Hello Integrate 2022!

"Build something 100 people love, not something 1 million people kind of like."

Brian Chesky

1. The who.
2. The what.
3. The how.
4. The why.

1

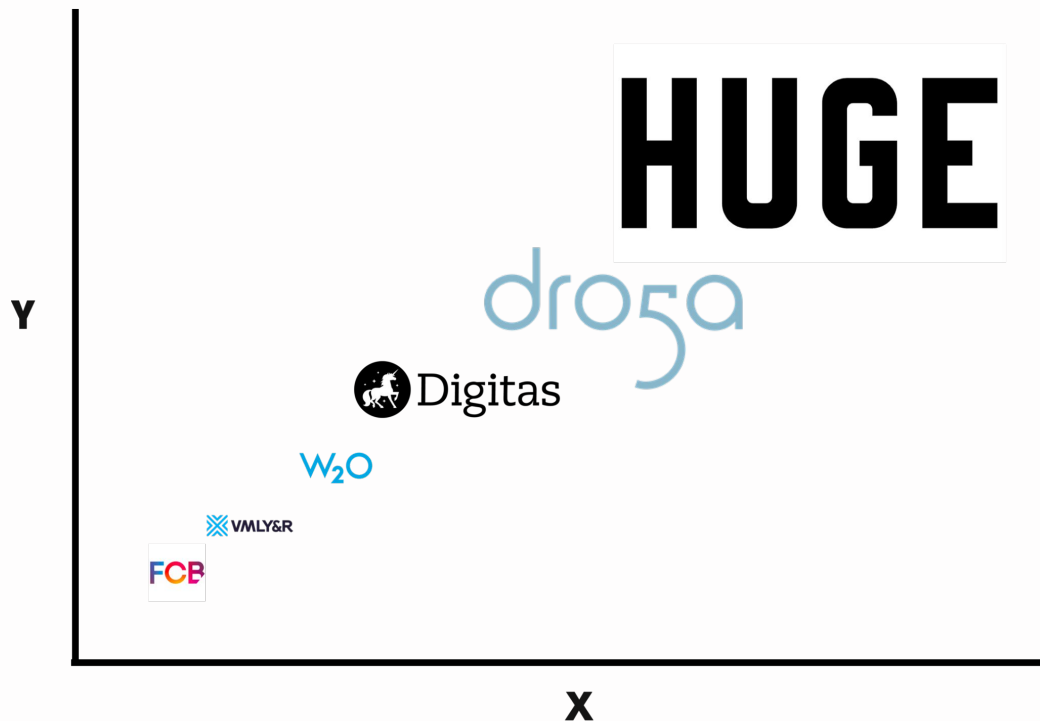1. **The who.**
2. The what.
3. The how.
4. The why.

1

My career in advertising.

The brands i've worked for.

SAMSUNG

mailchimp

petco

planet fitness

GAME OF THRONES

UNDER ARMOUR
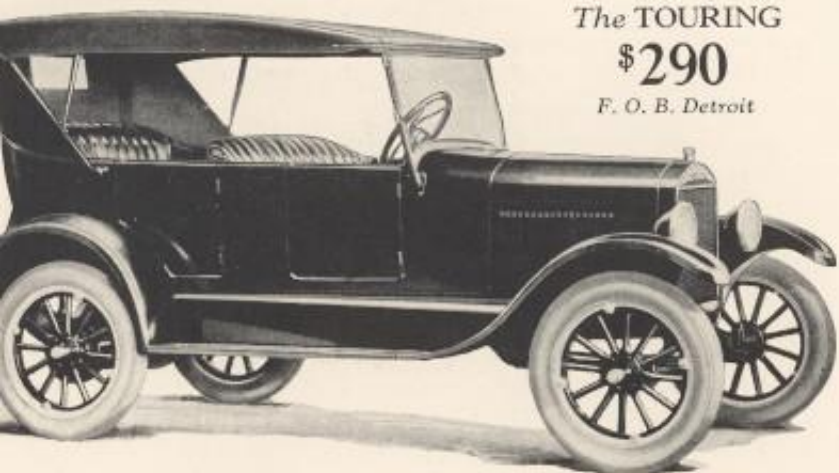
MATTRESS FIRM

IHOP

HERSHEY'S

HARLEY-DAVIDSON MOTOR CYCLES

EQUINOX

ONEPLUS

1. The who.

2. The what.

3. The how.

4. The why.

2

What was the **first company** to implement a market segmentation?

The TOURING
$290
F. O. B. Detroit

The FORDOR SEDAN
$660
F. O. B. Detroit

Color—Black. All-steel body with pronounced streamline effect. Low, deeply-cushioned seats. Double ventilating windshield. One-man top. Standard equipment includes weatherproof side curtains opening with all four doors, windshield wiper, nickeled headlamp rims and four cord tires. Starter and demountable rims, $85 extra. Balloon tires, $25 extra.

Color—Windsor Maroon with upholstery to harmonize. Composite body. Nickeled radiator and headlamp rims. Double ventilating windshield. Plate glass windows with rotary lifts. Standard equipment includes silk curtains on rear windows, dome light, hooded sun visor, windshield wiper, rear view mirror, dash lamp, starter, demountable rims and four cord tires. Balloon tires, $25 extra.

