

# MARKET SEGMENTATION CASE STUDY

BY

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# Market Segmentation Case Study - Abstract

This report explores various aspects of market segmentation, focusing on the process of identifying, analysing, and targeting distinct consumer groups to enhance marketing efficiency and effectiveness. It underscores the significance of strategic planning, robust data analysis, and effective profiling in market segmentation. By combining traditional statistical methods with modern visualization techniques, organizations can create well-defined market segments that inform successful marketing strategies, aligning consumer needs with the organizational value proposition.

## 1.ABOUT MARKET SEGMENTATION

### 1.1STRATEGIC AND TACTICAL MARKETING

The goal of marketing is to align the genuine needs and desires of consumers with products and services offered by suppliers. This matching process not only benefits both parties but also drives the organization's marketing planning.

Marketing planning consists of two main components: the strategic marketing plan, which sets long-term goals, and the tactical marketing plan, which focuses on short-term, actionable steps to reach those goals. The strategic plan determines the direction, whereas the tactical plan translates this vision into concrete actions. This relationship is likened to a hiking expedition, where selecting the destination (the mountain) is strategic, and organizing equipment and supplies is tactical.

The development of an organization's marketing plan often involves a SWOT analysis (strengths, weaknesses, opportunities, and threats). This helps identify the alignment between organizational strengths and consumer needs. The marketing strategy also involves market research to explore consumer desires through various research methods, including qualitative studies, observation, and experimentation.

The strategic marketing plan answers critical questions about the target consumers and how the company will present itself to these consumers. The tactical marketing plan involves the classic

4 P's: Product (development and modifications), Price (determination based on cost and willingness to pay), Place (distribution), and Promotion (communication and advertising).

## 1.2 DEFINITIONS OF MARKET

Market segmentation is a crucial tool for selecting a target market and designing a suitable marketing mix. It sits at the core of strategic marketing and helps to focus on homogeneous groups within a heterogeneous market. Smith (1956) defined market segmentation as viewing a heterogeneous market as multiple smaller homogeneous ones. The segmentation criteria, which could include demographics like age or complex traits like benefits sought, help in effectively identifying distinct groups within the market.

An example of segmentation is the mobile phone market, which could be divided into high-end, mid-range, and low-end segments, each with distinct consumer characteristics and preferences. By focusing on a specific segment, organizations can offer a more tailored product, leading to better satisfaction and market positioning.

## 1.3 BENEFITS OF MARKET SEGMENTATIONS

The benefits of market segmentation include:

1. **Reflective Assessment:** It helps organizations evaluate where they stand and where they wish to go, forcing a reassessment of their strengths and consumer needs.
2. **Competitive Advantage:** Understanding consumer differences and matching organizational strengths with specific needs can lead to a competitive advantage and even market dominance.
3. **Focused Marketing Mix:** By targeting specific segments, marketing efforts are more efficient, and the likelihood of achieving a higher return on investment increase.
4. **Sales Management:** Segmentation also benefits sales management by allowing more targeted sales efforts.
5. **Team Building:** The process of segmentation requires collaboration across various organizational units, fostering team building and improved communication.

## 1.4 COST OF MARKET SEGMENTATIONS

Market segmentation comes with substantial costs. The process requires a significant investment in terms of time and financial resources to conduct a thorough analysis, develop customized marketing strategies, and continuously monitor market dynamics. Moreover, if segmentation is not implemented well, the entire effort may be wasted, leading to substantial costs with no added value. Hence, organizations must carefully evaluate the decision to undertake market segmentation before committing resources to it.

## 2. MARKET SEGMENT ANALYSIS

### 2.1 LAYERS OF MARKET SEGMENTATIONS

Market segmentation analysis involves grouping consumers with similar characteristics or preferences into segments. The process consists of three layers:

1. **Core Layer:** This involves statistical methods to extract market segments, which are exploratory in nature. The quality of the resulting segments depends on the quality of the data collected.
2. **Second Layer:** This includes additional technical tasks such as data exploration, profiling, and describing each segment, which helps determine which segments to target and informs the marketing mix.
3. **Third Layer:** Non-technical tasks focus on implementation, such as assessing the viability of segmentation strategies and deciding which segments to target. User involvement is crucial in the data collection and analysis stages.

