

THE NEWMR VIRTUAL FESTIVAL

Training Day – 31st October, 2011

A Presentation from the Festival of NewMR Training Day – October 31, 2011



Segmentation 101: Segmentation in 20 Minutes

Sue York - NewMR



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Segmentation 101

Segmentation in 20 minutes

Sue York
NewMR.org



Today?



1. Why
2. What
3. How
4. Techniques
5. Cluster analysis



Why?

Consumers vary in their needs & wants

One product can't meet the
needs of all consumers

BUT

One product can meet needs of
a group (segment) of customers



Market Segmentation

. . . Breaking the market into groups of people who are similar (on some basis)

Alternatives to Segmentation?

- Enormous stock levels (Amazon)
- Mass customisation (Expedia)
- One size fits all
 - Niche (luxury, economy)
 - Mass (used to be more common, e.g. utilities)



Bases for Segmentation

Characteristics

- Demographic e.g. Age
- Geographic e.g. Region
- Socioeconomic e.g. Income, occupation
- Psychographic e.g. Lifestyle

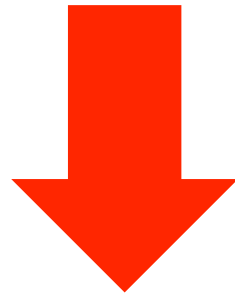
Behavioural

- Benefits sought
- Occasions used
- Usage or Purchase Frequency
- Loyalty
- Other attitudes

Supplier perspective

- Price
- Where buy
- Type of product
- Promotion

Bases for Segmentation



Variables for Analysis

Segmentation Variable

Use Categories or Distribution

e.g.

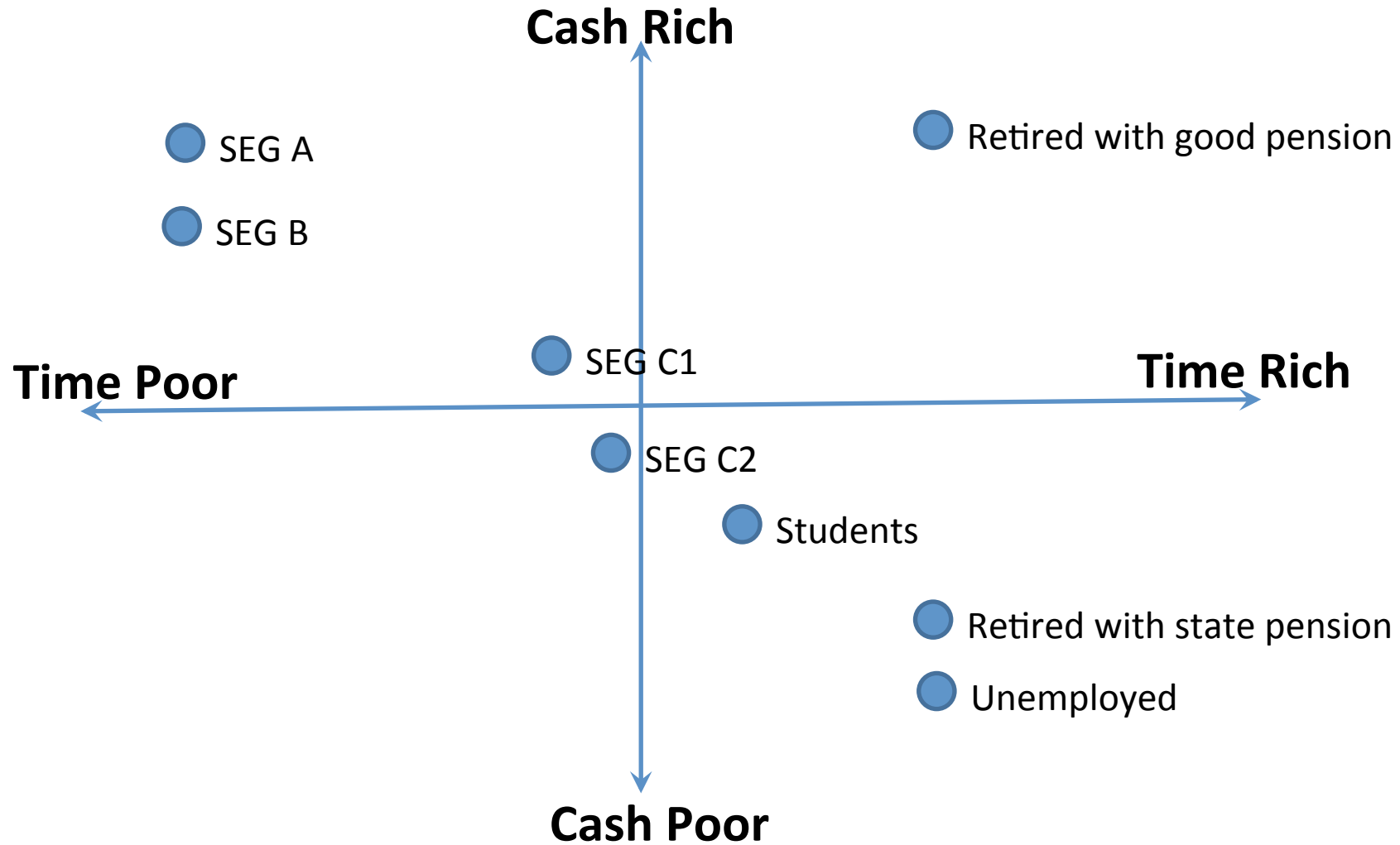
How often – Daily, weekly, monthly, less