Ford

The RUNABOUT
$260
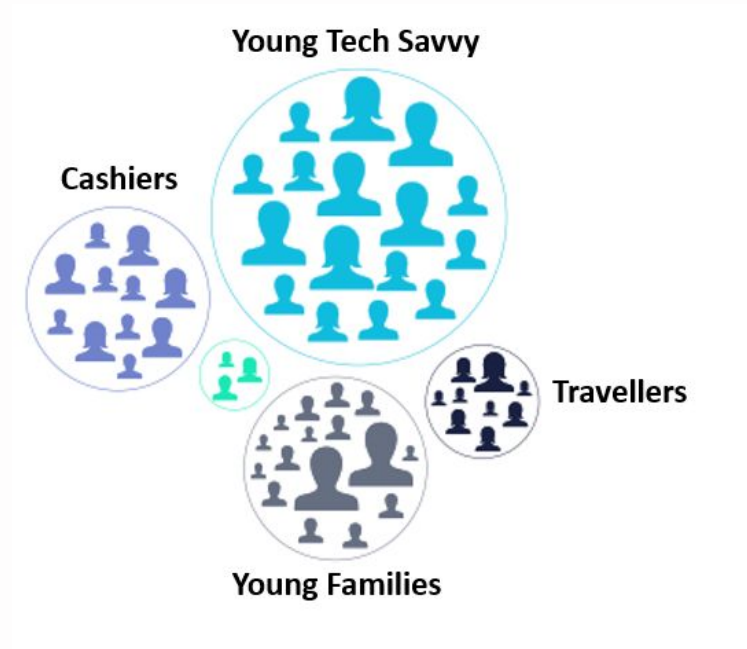F. O. B. Detroit

The COUPE
$520
F. O. B. Detroit

The importance of market Segmentation.

The process of dividing a broad consumer or business market, normally consisting of existing and potential customers, into sub-groups of consumers based on some type of shared characteristics.
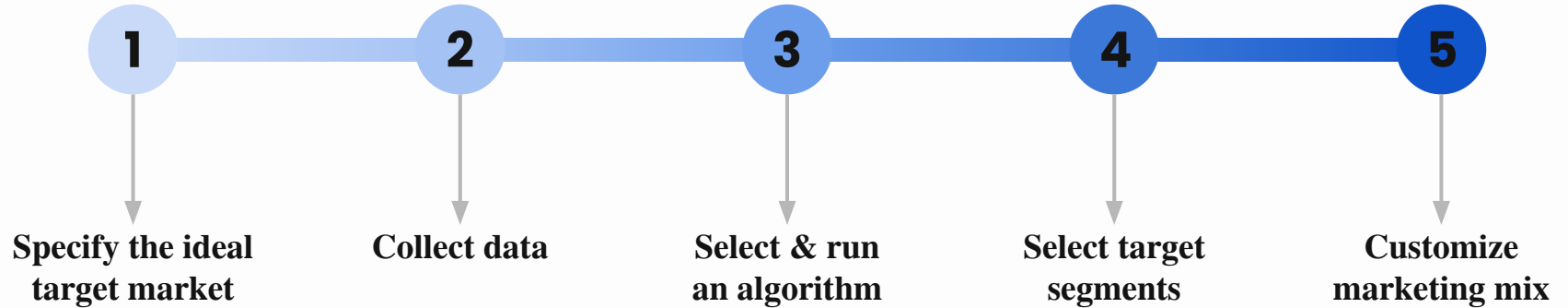
Measurable

Accessible

Different

Durable

Substantial

What makes a good segmentation?

1. The who.
2. The what.
3. The how.
4. The why.

3

1 — 2 — 3 — 4 — 5

Specify the ideal target market

Collect data

Select & run an algorithm

Select target segments

Customize marketing mix

Define your non-negotiable criteria.

Homogeneous

Reachable

Distinct

Measureable

Identifiable

Sizable

Match the organization's strengths

Then define the criteria of your ideal segment.

Homogeneous

Reachable

Yearly growth rate

Complexity

Distinct

Measureable

Financial factors

Competitively advantageous

Identifiable

ROI

Expertise

Sizable

Match the organization's strengths

Surveys

Examples: Online questionnaires designed specifically for market segmentation.

Internal data

Examples: CRM data, website data, or purchase data.
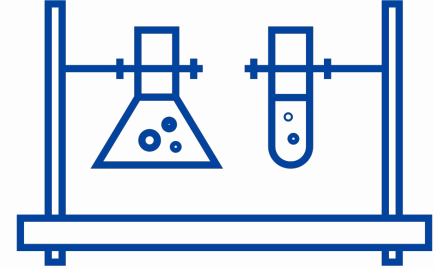
Experimental Studies

Examples: Conjoint or other experimental studies.

SOCIO-DEMOGRAPHIC

A customer's profile.