## 2.2 APPROACHES TO MARKET SEGMENTATIONS ANALYSIS

There are different approaches to market segmentation analysis:

### 1. Based on Organisational Constraints:

- **Segment Revolution:** This involves a radical change, starting from scratch to develop new segments and marketing plans.
- **Segment Evolution:** This refines existing segments, usually through intra-organizational workshops.
- **Exploratory Segment Mutation:** Segments are discovered through data mining or exploratory research, not through deliberate planning.

### 2. Based on Segmentation Variables:

- **Unidimensional:** Using a single segmentation variable, like age, to create simple segments.
- **Multidimensional:** Involves multiple segmentation variables to create more complex segments, such as expenditure patterns. The approach could be a priori, where the segmentation criteria are predefined, or data-driven, where the analysis reveals the segments after the data is processed.

## 2.3 DATA STRUCTURE AND DATA-DRIVEN MARKET SEGMENTATION ANALYSIS APPROACHES

Data-driven segmentation assumes that market segments naturally exist within consumer data. However, this is often not the case, and three conceptual approaches are suggested:

1. **Natural Segmentation:** Distinct and well-separated segments naturally exist in the data.
2. **Reproducible Segmentation:** The data has some structure, though not distinct enough to form natural segments. Segments can be repeatedly extracted to create reliable segmentation solutions.
3. **Constructive Segmentation:** Data lacks clear structure, but segments can still be created artificially to meet strategic needs. This helps target specific subgroups within an otherwise homogenous consumer base.

## 2.4 MARKET SEGMENTATION ANALYSIS STEP BY STEP

A ten-step approach is recommended for conducting market segmentation analysis:

1. **Deciding (Not) to Segment:** Assess if segmentation is suitable for the market.
2. **Specifying the Ideal Target Segment:** Determine the characteristics of the desired target segment.
3. **Collecting Data:** Gather necessary segmentation variables.
4. **Exploring Data:** Pre-process and explore data to understand it better.
5. **Extracting Segments:** Use statistical methods to split consumers into segments.
6. **Profiling Segments:** Determine key features of the segments.
7. **Describing Segments:** Provide a detailed description of each segment.
8. **Selecting the Target Segment(s):** Choose the segment(s) to target.
9. **Customizing the Marketing Mix:** Develop a marketing strategy tailored to the target segment.
10. **Evaluation and Monitoring:** Continuously assess the success of the strategy and adapt to any changes in segment characteristics

## 3. PROFILING SEGMENTS

1. **Profiling Market Segments:** Profiling is a critical step in understanding market segments, especially in data-driven segmentation. Unlike commonsense segmentation (e.g., by age), data-driven segments' characteristics are initially unknown and must be identified through analysis. Profiling helps characterize each segment and compare them with others .
2. **Challenges in Interpretation:** Data-driven segmentation is often hard for managers to interpret, with many viewings it as complex and opaque. There is a need for profiling that simplifies the interpretation and assists in making strategic marketing decisions .
3. **Segment Profiling Approaches:**
  - **Traditional Methods:** Typically involve providing tables with exact percentages for each segment characteristic. These tables can be challenging to interpret, especially when comparing multiple segments across several variables.
  - **Graphical Profiling:** Graphical approaches, such as segment profile plots, are easier to interpret and less tedious compared to traditional tables. Visual representations highlight defining characteristics of segments, making them more accessible for decision-making .
4. **Identifying Defining Characteristics:** Segment profile plots are useful for visualizing how each segment differs from the overall sample. These plots highlight variables most characteristic of a segment, helping users quickly grasp the differences and similarities across segments .
5. **Assessing Segment Separation:** Segment separation can be visualized through segment separation plots, which show the overlap between segments. This helps assess how distinct the identified segments are, aiding in the evaluation of segmentation quality .

Overall, profiling in market segmentation is essential for correctly interpreting and using the results for strategic decisions. The use of visual tools like segment profile plots is emphasized to simplify understanding and improve the practical utility of segmentation analysis results.

# IMPLICATIONS FOR MARKETING MIX DECISIONS

Customising the marketing mix is a crucial step in aligning an organization's product or service with the target segment identified through market segmentation analysis. The marketing mix, consisting of the 4Ps—Product, Price, Place, and Promotion—must be tailored to maximize the benefits of segmentation.

