure that a marketing expert is on the team.		☐
Ensure that a data expert is on the team.		☐
Ensure that a data analysis expert is on the team.		☐
Set up an advisory committee representing all affected organisational units.		☐
Ensure that the objectives of the market segmentation analysis are clear.		☐
Develop a structured process to follow during market segmentation analysis.		☐
Assign responsibilities to segmentation team members using the structured process.		☐
Ensure that there is enough time to conduct the market segmentation analysis without time pressure.		☐

2   Step 2: Specifying the Ideal Target Segment

2.1   Segment Evaluation Criteria

Market segmentation analysis requires user input in most of the stages Step-2,3 and 8. There are two sets of evaluation criteria, which are knock-out and attractiveness criteria.

2.2   Knock-Out Criteria

The criteria contain important features of the segment that the organization might be targeting. Used to determine the resulting market segments from the market segmentation analysis qualify to be assessed using segment attractiveness criteria.

The market segment for an organization must be sustainable, measurable, unique, large, compatible, identifiable, and reachable.

2.3   Attractiveness Criteria

The attractiveness criteria are considered differently based on their situation. Each market can be attractive and not based on different criteria, the attractiveness among all criteria determines the target segment in step 8.

2.4   Implementing a Structured Process

The popular approach to evaluate the market segments is using an evaluation plot, which shows segment attractiveness on one axis and organizational competitiveness on the other axis. The values are determined by the segmentation team and there are no standard criteria that can be used for all organizations.

To determine the criteria for segment attractiveness and organizational competitiveness there are a lot of possible criteria that need to be looked into and agreed upon. Representatives from various organizational units should be included to determine the criteria. Each unit can bring a different perspective and all units are key stakeholders in the market segmentation analysis.

The evaluation plot cannot be completed in step 2 because there are no segments to asses yet. The advantage of doing so helps capture the relevant information when collecting data.

At the end of the step, the market segmentation team will have six-segment of attractiveness criteria with assigned weights indicating their importance compared to others.

2.5   Checklist

Task	Who is responsible?	Completed?
Convene a segmentation team meeting.		☐
Discuss and agree on the knock-out criteria of homogeneity, distinctness, size, match, identifiability and reachability. These knock-out criteria will lead to the automatic elimination of market segments which do not comply (in Step 8 at the latest).		☐
Present the knock-out criteria to the advisory committee for discussion and (if required) adjustment.		☐
Individually study available criteria for the assessment of market segment attractiveness.		☐
Discuss the criteria with the other segmentation team members and agree on a subset of no more than six criteria.		☐
Individually distribute 100 points across the segment attractiveness criteria you have agreed upon with the segmentation team. Distribute them in a way that reflects the relative importance of each attractiveness criterion.		☐
Discuss weightings with other segmentation team members and agree on a weighting.		☐
Present the selected segment attractiveness criteria and the proposed weights assigned to each of them to the advisory committee for discussion and (if required) adjustment.		☐

3   Step 3: Collecting Data

3.1   Segmentation Variables

The empirical data and its quality are crucial in developing accurate segmentation solutions. common sense segmentation relies on a single characteristic, like gender, to divide the sample into segments, while data-driven segmentation employs multiple variables to identify segments based on shared characteristics. Descriptive variables are used to provide detailed descriptions of the segments. The accuracy of the segmentation solution depends on the quality of the data. Various sources like surveys, observations, and experiments can aid in providing empirical data.

3.2   Segmentation Criteria

It is important to choose proper segmentation criteria before extracting segments. The segmentation criterion refers to the nature of the information used for market segmentation, such as geographic, socio-demographic, psychographic, or behavioral factors. The decision of which criterion to use requires prior knowledge about the market. Different criteria can be relevant depending on factors like profitability, preferences, barriers, and consumer interaction effects. The recommendation is to use the simplest approach that works for the product or service, considering factors like cost and effectiveness.

3.2.1 Geographic Segmentation

Geographic segmentation is the original and often appropriate criteria for market segmentation. It explains that using a consumer's location of residence as the segmentation variable allows for easy assignments to geographic units and targeted communication. However, the disadvantage is that geographic proximity does not necessarily imply shared characteristics or preferences. For example, people living in the same luxury suburbs may have different product preferences based on socio-demographic factors. Despite this limitation, there has been a resurgence in international market segmentation studies across geographic boundaries, which presents challenges in finding meaningful segmentation variables and addressing cultural biases. An example of such a study is provided in the context of mobile phone users among young customers.