Usage – Heavy, Moderate, Light

Segmenting Two Variables

- Cross-tabulation
- Quadrant Chart
- Perceptual Map

Time and Money



Many Segmentation Variables

- Cluster analysis
- Decision trees e.g. CHAID/CaRT

Many Segmentation Variables

- Cluster analysis
 - k-means Cluster Analysis
 - TwoStep Cluster Analysis
 - Fuzzy Clusters
 - Latent Class Cluster Analysis
 - Hierarchical Clustering
- Decision trees e.g. CHAID/CaRT

Cluster Analysis



Ronald Aylmer Fisher
1936 multivariate analysis

Cluster Analysis

Basis of much of segmentation

- But not all of it

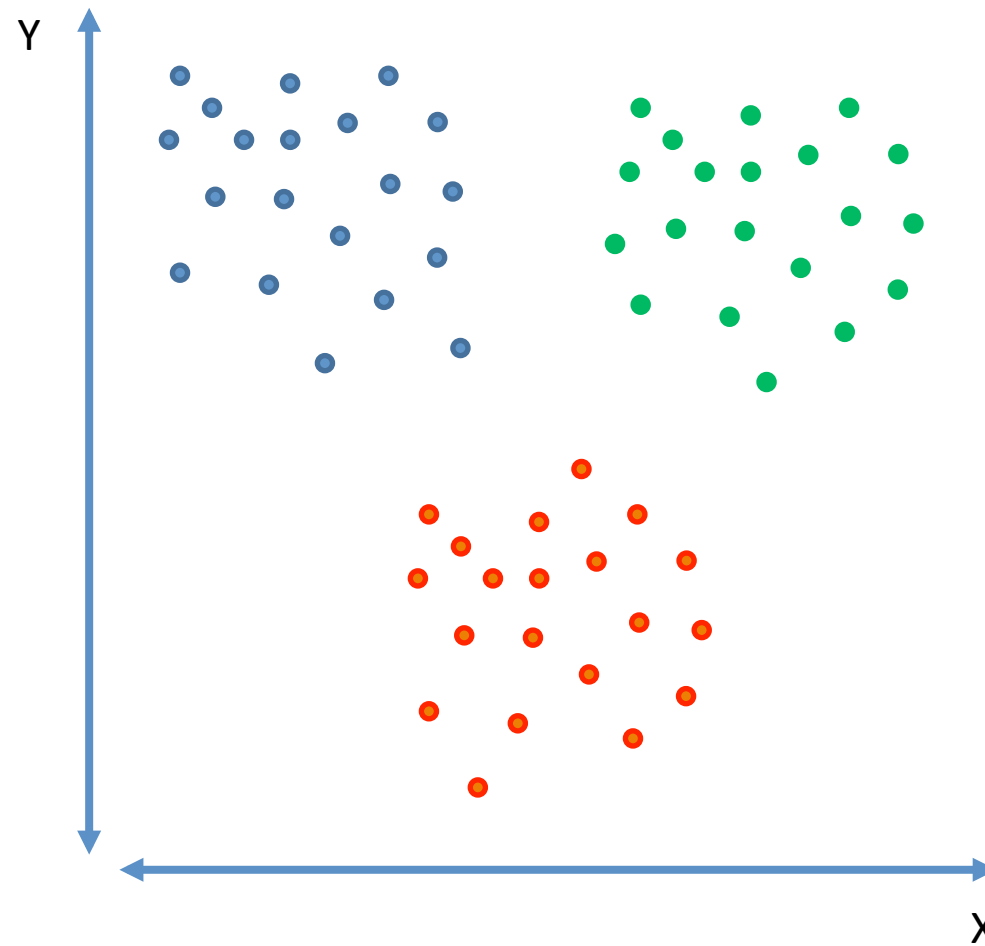
An interdependence technique

