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Target segment strategy
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Chapter Topics

Introduction

Market segmentation principles are well established in marketing theory and a recognized component of marketing strategy (Weinstein, 2004). As customer needs become increasingly diverse, market segmentation offers organizations the means to handle this complexity. This is achieved by grouping into segments customers who are homogenous in terms of their needs and buying behaviour (McDonald and Dunbar, 2004). For organizations the benefits include more efficient resource allocation, marketing programmes which are a better fit with customer needs, and improved competitiveness (Beane and Ennis, 1987; Wind, 1978). Despite these attractions, organizations which implement a segmentation approach have many decisions to make about the methods they will use and how they will interpret and implement the outcomes (Dibb and Simkin, 2008).

This chapter provides an overview of the market segmentation process and explores what is involved in target segment selection. The chapter begins by outlining the reasons for carrying out segmentation and the associated benefits. Various methods for developing segments are then described, illustrated with topical examples from the mobile phone and energy markets. The criteria for judging the quality of the resulting segments are highlighted, followed by a discussion of targeting decisions and segment

choice approaches. The chapter concludes with a series of warnings for segmentation users, designed to minimize the most commonly encountered impediments to the process and to the implementation of its outputs.

Managing diverse customer needs

Most markets are characterized by the diverse nature of customers, whose characteristics, needs, expectations, and buying behaviour vary. Organizations are faced with the problem of managing this diversity and considering the extent to which it is feasible to develop tailored product and service propositions. While it may be possible in some business markets to develop bespoke offerings for certain key accounts, this is not the case for most markets. Furthermore, organizations rarely have the required resources to pursue all potential customers, so difficult trade-offs are often needed. Market segmentation offers a route to making these decisions, helping to address the practical resource constraints facing leadership teams in all types of organizations.

Organizations of all sizes and from all sectors use market segmentation to tackle a variety of market challenges. Perhaps the market has become mature and is suffering from a proliferation of competitors; maybe the organization is seeking to reduce costs and to maximize marketing or business development returns; or marketers maybe identifying how best to launch a new product or brand. In all of these cases, a market segmentation approach could help, resulting in smarter target marketing and more effective utilization of resources. The UK's Chartered Institute of Marketing recently identified that shrewder use of segmentation is deemed to be one of the most important priorities for marketers striving to tackle the current economic downturn.

Segmentation has recently enjoyed a resurgence (Dibb and Simkin, 2009b; Yankelovich and Meer, 2006), led partly by technology advances which have improved the capacity of organizations to capture and manage customer data and partly by the importance of shrewd targeting in times of recession. Scarce marketing resources must be used more prudently during periods of difficult trading, so ensuring an excellent fit between company capabilities and customer needs is more important than ever. New uses of segmentation and targeting have also played a role. For example, social marketers are increasingly drawing on segmentation and targeting ideas to ensure the effective positioning and communication of anti-smoking, healthy eating, and good cause messages.

Segmentation involves organizations in considering how best to group their customers; which of these customers to serve; making effective resource allocation decisions; developing persuasive propositions for targeted customers; and helping to ensure that an organization 'goes to market' with clearly differentiated propositions and positioning. This chapter explores the nature of market segmentation, segment creation and target segment selection. Other chapters in this book consider the development of a compelling basis for competing and brand positioning.

Most textbooks describe segmentation as the process of grouping a heterogeneous customer base into smaller, more similar or homogeneous groups (segments).

In other words, market segmentation is the grouping of like-minded and similarly behaving consumers or business customers together for the purposes of developing products/services, targeting sales and marketing activities, managing customer service and determining internal resourcing. A market segment is defined as a group of individual consumers (in B2C markets) or business customers (in B2B markets) sharing one or more similar characteristics that cause them to have relatively similar product needs and buying behaviour. All customers allocated to a particular market segment should respond to the same marketing strategy and marketing programme in a similar fashion. In lay-person's terms, segmentation is understanding what customers want and how they buy, grouping similar or like-minded ones together, choosing with which groups to do business, and then tailoring a proposition accordingly.

Market segments

Referring to an example helps to illustrate what we mean by segments and how segmentation leads to the identification of like-minded groups of similarly behaving customers. One mobile phone company's recently launched segmentation scheme included eight main customer segments, three of which are:

- *Gaming Youths* – 'The game-oriented, mobile world addict', rarely using the phone for conversations, but focused instead on games, music and texts. The desired proposition is youth-oriented, modern, innovative and games-led.