3.2.2 Socio-Demographic Segmentation

Socio-demographic segmentation criteria includes age, gender, income, and education. While socio-demographic segments can be useful in certain industries like luxury goods, cosmetics, baby products, retirement villages, and tourism resorts, they may not always explain specific product preferences. Socio-demographic criteria offer easy determination of segment membership but may not provide sufficient market insight. Demographics are estimated to explain only a small portion of consumer behavior, and values, tastes, and preferences are deemed more influential in consumers' buying decisions.

3.2.3 Psychographic Segmentation

Psychographic segmentation groups people based on psychological criteria like beliefs, interests, preferences, aspirations, and benefits sought when purchasing a product. Benefit segmentation and lifestyle segmentation are popular approaches within psychographics. Psychographic criteria are complex and require multiple variables to capture insights into the psychological dimension. Psychographic segmentation provides a deeper understanding of consumer behavior, such as travel motives in the tourism industry. However, determining segment memberships and ensuring the reliability and validity of measures are challenges associated with the psychographic approach.

3.2.4 Behavioural Segmentation

The approach of segment extraction is based on similarities in behavior or reported behavior. Various behaviors, such as prior experience, purchase frequency, amount spent, and information search behavior, can be used for segmentation. Behavioral approaches have advantages as they utilize the actual behavior of interest and can be superior to geographic variables. Examples include using actual expenses or purchase data as segmentation variables. However, obtaining behavioral data may be challenging, particularly when targeting potential customers who have not yet purchased the product.

3.3 Data from Survey Studies

Market segmentation analysis relies on survey data because it's cheap and easy to collect, but survey data can be influenced by various means, which can negatively affect the quality of the segmentation analysis.

3.3.1 Choice of Variables

In data-driven segmentation, all relevant variables are collected and included. At the same time, unnecessary variables must be avoided. This will make it difficult in extracting market segments.

Noisy variables or masking variables prevent the algorithm from identifying the right segmentation solution. These variables occur due to inadequate survey question development or poor selection of segmentation variables, it is recommended to ask all necessary and unique questions.

A good questionnaire involves exploratory or qualitative research followed by quantitative research.

3.3.2 Response Options

The response options provided in surveys impact the suitability of data for segmentation analysis. Binary and metric data are well-suited, while nominal and ordinal data pose challenges for distance measures. Binary or metric options are preferable to prevent complications in segmentation analysis. Visual analogue scales can capture fine nuances if response styles are controlled. Binary options have been shown to outperform ordinal options, especially when formulated in a level-free manner.

3.3.3 Response Styles

Survey data can be affected by response biases and styles, which can impact segmentation results. Response biases, such as acquiescence bias, can lead to misinterpretation of segments. It is important to minimize the capture of response styles during data collection for market segmentation. Additional analysis or exclusion of respondents displaying response styles may be necessary to ensure accurate segmentation.

3.3.4 Sample Size

A minimum sample size of 2p (preferably five times 2p) should be used, where p is the total number of segmentation variables. This rule of thumb applies to the specific objective of goodness-of-fit assessment when employing binary variables in the context of latent class analysis.

Make sure that each segmentation variable has at least 100 responders. The findings of this study further emphasize the significance of gathering reliable, unbiased data as the foundation for market segmentation analysis.

Data used in market segmentation analyses should:

• contain all necessary items

• contain no unnecessary items

• contain no correlated items

• contain high-quality responses

• be binary or metric

• be free of response styles

• include responses from a suitable sample given the aim of the segmentation study

• include a sufficient sample size given the number of segmentation variables (100 times the number of segmentation variables).

3.4 Data from Internal Sources

Organizations now have access to large amounts of internal data for market segmentation analysis, such as scanner data, booking data, and online purchase data. The strength of this data is its representation of actual consumer behavior, avoiding biases in self-reported data. The data is readily available without additional effort. However, a limitation is the potential bias of over-representing existing customers, lacking information on potential future customers with different consumption patterns.

3.5 Data from Experimental Studies

Experimental data, obtained from field or laboratory experiments, can be utilized for market segmentation analysis. These experiments may involve testing consumer responses to advertisements or conducting choice experiments and conjoint analyses. In choice experiments and conjoint studies, consumers are presented with different product attributes and levels, and their preferences are recorded. The information gathered from these experiments can be used as segmentation criteria.

3.6 Checklist

Task	Who is responsible?	Completed?
Convene a market segmentation team meeting.		☐
Discuss which consumer characteristics could serve as promising segmentation variables. These variables will be used to extract groups of consumers from the data.		☐
Discuss which other consumer characteristics are required to develop a good understanding of market segments. These variables will later be used to describe the segments in detail.		☐
Determine how you can collect data to most validly capture both the segmentation variables and the descriptor variables.		☐
Design data collection carefully to keep data contamination through biases and other sources of systematic error to a minimum.		☐
Collect data.		☐