

Market Segmentation Analysis Guide

Step 1: Deciding Whether to Segment

Key Implications

- Market segmentation is a long-term strategy, not a quick fix.
- Requires significant investment in research, surveys, and marketing adjustments.
- Organizational changes may be needed, such as:
 - Developing new products or modifying existing ones.
 - Adjusting pricing, advertising, and distribution.
 - Restructuring teams to focus on segments rather than products.
- Top management must lead the initiative and ensure company-wide alignment.

Barriers to Success

- **Lack of leadership support** – Without executive buy-in, segmentation fails.
- **Resistance to change** – Employees may oppose new strategies.
- **Insufficient resources** – Budget, data experts, or marketing teams may be lacking.
- **Poor planning** – Unclear goals or rushed execution.
- **Misunderstanding** – Managers may not grasp segmentation's value.

Checklist

- Is the company customer-focused and adaptive to long-term changes?
- Does it have adequate budget and resources?
- Is senior management fully committed?
- Is there a dedicated team (marketing + data experts)?

Step 2: Defining the Ideal Target Segment

Knock-Out Criteria (Must-Haves)

Segments that fail these should be rejected immediately:

- **Homogeneous** – Members share similar traits.
- **Distinct** – Clearly different from other segments.
- **Large enough** – Profitable customer base.
- **Identifiable & reachable** – Can be targeted effectively.
- **Aligns with company strengths** – The business can serve them well.

Attractiveness Criteria (Nice-to-Haves)

Used to rank viable segments:

- High profitability
- Rapid growth potential
- Low competition
- Ease of marketing

Segment Evaluation Process

- Plot segments on a grid comparing:
 - Attractiveness (e.g., profit, growth)
 - Company fit (ability to serve the segment)
- Select 4–6 key criteria (e.g., assign weights: Profit = 40%, Growth = 30%)
- Involve cross-functional teams (sales, marketing, finance) for input

Checklist

- Finalize knock-out criteria
 - Choose 4–6 attractiveness criteria
 - Assign weighted importance (e.g., 100-point split)
 - Secure management approval
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Step 3: Collecting Data

Types of Data Sources

- **Survey Data**
 - Pros: Low cost, easy to collect
 - Cons: Risk of bias (e.g., inaccurate responses)
 - Best practices:
 - Use binary (Yes/No) or metric (numerical) questions
 - Ensure 100+ respondents per question
- **Internal Data (Company Records)**
 - Pros: Accurate (real purchase history, loyalty programs)
 - Cons: Limited to existing customers
- **Experimental Data**
 - Tests reactions (e.g., ad responses, product preferences)
 - Ideal for new product launches

Common Data Problems

- Noisy/unnecessary variables – Skew results
- Correlated questions – Distort analysis
- Response biases – False answers (e.g., always selecting "Agree")
- Insufficient sample size – Weak segment identification

Checklist

- Define required data (segmentation + descriptor variables)
 - Select the best data source (surveys, internal data, experiments)
 - Minimize biases and errors
 - Ensure adequate sample size (100x the number of questions)
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Step 7: Describing Segments

9.1 – Developing a Complete Picture of Market Segments

- Once we've created the segments, now it's about understanding **who** these people really are.
- I learned that this step doesn't use the original segmentation variables but instead uses **extra info**—like age, gender, income, hobbies, etc.
- Think of it like dating before marrying your customer!
(The authors said this and I kind of liked the analogy.)

9.2 – Using Visualisations to Describe Market Segments

- Charts and visuals really help in **making sense of data**. Especially when dealing with large segment sets.

Nominal/Ordinal Variables

- Use **cross-tabulations**, **bar charts**, and **mosaic plots**.
- Mosaic plots indicate **statistical significance** through color coding.
 - **Red**: Less than expected
 - **Blue**: More than expected
 - **White**: No significant difference
- Example: Gender distribution showed **no significant difference** across segments.

Metric Variables

- Use **boxplots**, **histograms**, and **parallel boxplots** to compare metrics like age or expenditure.
- Statistical tests like **ANOVA** confirm if differences are significant.

Key Findings from the Case Study

- **Segment 6**: Nature lovers, older age group, **high moral obligation** to protect the environment.
- **Segment 3**: Fun-seekers, younger, **low moral obligation** and high expenditure.
- **Segment 5**: Expresses **acquiescence bias**, tends to agree with survey items.

9.3 – Testing for Segment Differences in Descriptor Variables

- The **Chi-square tests** and **ANOVA** are to check if the differences were statistically significant.
- Turns out:
 - Gender differences = not significant
 - Age and moral obligation = very significant

- Also **pairwise t-tests** and **Tukey's HSD** to see exactly **which segments differed** from others.
 - Segments 5 & 6 showed **higher moral responsibility**.
 - Segment 3 stood out with the **least** concern for the environment.
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9.4 – Predicting Segments from Descriptor Variables

- This was the predictive part—super interesting!

Binary Logistic Regression:

- Tried predicting if someone is in Segment 3.
- Age wasn't helpful.
- **Moral obligation was a strong predictor.**

- **Multinomial Logistic Regression:**

- Built a model to predict **all segments** at once.
- Found that **older people with high moral obligation** are likely to be in Segment 6.

- **Tree-Based Method (CART):**

- Built a decision tree.
- Simple and easy to interpret.
- First split was based on **vacation behavior**, then **moral obligation**.

What I Learned

- Segment descriptions matter **a lot** for marketing and personalization.
- **Visual tools + Statistical tests** = better understanding.

- Not all variables matter equally – **moral obligation** stood out in my analysis.
 - Predictive modeling can even help **assign new customers** to existing segments.
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Step 9: Customising the Marketing Mix

11.1 Implications for Marketing Mix Decisions

- The **4Ps** (Product, Price, Place, Promotion) must align with the chosen target segment.
 - Segmentation is part of the **STP framework** (Segmentation, Targeting, Positioning).
 - Marketers should revisit and refine each component of the mix after segment selection.
 - Customization ensures that the marketing mix speaks directly to segment needs.
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11.2 Product

- Focuses on **tailoring products** to meet the needs of the target segment.
 - May involve new product creation or modifying existing offerings (e.g., naming, packaging, warranties).
 - **Example:** Segment 3 (museum/go-cultural tourists) may be offered a bundle called **“Museums, Monuments & Much, Much More”** with guided experiences and passes.
 - Gardens and markets may be highlighted to appeal to their interests.
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11.3 Price

- Pricing strategies must reflect the **segment’s value perception and willingness to pay**.
- **Example:** Segment 3 tourists have higher daily vacation spending.

- Premium pricing is viable; discounts are unnecessary.
 - Custom pricing may enhance perceived value and profitability.
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11.4 Place

- Distribution channels should match **segment behavior and preferences**.
 - **Example:** Segment 3 prefers **online bookings** over traditional methods.
 - Ensure the product is bookable online.
 - Analyze booking behavior across all offerings, not just accommodation.
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11.5 Promotion

- Promotion strategies must be aligned with **preferred information sources** and **media habits**.
 - **Example:** Segment 3 relies heavily on **tourist centers** and prefers **Channel 7** for TV.
 - Develop info packs for tourist centers (offline & online).
 - Run ads and promotions on preferred TV channels.
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11.6 Step 9 Checklist

- Convene segmentation team meeting
- Review segment profile thoroughly
- Modify product, price, place, and promotion for each segment
- Review entire marketing mix
- Repeat steps for multiple target segments if applicable
- Present the plan to advisory committee for feedback