- *Sophisticated Careerists* – 'Be successful with mobile technology'. These are career-oriented individualists, with lots of contacts, needing a mobile phone to organize every aspect of their lives: address book, diary, communications, networking, work and socializing. They are interested in the internet, network reliability and talk-led tariffs, but not TV downloads, games or music.

- Laggards – 'Torn between conservative values and the modern world'. These 'late mass' consumers simply do not see the relevance of this technology or how it fits into their lifestyles. Many have a mobile phone but rarely use it.

You will, no doubt, recognize people that you know who fit these profiles. Clearly, the games, music and text packages offered to the *Gaming Youths* will have little relevance to either the *Sophisticated Careerists* or the *Laggards*, while the approaches designed to entice greater usage from the *Laggards* are unlikely to appeal to *Gaming Youths* or *Sophisticated Careerists*. Were the mobile phone company to develop only one marketing strategy and marketing mix with which to target all mobile phone users, it would fail to address the needs and behaviours of each of these consumer groups. The role of segmentation is to identify such differences between customer groups and make use of them for marketing purposes. Case study 11.1 below explains in more detail the approach followed by this mobile phone company.

Case Study 11.1   Teleco segmentation

Background

As the mobile phone market matures and becomes saturated, service operators are seeking new ways to target and serve their customers in order to generate revenue. This particular telecommunications company operates throughout much of northern and eastern Europe, regions which are known for their advanced mobile phone usage. Faced with growing competition, the organization sought a more sophisticated customer segmentation approach for four countries in its Eurasian markets. Previously, the company divided its market only into corporate and private users, with a further split between customers on pay-as-you-go and monthly contracts. Until recent years, this kind of approach to splitting up the mobile phone market was not uncommon.

A German marketing research organization was retained by the telecommunications company to conduct the required data collection and segmentation analysis. Initially the focus was to develop a consumer segmentation scheme, quickly followed by a review of the needs, usage and behaviour of corporate users. There were five main phases to the segmentation project (see also Figure 11.1).

Phase 1: Preparation
- Internal scoping workshop
- Selection of project partners
- Detailed brief/contract
- Qualitative exploratory research (focus groups)
- Preparation of questionnaire for quantitative phase

Phase 2: Quantitative Study
- Four countries
- N = 2,500 interviews per country (including rejecters)
- N = 1,000 current/potential users
- Coverage of many issues: needs, benefits, usage, attitudes, lifestyles, etc.

Phase 5: Implementation
- Present segments
- Internal marketing of emerging strategy
- Agree targeting criteria and select target priorities
- Deep-dive focus group research into targeted segments
- Creation and roll-out of marketing programmes for targeted segments
- Ongoing tracking studies

Phase 4: Reporting
- Management presentation of segments
- Management report
- Tailored report for each country
- Tables/cross-tables
- Special analyses:
    Trends, competitors, revenues, etc

Phase 3: Segmentation Analysis
- Customized solution
- Conjoint trade-offs
- Factor and cluster analyses
- Workshops for debate and evaluation of emerging solutions

Implementation planning was built-in from the outset.   This project lasted 18 months.

Figure 11.1   The five phases of the segmentation project (Anette Bendzko GfK, Germany)

Phase 1: A preparatory phase exploring the current market structure, involving the organization's senior leadership team, external experts and the research

organization. This phase also involved exploratory focus groups, so as to examine consumers' mobile usage and buying behaviour.

Phase 2: 10,000 consumer interviews were conducted (2,500 in four countries: 40 per cent were current users) to allow for quantitative analysis of consumers' needs, required benefits, usage, lifestyles and attitudes towards mobile phones. A further 2,000 interviews addressed corporate subscribers in the four countries, examining similar issues, plus buying centre dynamics and decision-making, and tariff considerations.

Phase 3: Multivariate techniques, including conjoint, factor, cluster analyses and structural equation modelling, were used to generate customer segments. These were then refined through input from managers and from 'deep-dive' customer focus groups.

Phase 4: The segments were presented throughout the organization, with careful tailoring to each of the specific country markets of the operating brands.

Phase 5: The final stage involved implementing the segmentation. Follow-up qualitative marketing research tested consumer and business customer views of the marketing propositions and competitive standing within each of the targeted segments.