- No dependent variable

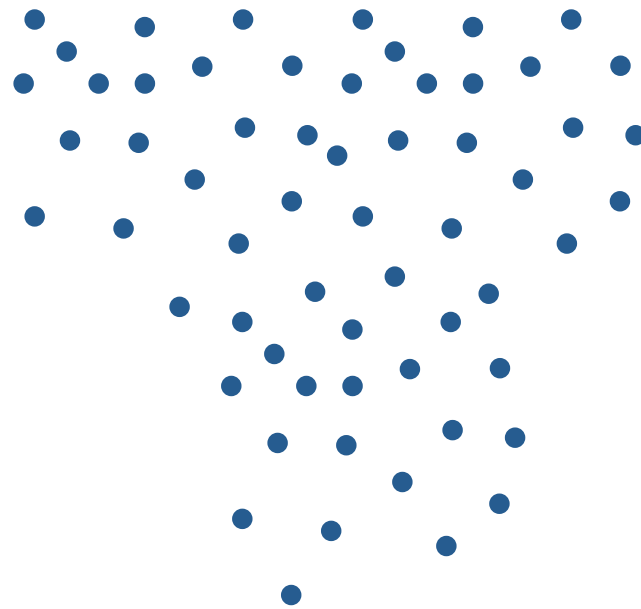
Today cluster analysis often means

- SPSS and K Means
- But, consider Q Software

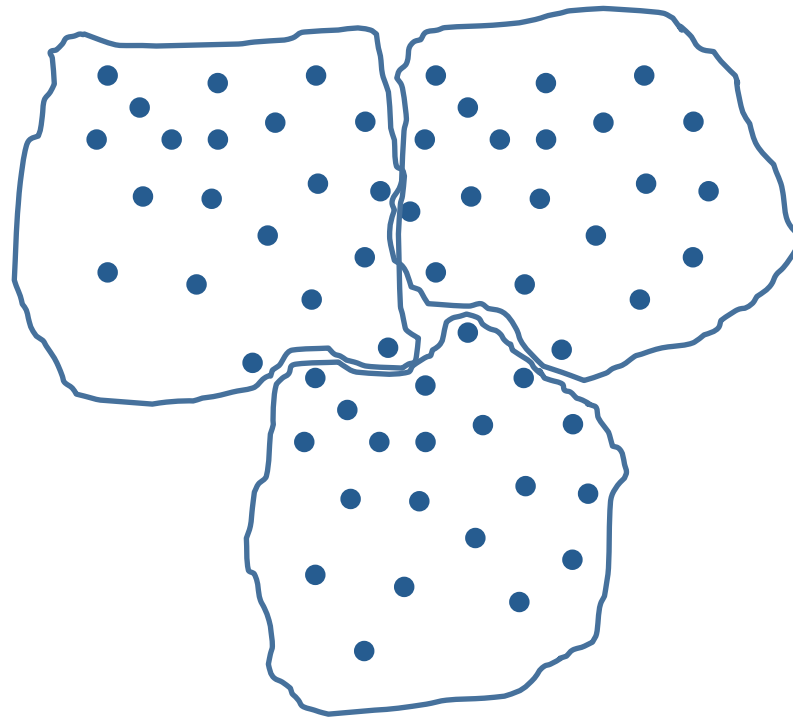
Within and Between Differences



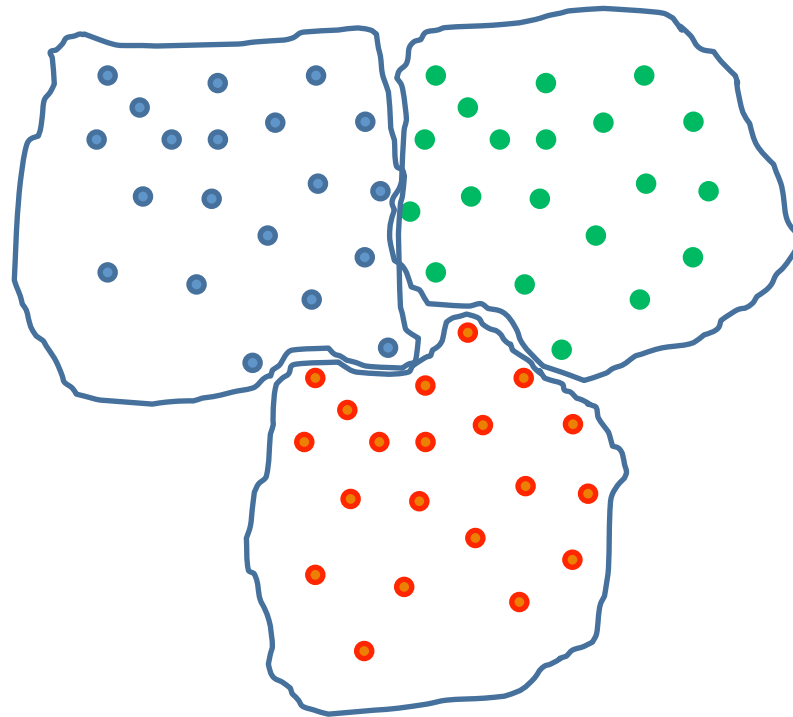
The Reality



The Reality



The Reality



K Means Clustering

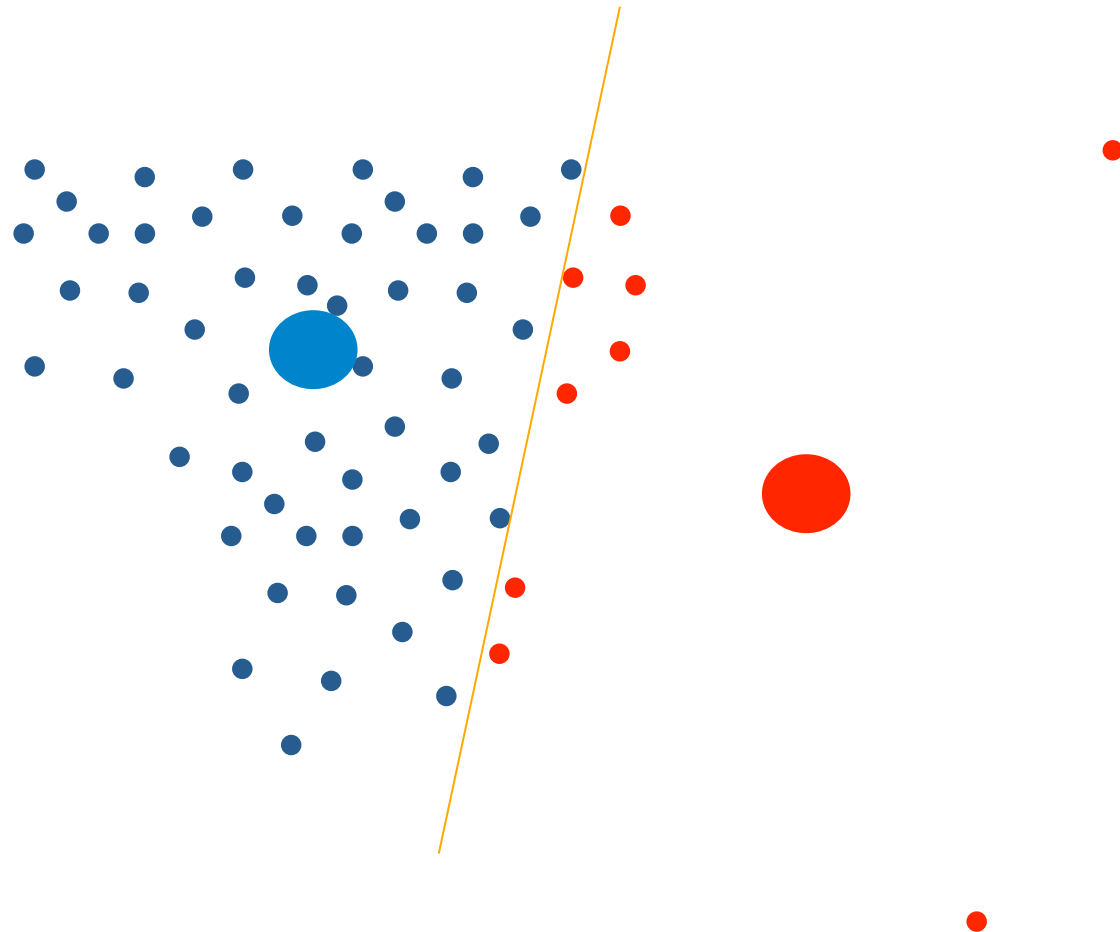
An iterative technique

The most common choice in market research

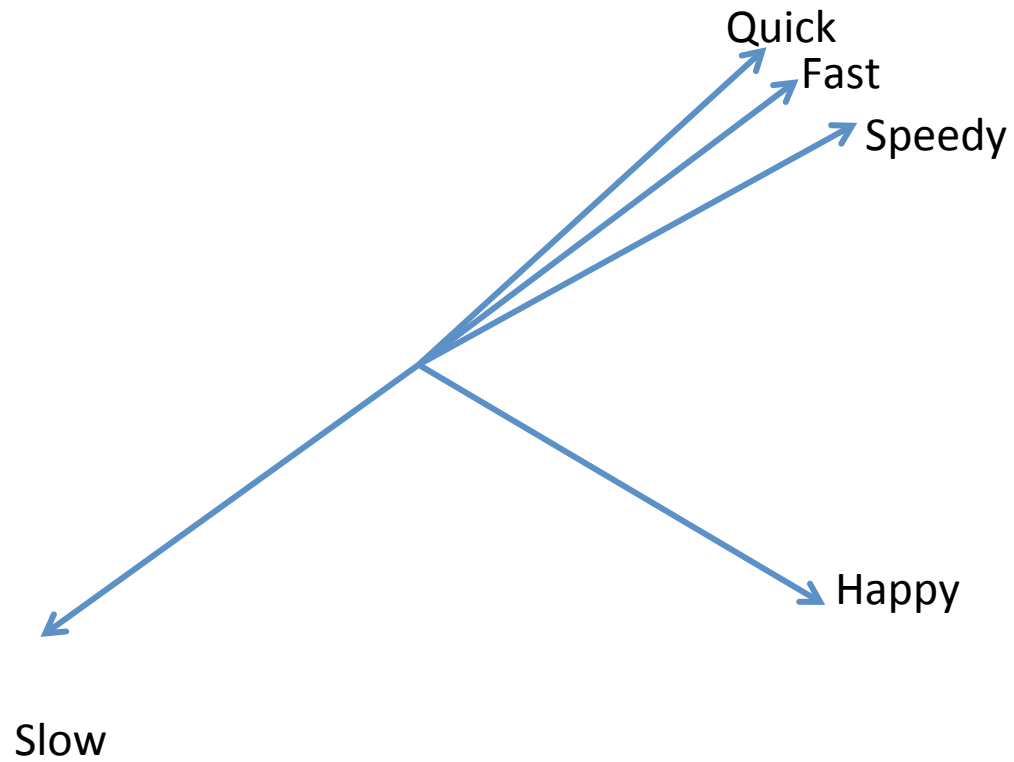
What the User Decides

- Which variables to cluster
- What treatment to apply to the variables*
- What to do with missing data
- Measures of linkage
- Numbers of iterations
- Exclude outliers *
- The number of clusters*

Outliers



Collinearity



How Many Clusters?

- The researcher determines how many clusters there should be.
- The answer ‘informed’ by statistics as well as what “looks” correct
- How big is the sample?
 - Max clusters = $N/75$
- What is the client capable of working with?
- Common approach is to look at a scree plot (percent variance explained, within group standard deviation, F statistic)*

Solutions are NOT stable

Cluster Analysis is Qualitative

Quant → Discovering and measuring something that 'exists'

Qual → Social actions are constructed by participants, including the researcher

Qualitative Issues

- There are no real clusters
- The number of clusters is arbitrary
- The choice of attributes is arbitrary
- Different software provide different solutions
- Changing the parameters and scaling provide different solutions

Look for a 'useful' solution, not the 'true' solution

Effective Segmentation

- Measurable
- Accessible
- Substantial
- Operational
- Actionable
- Similar within segment – Homogenous
- Different to other segments -
Heterogenous

Want to learn more ?

Thank you



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Q & A



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