GEOGRAPHIC

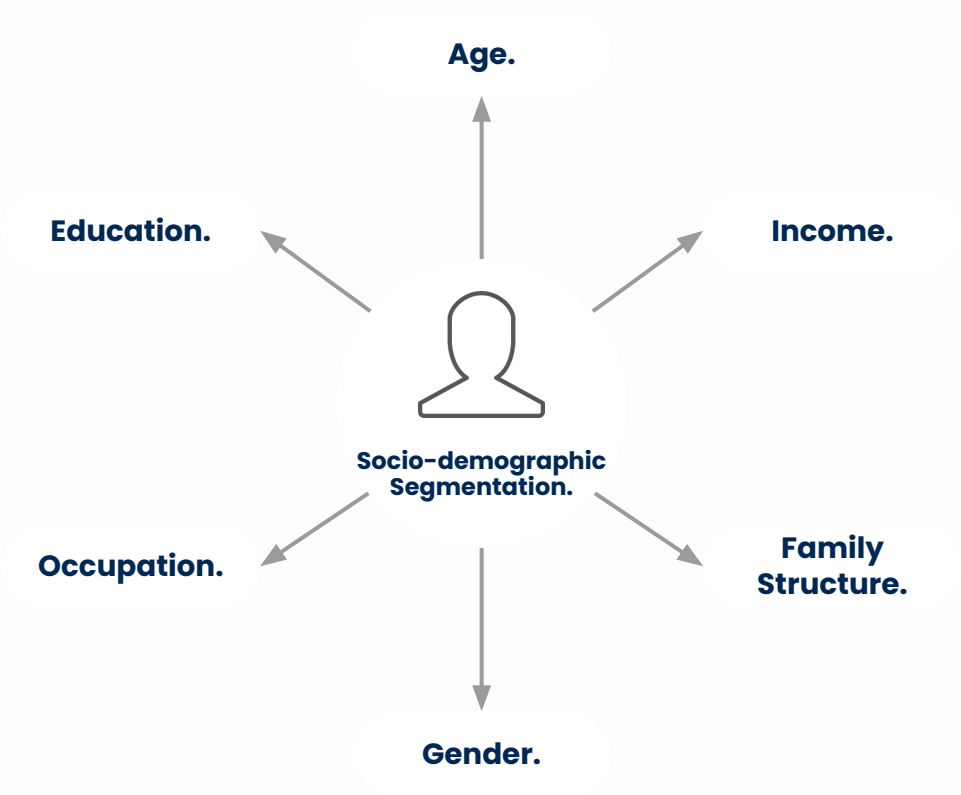*A customer's home.*

PSYCHOGRAPHIC

A customer's lifestyle.

BEHAVIORAL

A customer's choices.

The types of segmentation.

Socio-Demographic.

Socio-Demographic.
A customer Profile.

Age.

Education.

Income.

Socio-demographic Segmentation.

Occupation.

Family Structure.

Gender.

Socio-demographic segmentation.

Luxury Goods.

Associated with high income.

Baby Products.

Associated with gender.

Retirement Villages.

Associated with age.

Tourism Resort Products.

Associated with children.

Pros

Cons

- Data is easy to obtain & less invasive.
- Cost effective.
- Segmentation membership is easy to determine.

- Alienates people.
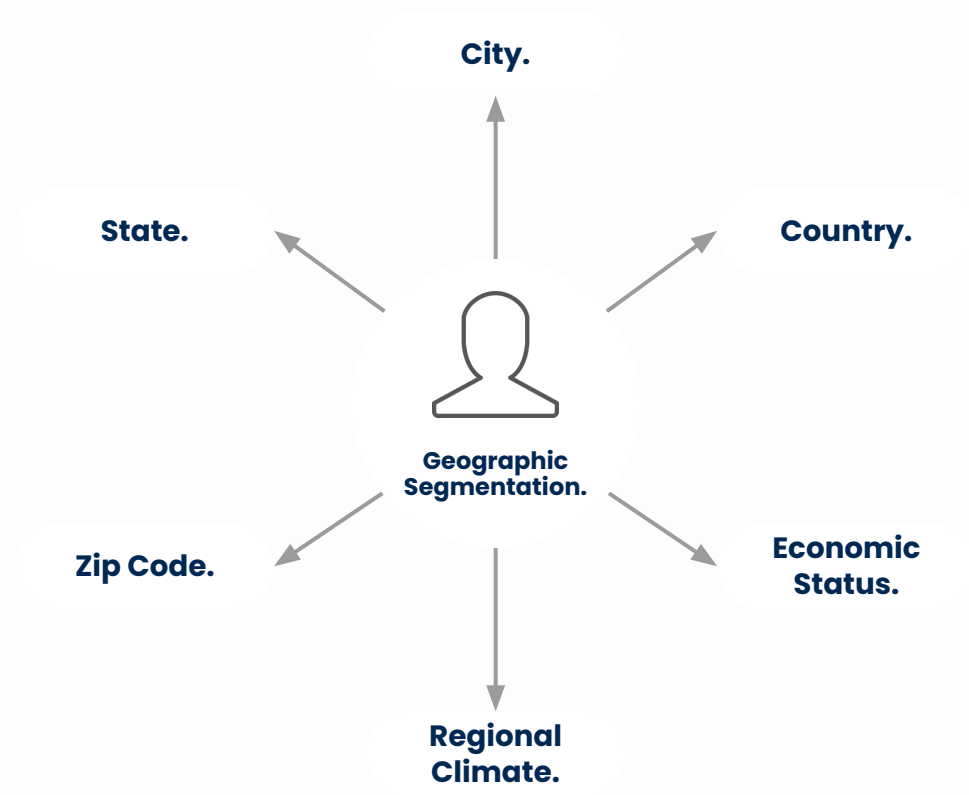- Misinterpreting data.
- Is not the cause of product preferences.