Identifying the market segments

The segmentation solution was developed using a clustering approach. Input variables generated from the earlier interviews included: peer group orientation, trend/fashion influences, tradition/family values, communication needs/usage, emotional aspects of usage, technology affinity, demographics/lifestage/lifestyles, media usage, tariff requirements, purchasing policies, factors influencing buying, and buying centre dynamics. A statistically sound and intuitively robust eight cluster solution was generated, which was also intuitively appealing to managers. The emerging segments reflected the overall set of behaviours in evidence: some were consumer-focused, others were business user-orientated. The segments were profiled using behavioural and aspirational variables (see Table 11.1). The chosen segment labels closely reflected the allocation of customers to segments using easily remembered language. The clarity aided internal communication, convincing managers that customers could be readily allocated to segments. Existing subscribers were then analysed and allocated to one of the segments.

Table 11.1   Cluster analysis input variables

- Peer group orientation
- Trend/fashion influences
- Tradition/family values
- Communication needs and usage
- Fun and emotional aspects from mobile usage
- Mobile and e-world immersion
- Technology affinity
- Interest in teleco applications and services
- Demographics/lifestage/lifestyles
- Media usage
- Tariff plans and requirements
- Purchasing policies
- Buying centre dynamics
- Influencing factors

Case Study

Cluster analysis produced a statistically sound 14 cluster solution. As the organization had previously operated with just two customer groups (business users and consumers on 'pay as you go' tariffs), managers felt that progressing from two to 14 customer groups was too major a transition to handle. The focus shifted instead to the next cut-off point in the clustering, the eight cluster solution. Tests of the statistical robustness of these eight segments proved satisfactory. Initial reviews suggested the groupings were intuitively robust, with managers readily able to visualize the customers contained within them. The different segments were also mutually exclusive, with each consumer or business user clearly allocated to one of the segments. The segments were then profiled in terms of the behavioural and aspirational variables considered in the analysis and descriptive labels identified (see Table 11.2).

Table 11.2   The eight segment profiles

Talk 'n' Texters – 'I just have a mobile phone because it is practical.'

- The conservative customer, not immersed in technology but with a few practical needs that can be fulfilled by technical appliances. S/he relies on mobile phones for practical reasons only.
- Interested in basic functions, especially SMS, but not attracted at all by more sophisticated or fun services, be it via mobile phone or the internet.

Talkative Trendies - 'Talk around the clock.'

- The modern, fun- and fashion-oriented socializer. This customer needs a mobile phone to keep in constant touch with the social scene and fulfil a strong need for communication.
- Interested in all applications and services.

Aspiring to be Accepted – 'Would like to have it but is not really up to it.'

- Wants to be part of the in-crowd, but is not there yet, and possibly never will be! These customers have a mobile phone because they just want to have it (show off) and seek to have trendy handsets they believe are adopted by peer sets they aspire to join.
- Show a special affinity towards photo, video and MP3 applications.

Laggards – 'Torn between conservative values and the modern world.'

- Traditionalist views with low communication needs and basic technical usage.
- The Luddites or those late into the market!
- S/he holds specific aversions to mobile phones (SMS) but also views them as a practical-only device (e.g. for emergency calls only).

Gaming Youths – 'Game oriented mobile world addict.'

- Young and very technology-oriented people, belonging to the mobile generation, who need a mobile phone in order to maintain a fast-living fun life.
- Games, games, games! And music.
- These customers search for images and brands that help them keep track of the modern world.

Sophisticated Careerists – 'Be successful with mobile technology.'

- Career-oriented individualists with lots of contacts. Highly immersed in technology and very mobile.
- Demanding on value for money. Customer care and respect are very important to these customers.
- They need a mobile phone to organize their life and business, but they are not emotionally attached.
- Self-choosers for work mobiles are included here.

Organization Paid – 'No choice – the corporation decides.'

- Demanding on value for money and customer care.
- Network coverage, reliability and volume discounts are the focus.
- Users have little influence in selection, so not particularly fashion or technology-led.

Table 11.2   *(Cont'd)*

International Business Users – 'Frequent connected business travellers.'

- Easy quad-band roaming and smooth data transfer.
- Some similarities with *Sophisticated Careerists* but with much greater emphasis on functionality and flexibility of at-destination services.
- Influenced by corporate choice of network and tariff plans.

The first five are consumer segments. The last two are business user segments. The *Sophisticated Careerists* are mainly business users who self-select mobile network, handset and tariff options and behave as consumers. These segments have been disguised.