Market segmentation is part of the broader segmentation-targeting-positioning (STP) framework, involving segment extraction, target selection, and positioning. This approach ensures a seamless connection between segmentation and broader strategic decisions. The customization of the marketing mix is influenced by the selected target segment and must address specific needs in all four areas.

## PRODUCT

In the product dimension, customization often involves modifying existing products rather than creating entirely new ones. Decisions include naming, packaging, warranties, and after-sales support. Product customization should reflect the preferences of the target segment. For example, for a segment interested in cultural heritage, a product that bundles museums and sightseeing activities with discounts can be developed to meet segment expectations effectively.

## PRICE

The price dimension involves setting appropriate pricing structures and deciding on discounts or deals. Pricing must reflect the target segment's price sensitivity and willingness to pay. In the example of segment 3 from the Australian vacation data, pricing could involve offering bundled discounts on activities that appeal specifically to this segment, ensuring affordability while maintaining value.



## PLACE

The place dimension is about determining the channels through which the product will reach consumers. Distribution decisions include whether the product is sold online, offline, or both. For example, if members of segment 3 prefer booking online, making the product available on relevant booking platforms would ensure better reach and convenience for this group.

## PROMOTION

Promotion involves crafting messages that resonate with the target segment and selecting the most effective communication channels. Promotional decisions may include advertising strategies, public relations, personal selling, and sponsorships. For segment 3, who rely heavily on information provided by tourist centres, providing targeted brochures or online information packs at tourist centres could be an effective promotional strategy. Identifying preferred media channels, such as TV, allows for precise targeting of promotional campaigns.

## CONCLUSION

This report comprehensively delves into market segmentation—a critical marketing strategy that aims to align consumer needs with organizational offerings by creating smaller, more manageable groups within a broader market. Through a strategic and tactical marketing approach, organizations can define their long-term vision and establish the specific short-term actions needed to achieve these goals. A well-defined strategic marketing plan lays the foundation for the success of any marketing initiative, while tactical marketing actions implement the strategy efficiently.

The market segmentation analysis process, as described in Chapter 2, involves a layered approach: starting with core statistical extraction, followed by detailed profiling and concluding with non-technical organizational implementation tasks. Organizations can adopt various approaches to market segmentation—ranging from segment revolution, which requires starting from scratch, to segment evolution, which refines existing market focus. Depending on the data's characteristics, segmentation may involve identifying naturally occurring segments, creating reproducible segments, or developing constructive segments when distinct groupings are not evident in the data. A structured ten-step process is suggested for effective

market segmentation, including evaluating feasibility, collecting and exploring data, extracting and profiling segments, and ultimately targeting chosen segments with a tailored marketing mix.

Profiling the segments, particularly for data-driven market segmentation, is a crucial step to ensure the defining characteristics of each segment are well understood. This understanding guides the strategic marketing decisions that will follow. While traditional tabular methods of segment profiling can be tedious and challenging to interpret, graphical approaches such as segment profile plots and segment separation plots offer a more intuitive means of understanding the data. These visual tools not only simplify the interpretation process but also ensure that marketers and decision-makers can quickly comprehend and act on segmentation insights.

In conclusion, effective market segmentation requires a blend of strategic planning, robust data-driven analysis, and insightful profiling. Each layer of analysis, from collecting quality data to interpreting segments visually, plays a role in ensuring that segmentation drives the desired organizational outcomes. The importance of visualization is particularly highlighted as a means to facilitate the interpretation of complex data-driven segmentation results. By implementing these practices, organizations can better target market segments with appropriate offerings, ultimately achieving increased customer satisfaction, greater efficiency, and long-term competitive advantage.

The Marketing mix emphasizes the importance of tailoring the marketing mix—Product, Price, Place, and Promotion—according to the characteristics of the target segment identified through market segmentation. This customization aligns the product offerings with consumer needs, optimizes pricing strategies, ensures effective distribution, and enhances promotional efforts, ultimately improving the impact of marketing activities and achieving better alignment with consumer preferences.

GITHUB LINK FOR THE MCDONALDS CASE STUDY CODE:

[https://github.com/yashveer96/Feynn-Labs-Market-segmentations/blob/main/market\\_segmentation\\_mcdonalds.ipynb](https://github.com/yashveer96/Feynn-Labs-Market-segmentations/blob/main/market_segmentation_mcdonalds.ipynb)