"Demographics explain about 5% of the variance in consumer behavior"

Haley (1985)

"Socio-demographics do not represent a strong basis for market segmentation… values, tastes and preferences are more useful because they are more influential in consumers' buying decisions."

Yankelovich and Meer (2006)

Geographic.

Geographic.
A customer's *Home.*

City.

State.

Country.

Geographic Segmentation.

Zip Code.

Economic Status.

Regional Climate.

H

Tourism.

Associated with country based on language spoken,

Fast food.

Associated with region & country based on cuisine preference.

Food subscriptions.

Associated with zip code based on supply chain availability.

Home & Garden.

Associated with population density.

Pros

Cons

- Easy to assign membership.
- Easy to implement.
- Data often easy to obtain.

- Geography doesn't always correlate to preference.

Psychographic.

Psychographic.
A customer's Lifestyle.

Interests.

Values.

Lifestyle.

Psychographic Segmentation.

Social Status.

Attitudes.

Habits.
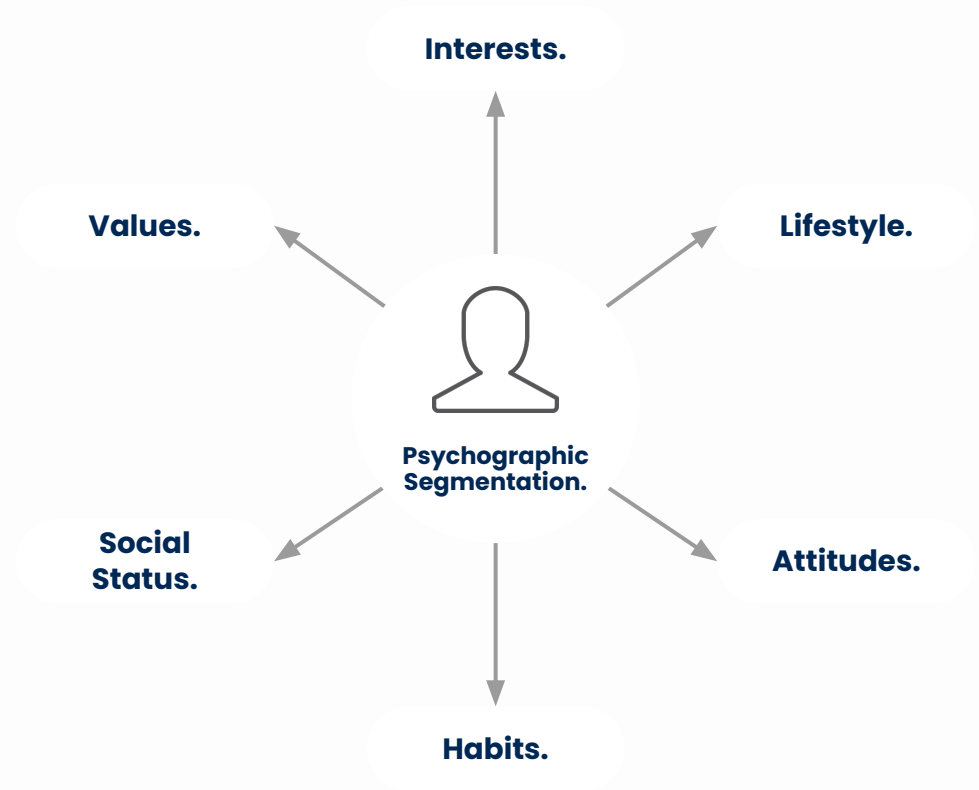
Psychographic segmentation.

Alcohol brands.

Associated with personalities.

Makeup brands.

Associated with attitudes.

Clothing brands.

Associated with social status.

Health snacks.

Associated with lifestyle.

Pros

Cons

- More reflective of underlying causes.
- Provides deeper insight into audiences.

- Increased complexity of determining segment membership.
- Depends on reliability and validity of the empirical measures used.

Behavioral.

Behavioral.
A customer's Choices.

Loyalty.

Engagement.

Usage.

Behavioral Segmentation.

Occasion.

Purchase history.

Benefits sought.