The chosen segment labels were felt to closely reflect the allocation of customers to segments using easy to remember language. The clarity aided internal communication and meant managers were optimistic about the ease with which customers could be allocated to the segments. As part of the project, all of the corporation's existing subscribers in the data warehouse were analysed and allocated to one of these segments.

Quality checking the segments

Having statistically and qualitatively identified the segments, the marketing research company applied an agreed set of evaluation criteria to test the quality of the segments. This process took place *prior* to the selection of segments to target with marketing resources. The criteria used were a mix of statistical and qualitative measures, routinely applied by this organization as part of the segmentation projects it undertakes for clients. The rationale is that statistical tests are used to verify the robustness of the segment identification process and its outcomes. The qualitative criteria enable the intuitive managerial logic of the recommendation to be judged. This stage is deemed crucial to the satisfactory implementation of any segment solution.

Outcomes

In all four countries, the adopted segmentation strategy resulted in market share and income gains, and significant improvements to brand awareness and customer satisfaction in the targeted segments. At that time, the mobile phone company's rivals were not adopting such a focused approach to target marketing or campaign development. In situations where the organization was market leader, challengers' shares were eroded. Where the organization was the challenger brand, there were impressive gains in market share. In all four countries, there were market share gains within targeted segments and aggressive competitors were pre-empted from making any further inroads. Revenues per subscriber in priority segments increased and the more focused marketing programmes improved the company's reputation with targeted consumers and corporate users. These segments have been disguised.

This case is adapted from material in Dibb and Simkin 'Judging the Quality of Customer Segments: Segmentation Effectiveness', *Journal of Strategic Marketing*.

Case Study

Figure 11.2   The role of target market selection in the strategic marketing process

Why market segmentation is important

Market segmentation is pivotal to the strategic marketing process (see Figure 11.2), and one of the most important activities which marketers undertake. Segmentation results in a better developed understanding of customers' behaviours, differences and similarities, and so directs the development of marketing propositions and programmes. In order to make informed decisions about which segments to target, managers need to understand key marketing environment trends and drivers, competitors' capabilities and plans, internal resources and capabilities, and likely fit with corporate strategy. The process of undertaking market segmentation, therefore, acts as a catalyst to achieving such insights. The resulting decisions about resource allocation and marketing programmes are likely to be much better directed as a consequence of the segmentation study.

The accepted benefits

The benefits of segmentation are perhaps best articulated by practitioners who use the approach on a day-to-day basis. The CEO of one of the world's largest IT corporations recently commented that, 'Segmentation-based marketing is the essence of sound business strategy and value creation'. A multinational energy company's strategy director builds on this theme, saying that, 'Segmentation is about recognizing some customers are not worth targeting. Sure, you'll sell to them if they come calling, but you won't invest in chasing them'. For one of the largest bankers, 'Segmentation makes handling smaller accounts profitable'. Meanwhile a leading global construction equipment manufacturer's CEO suggests that, 'Segmentation is just common sense good practice – it gets you closer to the right customers and encourages you to look after them properly'. Although none of these executives is a marketer, they still value the important role of segmentation to their organizations' strategies and operations.

The key benefits associated with carrying out segmentation include:

- *Improved customer insights*: in order to create segments an organization must have up-to-date intelligence, so the process forces a re-think about customers and their current issues. Segmentation focuses on customers' needs, expectations, aspirations and share of wallet, building stronger relationships with customers.

- *More focused product and service propositions, differentiated from rivals' propositions*: there is every chance that competitive advantage will result from a well executed segmentation strategy, possibly building barriers to competitors' moves.

- *Enhanced awareness of external market trends and competition*: an organization cannot decide which segments to target without examining these issues.

- *Focused resource allocation and marketing spend on the most worthwhile opportunities*: segmentation reveals who *not* to target and which customer groups will be the best recipients of resources.

- *Internal clarity*: segmentation invariably aligns the efforts of sales, business development, marketing, proposition development and campaign execution. This is arguably one of the most significant benefits. Segmentation establishes commitment and single-mindedness within the organization: one vision, one voice, harmonized messages.

- *Increased revenues from targeted customers*: the resulting benefit from the points above should be enhanced performance in the selected target segments.

Many organizations recognize the value of this realignment and the resulting improvements in the allocation of resources associated with carrying out segmentation. Greater clarity around which customers to pursue is also a significant benefit, particularly in multi-product, multi-segment, multi-territory organizations. Enhanced customer insight and better direction for how best to attract and engage with these customers are strong drivers for pursuing this practice.

