



directiveanalytics

Guiding Strategic Marketing Decisions

Market Segmentation

1. Identify bases for segmenting the market
2. Develop profiles of resulting segments



Market Targeting

3. Develop measures of segment attractiveness
4. Select the target segments



Market Positioning

5. Develop positioning for each target segment
6. Develop marketing mix for each target segment

Segmentation Variables

- Category needs/preference
- Brand preference/loyalty
- Category purchase behavior
- Category usage patterns
- Price sensitivity
- Channel/outlet preferences
- Media consumption
- Demographics
- Socioeconomic status
- Lifestyles & hobbies
- Psychographics
- Attitudes and opinions toward one's environment

directiveSEGMENTS

Market Segmentation, as defined by the American Marketing Association, is the process of subdividing a market into distinct subsets of customers that behave in the same way or have similar needs and characteristics. This is a rather simple way to characterize what is perhaps one of the most challenging forms of market research. At Directive Analytics, we have a proprietary methodology which yields clearly described, actionable segments which have been proven to withstand the test of time.

A properly executed market segmentation study can have a profound impact on your business. Based upon the findings from a segmentation study, business' will often make substantial changes to their target market, product line(s), positioning, messaging, or marketing mix. It is essential to have the proper inputs and setup at the front end to ensure the study yields relevant and accurate segments. Partnering with a firm who has a proven segmentation methodology, and experience or expertise in your particular industry helps to ensure this.

The directiveSEGMENTS methodology uses cutting edge quantitative techniques to identify homogenous groups of customers who can be marketed to in similar ways. directiveSEGMENTS uses expert predictive modeling and validation to ensure segments are consistent and reliable over time.

Methodological Considerations

Broadly speaking, there are two commonly used methods for segmenting a market: a priori and post hoc methods. A priori segmentation is a procedure whereby a company chooses to break out customer groups by a generally accepted classification procedure related to variations in demographic, geographic, purchase, or usage criteria (for example). Post hoc segmentation is empirically derived based on the results of a research study undertaken for the specific purpose of segmenting a market. Segments generated from such a study are formed by aggregating buyers who respond similarly to a set, or sets of basis questions. Directive Analytics has experience with both methods of segmentation research. Post hoc segmentation studies are generally more exploratory in nature, and we feel that they produce segments based upon category specific drivers and are thus more actionable.

One of the most critical steps of a segmentation study is including the right variables in the survey instrument. We work with clients to mine existing research, conduct qualitative pre-work and capitalize on our own industry expertise to brainstorm and arrive at the most critical basis attributes to drive segment differentiation and actionability.

Our segmentation strategy calls for a large sample size to allow for the analysis of alternative groups within the segmentation. Our sample will target category users, both current and expected purchasers of your product, and even brand rejecters.

In addition to probing on category needs, wants, lifestyle, demographic, and psychographic variables, an emphasis will also be placed on learning about media consumption habits and the role of media in the respondents' life.

Segmentation Components

Demographic and behavioral basis schemes are well known and employed in most modern segmentation studies. At Directive Analytics however, we also consider and implement value-based schemes. Unlike typical segmentation research which segments groups of customers based on who they are, value-based segmen-

tation groups customers based upon *what they prefer*. This focus on category needs and preference provides marketers with critical information on which product benefits to promote and or improve, relative to each and every segment.

Directive Analytics has the advanced analytical tools, capabilities, and knowledge necessary to accurately identify homogeneous groups of customers and prospects. We employ a multi-step statistical methodology to ensure segments are accurately derived and actionable.

Analytical Approach

Upon completion of fieldwork, a full range of analytic tools will be applied to build a real and reproducible segmentation scheme. To ensure maximum usability and validity of segments, it is important that a segmentation scheme be defined by as few variables as possible, while offering the greatest statistical reliability, and not being overcrowded with extraneous variables that cloud the analysis. The steps in the analysis will include:

- R-type factor analysis is conducted on all attributes considered for segmentation inclusion. This approach to factor analysis seeks to find attributes that reflect similar attributes or feelings. If too many variables are factoring together, it may suggest that a particular attitude is over-represented in the segmentation. In conjunction with correlation analysis and statistics of dispersion, we may identify additional variables which should be excluded from the analysis, while ensuring each relevant factor has some representation in the model.
- Correlation analysis is also conducted, to remove any variables with a high degree of inter-correlation. This makes individual respondents look more similar than they actually are. We generally seek to eliminate one of a pair or group of attributes with correlation scores of 0.80 or higher. However, before removing any variables, we look at a factor analysis and determine whether the "meaning" behind the attribute to be removed will still properly be represented in the analysis.
- Statistics of dispersion are considered, such as standard deviation

and variance, to eliminate any variables that would mask differentiation in the segmentation.

- A hold out cell of roughly 300 respondents is identified and set aside for segment validation. Finally, a K-Means clustering approach is taken, trying out multiple segmentation solutions. After qualitative and quantitative analysis of the derived segments, with our clients, we determine the final scheme.
- K-means clustering is an iterative statistical procedure, which first identifies a random seed within the data set and looks for the next closest respondent in terms of all of their responses. Respondents are continually linked to one another and eventually form groups based on those who have the minimum variance in their answers to the questions at hand.
- Once the final segmentation scheme is arrived at, we apply the segmentation algorithm to the hold out cell to ensure the scheme can be consistently applied.
- As a final option, a useable algorithm can be developed using discriminate analysis or other predictive modeling techniques, relying upon a sub-segment of the questions used in the initial segmentation equation. This model can later be employed in tracking research, concept testing, or in a variety of other research applications.

Industry Expertise

- Quick Service Restaurants
- Retail
- Wine/Spirits
- Consumer Packaged Goods
- Consumer Electronics
- Healthcare
- Financial Services

At Directive Analytics we provide our clients with the consumer insight and strategic action plans necessary to set themselves apart and grow their business. We offer a blend of the methodological expertise and rigor of a traditional research company along with the consultative approach of a marketing consultancy. Our people are the key to our success. Directive Analytics professionals bring together expertise in a broad range of industries including but not limited to quick service restaurants, consumer packaged goods, computer hardware, retail and financial services. Our collective experiences and education serve as the basis for developing new insights and partnering with our clients to generate the strategic action plans that will differentiate and add value to their business.

For more detailed information on how we can help you with your tracking research or other research needs contact us at (203) 855-8550 or info@directiveanalytics.com.



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Directive Analytics, Inc.
100 Corporate Drive, Suite 202
Trumbull, CT 06611
[w] www.directiveanalytics.com