H
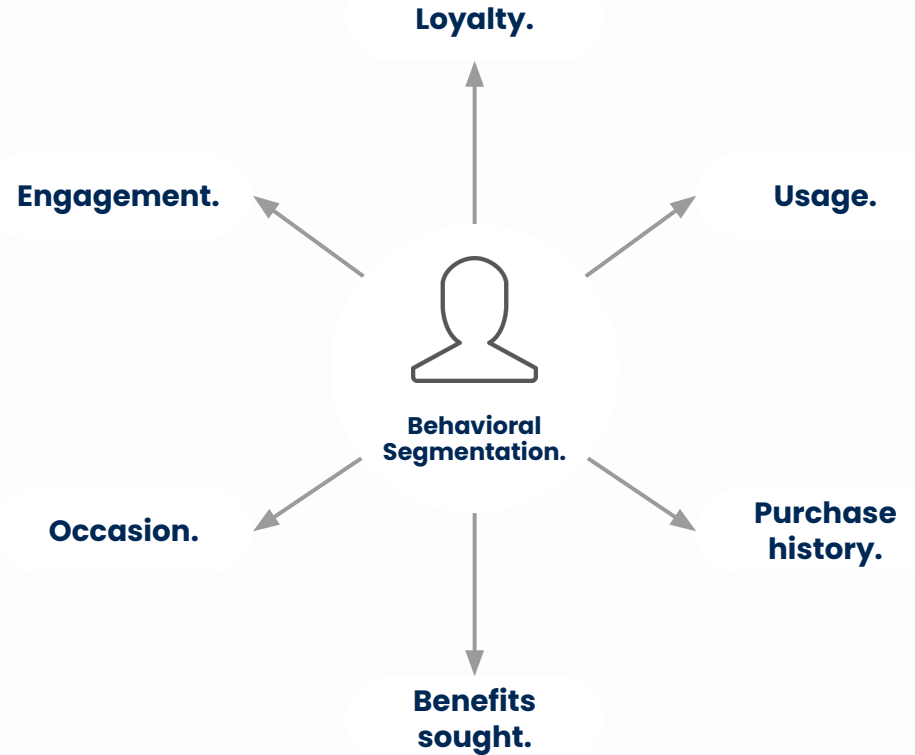
Behavioral segmentation.

Gyms.

Associated with loyalty.

Seasonal stores.

Associated with occasion.

Video games.

Associated with usage behavior.

Shampoo.

Associated with benefits sought.

Pros

Cons

- More precise than other methods.
- Bigger datasets lead to more accurate models.
- If data is owned it can be more efficient.

- Data is hard to acquire unless already owned.
- Because data is collected online privacy concerns are relevant.
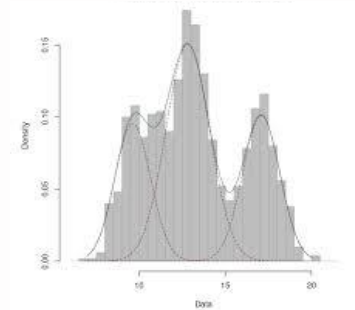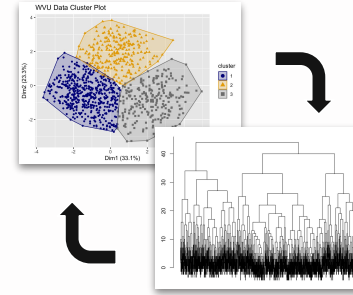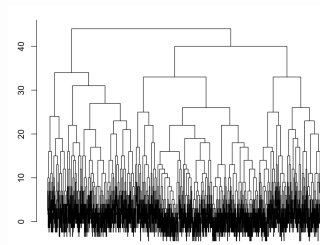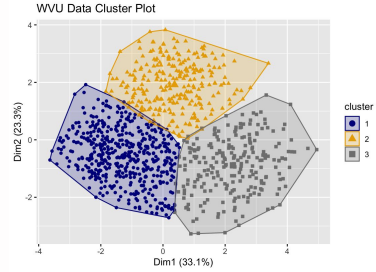
Partition.

Good for large samples but often hard to determining # of clusters.

Hierarchical.

Intuitive interpretation and cluster selection but struggle with sample.

Hybrid.

Best of both worlds from partition based and hierarchical.

Model-based.

Offers more flexibility and control at the cost of complexity.

No algorithm is inherently better than another, they are just different. A good analyst will explore a number of different approaches before identifying one that fits the organization best.

(A PEEK INTO)

HOW THE SAUSAGE IS MADE.

We begin with a survey of 1000 sausage customers.

Respondents	Quality	Nutrition	Value	Bargain	Taste	Trendy	Novelty	Conv.	Fun
ID.1	2	4	8	8	2	9	7	4	6
ID.2	1	1	4	7	1	1	1	2	2
ID.3	2	3	5	9	2	9	5	1	6
ID.4	1	6	10	8	3	4	5	2	1
ID.5	1	1	5	8	1	9	9	1	1
...	...	...	...	...	...	...	...	...	...

sausage.people
1000 obs. of 9 variables

Each question is a ten point ordinal scale about reasons for purchase.

Respondents	Quality	Nutrition	Value	Bargain	Taste	Trendy	Novelty	Conv.	Fun
ID.1	2	4	8	8	2	9	7	4	6
ID.2		1	4	7	1	1	1	2	2
ID.3	2	3	5	9	2	9	5	1	6
ID.4		6	10	8	3	4	5	2	1
ID.5		1	5	8	1	9	9	1	1
...	...	...	...	...	...	...	...	...	...

I decide which sausage brand to purchase based on **<u>Quality</u>**.

Strongly Disagree ┤├┼┼┼┼┼┼┼┼├ Strongly Agree

1   ●   **10**
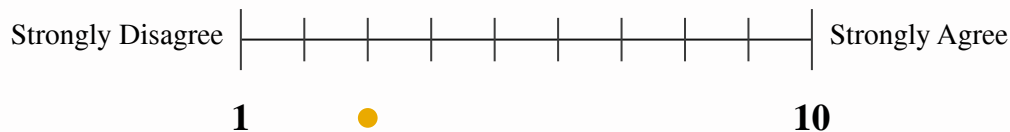
Segmenting the respondents is easy, determining the optimal # of clusters is not.