- There are many potential segmentations that can be developed ...

mode **usage** geography services product

lifestyle lifestage **attitudes** reasoning functionality

interest technology **frequency** upgrades affinity

touchpoint customer **value** loyalty **rfv**

affluence share of wallet lifecycle advocacy churn

tenure engagement cost service

...and these can be combined and overlaid to address various business needs

Font prominence equates to frequency of their use in
Experian's many segmentation projects.

Figure 11.3   The popularity of segmentation bases (Gareth Mitchell-Jones, Experion; presented at the Chartered Institute of Marketing's Annual Conference, Birmingham, November 11 2008)

Segmentation approaches

While the reasons for undertaking segmentation are compelling, there is no 'magic bullet' or standardized off-the-shelf approach. There is, however, a growing body of opinion that the selected approach needs to reflect an organization's goals and reasons for embarking on segmentation (Dibb and Simkin, 2008; Yankelovich and Meer, 2006).

Figure 11.3 summarizes the many different bases which can be used in pursuit of market segments, as developed by Experian's analytics team for clients seeking to develop segmentation strategies. In days gone by, demographics, socio-economics, lifestyles, benefits, usage and attitudes were all 'in vogue' at various times as *the* trendy platform for segmentation. Today, great strides in information technology have radically enhanced organizations' ability to capture and manage customer data. Most have access to a wealth of customer insights, including their characteristics, needs, buying behaviour, the influences upon their decisions, perceptions, motives, attitudes, usage and purchasing activity. As the mobile phone example illustrates, these insights can be modelled and data from different sources mined to identify segments of similarly behaving and like-minded customers. The more an organization knows about customers in a particular market, the stronger the likely insight in the resulting segmentation solution.

There are many different approaches to developing market segments; some are more technical, while others follow a more pragmatic route. Perhaps the most common include (Dibb and Simkin, 2008):

(a) The 'traditional' survey-based approach, as advocated in many marketing textbooks and frequently described in the research literature, is illustrated by the case of the mobile phone company featured above. In its approach, this began with qualitative research (depth interviews/focus groups), followed by a quantitative survey of 10,000 consumers, and finally a confirmatory qualitative research phase. The survey findings were statistically analysed and modelled, to produce the eight segment solution, described in Case study 11.1. The solution was not predetermined and no consideration was taken of the existing segmentation approach.

(b) An alternative scenario involves segments which emerge almost by accident, perhaps when an organization is carrying out customer research for other purposes. For example, when creating a new brand strategy, one leading manufacturer of ready meals conducted qualitative research into consumers' buying behaviour and views of the leading brands. These focus groups identified different clusters of consumer behaviour, and five segments were developed as a result. Such an outcome is not uncommon when marketers are researching their customer base. Even though the resulting customer groups (segments) may not be statistically validated, they may be intuitively appealing to managers who are keen to embrace them as part of the target market strategy.

(c) In business-to-business and service markets, the macro-micro approach has achieved popularity, not least because it deals pragmatically with existing market structures. Sometimes this is precipitated by managerial brainstorming about client types, behaviours, attitudes, their needs and the influences impacting on their choices of brand or service provider. The brainstorming starts by examining the buying behaviour characteristics of the organization's existing customer groupings, first seeking to disaggregate these into more homogeneous groups, and then re-aggregating across the original customer typology to create market segments. This approach was adopted by the energy business described in Case study 11.2 below.

Case Study 11.2   Segmenting the energy market: the macro-micro approach

Background

When electricity supplies first spread throughout the UK they were provided by a plethora of local private companies, all using different specifications and power outputs, seeking to capitalize on the surge in demand for this then 'alternative' energy. In order to maximize uptake, harmonize operating standards and ensure the public's safety, government regulation eventually led to state-controlled regional monopolies. Commercial and household customers in a geographic region such as the Midlands or the South East had no choice but to receive both infrastructure and energy from the region's designated regional electricity company (REC). Price and service levels were fixed by regulation and the REC, with customers only able to buy from one supplier. During the 1980s, the UK government privatized or deregulated

nearly all remaining state-run enterprises, such as the large airports (BAA), state airline (BA), logistics company (NFC/Excel), defence supply (BAe), car producers (Jaguar, Land Rover and Rover) and telecoms (BT). By the 1990s it was the turn of the remaining utilities, including gas (British Gas/Transco), and the regional water and electricity companies. For the first time in living memory, consumers and business customers had a choice of electricity supplier.