Optimal number of clusters
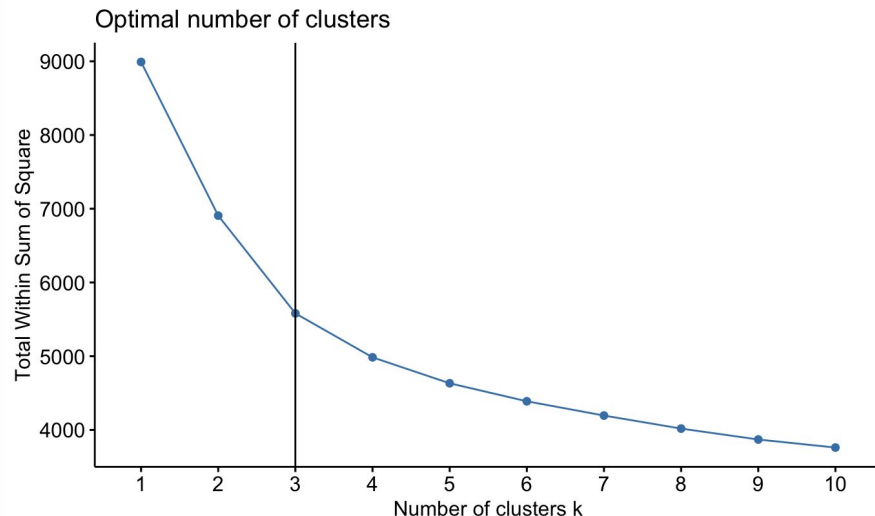
```
#Find optimal number of clusters via the elbow method
fviz_nbclust(scale(sausage.people), hardcl, nstart = 100, method = "wss") +
  geom_vline(xintercept = 3, linetype = 1)
…
```

Run selected clustering algorithm and append segment classification to original data.

Respondents	Quality	Nutrition	Value	Bargain	Taste	Trendy	Novelty	Conv.	Fun	Seg.
ID.1	2	4	8	8	2	9	7	4	6	2
ID.2	1	1	4	7	1	1	1	2	2	2
ID.3	2	3	5	9	2	9	5	1	6	3
ID.4	1	6	10	8	3	4	5	2	1	1
ID.5	1	1	5	8	1	9	9	1	1	1
...	...	...	...	...	...	...	...	...	...	...

```
#Run Kmeans clustering with three clusters
sausage.cluster <- stepcclust(sausage.people, method = "hardcl", k = 3,
  nrep = 10)
…
```

Simple, Right?

WAIT. JUST WAIT.

Assess how well the segments are separated with Gorge plots.
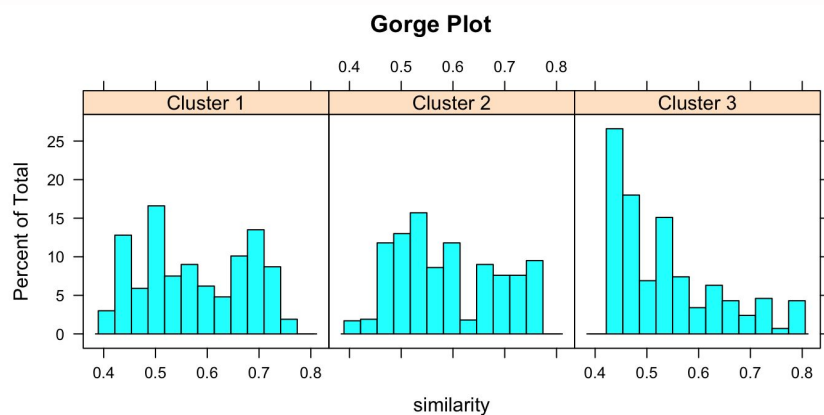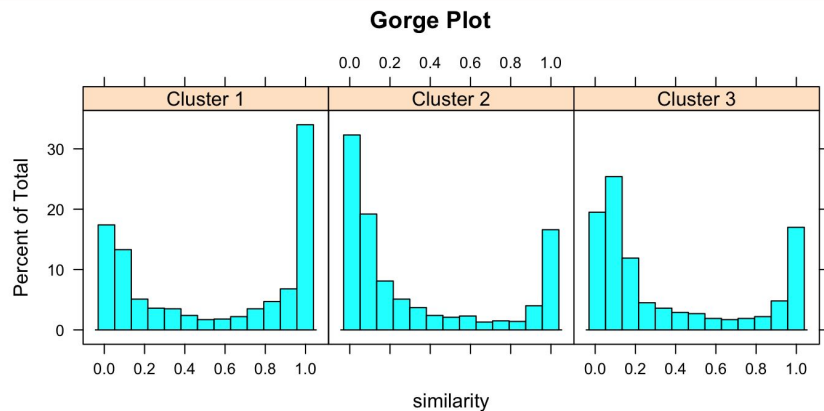
Ideal market segments contain many high and low values.
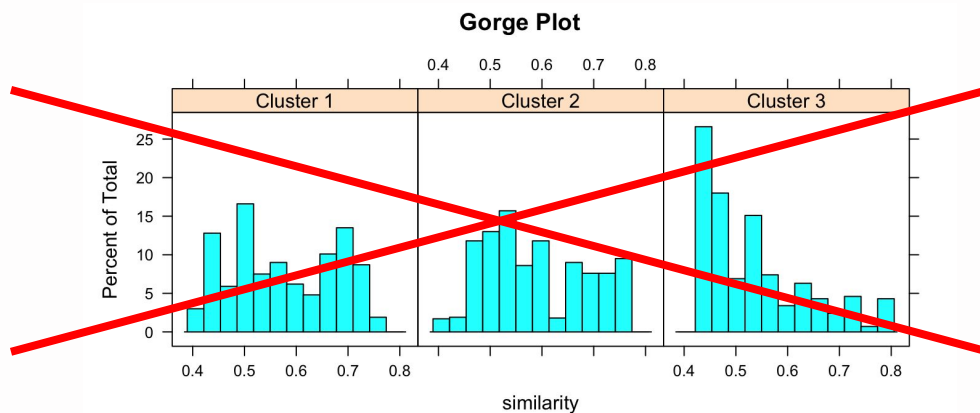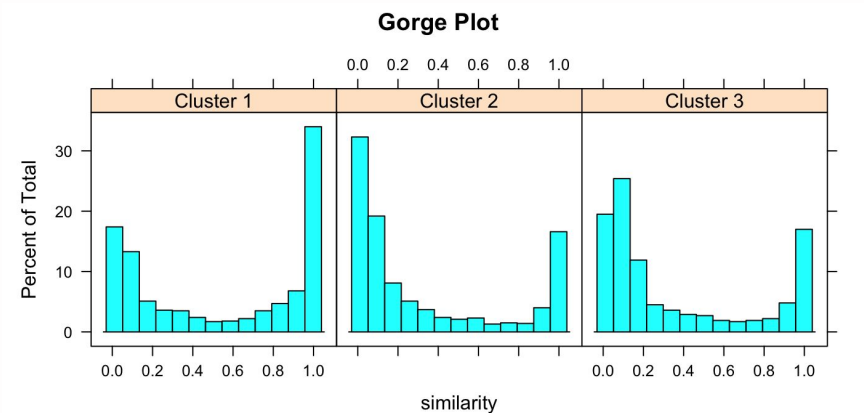
# Assess global reproducibility of segments via sampling methods.
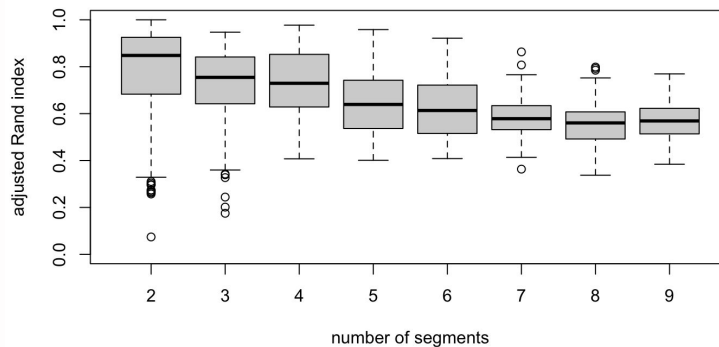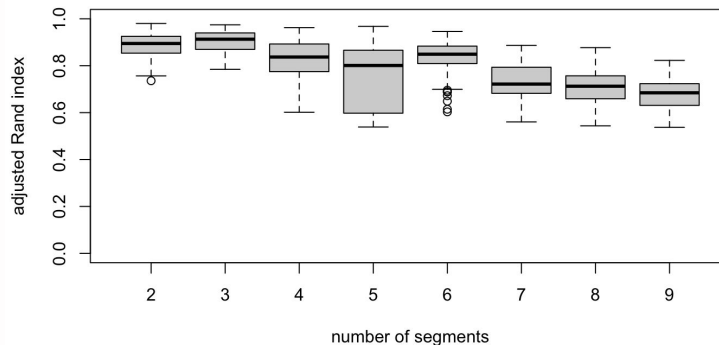
Results close to 1 indicate the existence of more reproducible segments.
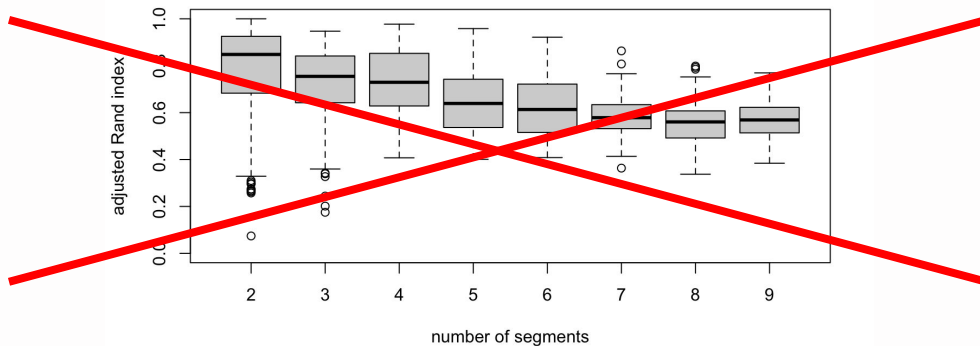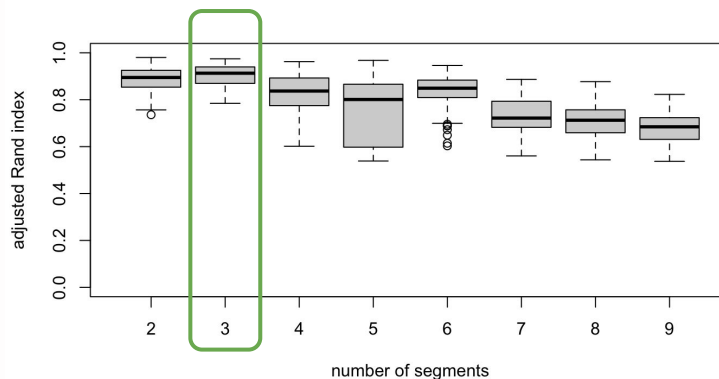
With a stable segmentation we can begin profiling the segments.