The newly deregulated market was attractive for other organizations to enter, with many well-known brands such as Tesco, Virgin and Sainsbury's deciding to retail the electricity generated by the major producers. The RECs became acquisition targets, mainly for larger energy businesses in France, Germany and the USA. Over the next decade, mergers and acquisitions led to the situation where just six energy firms dominated the supply of electricity and gas in the UK: British Gas, French-based EDF Energy, Npower (owned by Germany's RWE), Scottish and Southern, Scottish Power (owned by Spain's Iberdrola) and Germany's E.on after its purchase of PowerGen.

Initially, consumers were slower to consider switching suppliers than business customers, but now – over a decade since deregulation – many consumers have been enticed to switch electricity supplier by the lure of lower prices or a guarantee of no price inflation for a fixed period. The current recession has motivated increasing numbers of consumers to seek better deals, facilitated by online comparison websites and hype in the media. The market has become increasingly price sensitive and few customers exhibit much brand loyalty.

In an increasingly price-led and competitive environment, several of the larger energy suppliers have sought to differentiate themselves on other dimensions, including their green credentials, tariff innovations and customer service capability. As often happens in maturing and highly competitive markets, these companies have also turned to market segmentation in order to identify the most attractive groups of commercial and private customers on which to focus their marketing resources. For example, E.on identified segments based on the lifetime value for the account, to ensure the resources required to capture a new customer will be recouped before the customer switches to a rival supplier.

One of the main providers of generating capacity, infrastructure and energy distribution decided to adopt the principles of market segmentation in order to energize the efforts of its sales and key account managers, and to help identify the sub-groups of customers on whom the business should focus its sales, marketing and customer support developments. Amongst this company's leadership team were several MBA graduates familiar with market segmentation benefits and two directors who had successfully deployed market segmentation when working in other sectors.

Project objectives and the adopted segmentation process

Despite understanding what market segmentation could offer, this energy business felt that there would be resistance within the company to the changes which might result. This would be for a variety of reasons, not least inertia and a dislike of changing working remits. The Strategy Director preferred to engender internal support and to foster buy-in by involving senior management, line managers and key account management personnel throughout the segmentation process. It was decreed that the resulting segments must be sizeable enough to warrant serving, markedly unique in their composition and characteristics, easy to populate by sales managers, prioritized

in terms of profitability and costs to serve, and based on the characteristics and purchasing behaviour of the customers. A rigorous process was needed that would stand up to external scrutiny and be compliant with regulations governing this sector.

The energy business wanted to:

1. Identify sub-groupings of customers based on a mix of characteristics, including purchasing behaviour and spend, rather than profitability measures alone.
2. Generate enthusiasm through the process amongst those managers engaging directly with customers.
3. Develop a transparent segmentation solution, so that staff knew instinctively in which segment a particular customer should be located.
4. Seek market leadership in an attractive set of market segments in a differentiated, competitively effective and regulatory-compliant way.
5. Facilitate marketing propositions tailored to targeted customer requirements using innovative sales and marketing programmes.
6. Update its insights into customers, competitors, market trends and associated organizational capabilities.

The energy company began by running an externally facilitated workshop to orientate senior personnel and line managers responsible for sales, marketing, marketing research, key account management and customer service. This workshop established the requirements for the ongoing segmentation process in terms of actions, resources, personnel, timeframes and reporting structures. A cross-functional sub-group of these executives became the core project team. A new marketing manager was recruited to administer the segmentation project. This team and the marketing manager had the support of external experts.

There are numerous approaches to carrying out market segmentation. Many textbooks promote the quantitative survey-based approach, ignoring the company's existing classifications of customer groups and instead analysing the usage and attitude, buying behaviour and characteristics of customers in a quantitative survey. Multivariate analysis then identifies the emerging market segments. So long as internal structures and personnel can be expediently realigned to address these market segments, such an approach can work well. In practice, many organizations struggle to realign their operations to fit redefined customer groups and target market priorities. Many business marketers prefer the easier to use macro-micro approach. This approach starts with the company's existing customer groupings and then uses its knowledge of these customers to identify new groupings from within these. For cost and time reasons, and also to ensure the full involvement of the organization's personnel, this energy business decided to use the macro-micro approach.