Attitudes	Segment 1	Segment 2	Segment 3
Quality	2.53	5.30	7.44
Nutrition	3.00	4.38	7.12
Value	7.43	2.51	7.22
Bargain	7.35	5.19	4.44
Taste	2.90	4.06	7.25
Trendy	3.48	6.66	3.54
Novelty	3.41	6.85	3.79
Convenience	5.96	2.30	6.49
Fun	2.33	6.50	3.84

Profiling the sausage segments.

There's always a better way to visualization an analysis.
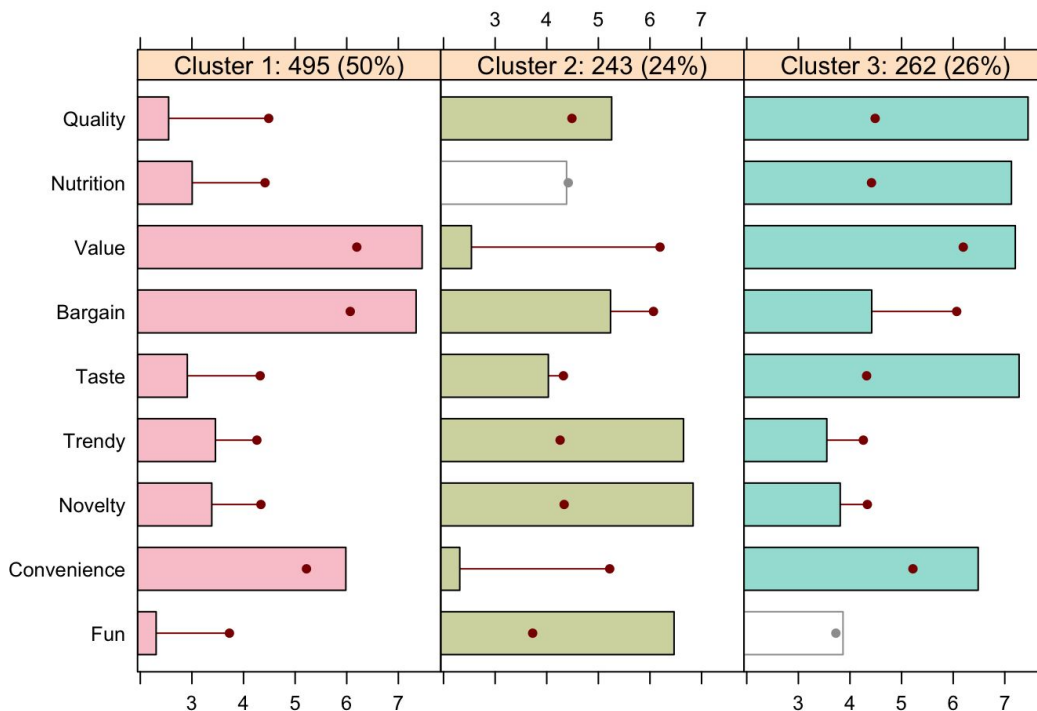
We find three distinct segments.

Segment 1: 50%
Sausage Sale Searchers

Segment 2: 24%
Sausage Trend Seekers

Segment 3: 26%
Sausage Connoisseurs

Selecting Target Audiences.

Using the criteria set before the segmentation process took place, each segment is evaluated to uncover the most valuable one.

Criteria	Sausage Sale Searchers	Sausage Trend Seekers	Sausage Connoisseurs
A large audience.	Large	Medium	Medium
Value over quality	Value	Quality	Quality
Want convenience	Yes	No	Yes

Selecting Target Audiences.

Using the criteria set before the segmentation process took place, each segment is evaluated to uncover the most valuable one.

Criteria	Sausage Sale Searchers	Sausage Trend Seekers	Sausage Connoisseurs
A large audience.	✔ Large	✖ Medium	✖ Medium
Value over quality	✔ Value	✖ Quality	✖ Quality
Want convenience	✔ Yes	✖	✔ Yes

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Q & A.