In accordance with best practice, a template was produced which captured the characteristics of customers, buying centre dynamics, energy usage and consumption data, customer needs and expectations, the buying decision-making process and factors which influence it. This template was applied to each of the company's existing customer groupings. Cross-functional teams knowledgeable of these customer groupings were assembled for a series of workshops which over a three-week period, examined all of the company's customer types. Each team comprised senior and line managers, sales, marketing, key account and customer service personnel, and the marketing manager as facilitator.

In practice, these teams found it impossible to generalize customer insights for the different customer groups because each contained a mix of dissimilar consumers. It became clear that customers had previously been allocated to groups as a result of

various factors, including industry 'norms', operational convenience, and regulatory compliance. In general, understanding of customers' behaviour was poor. As a result, those involved in the workshops went through a process of splitting each customer group into sub-groups of like-minded and similarly behaving consumers. Typically between five and 12 groups (or separate templates) emerged out of each initial customer group. During subsequent meetings, the project team was able to use the many templates generated by the workshops to develop new market segments by merging sub-groups which exhibited similar characteristics and behaviours. Many of these new segments contained sub-groups from a number of the original customer groups.

In parallel to identifying the market segments, the marketing team was updating its competitor intelligence and awareness of market trends. These activities were designed to aid the target segment selection stage. The project team, in conjunction with the company's leadership team, decided to use a portfolio planning tool to assist these targeting decisions. The chosen tool was the directional policy matrix, the use of which involved agreeing a set of market attractiveness criteria which would subsequently be weighted and used to rank the attractiveness and capability fit of the emerging segments.

The resulting segmentation solution

Two segmentation schemes emerged: one for consumers (private households) and one for commercial customers (public and private sectors). Although full details cannot be divulged for reasons of corporate confidentiality, there were 10 consumer segments and 14 business segments. The directional policy matrix identified three consumer and two business segments to grow, several to harvest and hold, and also several segments to de-prioritize or ignore. Some of the emerging business segments are described in Table 11.3.

Table 11.3   Examples of the segment profiles

In the business market, segments included two in the public sector:

- *The Professionals*. Professional purchasing managers – focused on seeking value for the tax payer and good service levels, while becoming increasingly concerned about carbon footprint and green issues, often with in-house energy specialists.
- *No Change Traditionalists*. More risk-averse public sector traditionalists, committee-led decision making, very influenced by their own networks and similar organizations.

There were several commercial small business segments, including:

- *Independents*. Price-conscious owners of small enterprises such as shops, business services or restaurants, very much focused on reducing operating costs to support profitability and influenced by media views.
- *Ego-stroked Proprietors*. Deal-seeking localized chains/SMEs, in which the entrepreneur's ego must be massaged.
- *The Buyers*. Energy-aware light manufacturing and small industrial firms with energy managers and facilities managers, who want simplified buying and a good deal.

Organizations operating across numerous sites fell into five segments, including:

- *Energy Savvy*. Large multi-site energy aware businesses, with an in-house knowledgeable energy team seeking significant cost savings and reliable multi-site billing.

Table 11.3   *(Cont'd)*

- *Low Awareness Purchasers*. Multi-site customers requiring cost savings, but not energy savvy or really focused on energy trends.
- *Site Churners*. Multi-site operators with quickly changing site portfolios; price is important but not as much as service levels.
- *Frequent Switchers*. Multi-site frequent switchers, fully deal-led and quick to change supplier, with no loyalty.

(This case is adapted and extended from material in Dibb and Simkin (2009c).)

There are advantages and disadvantages in the different segmentation approaches:

(a) The survey-based quantitative approach, adopted by the mobile phone company, can be effective in creating segments, but is expensive and takes time (18 months in this case), requires expert marketing research that is well specified, in this case for brand development, and its adoption frequently involves considerable disruption to the organization.

(b) The qualitative-only 'accidental' approach, as in the ready meals food example (p. 247), is certainly quick and easy. However, it is vulnerable to poor scoping and misinterpretation, and is only ever as good as the thinking behind the qualitative marketing research that is specified. In practice, it must be followed with a quantitative confirmatory study, to avoid companies committing to segments which are based on the opinions of a very few.

(c) The macro-micro approach 'evolves' segments out of the company's existing understanding of customers. It involves many organizational members, engendering ownership amongst those involved in the process. It also takes into consideration the existing status quo, so can be less disruptive than some other approaches. However, this approach also requires some subsequent validation and is principally a B2B option (Simkin, 2008).

Segment quality

Having created a segmentation scheme, it is necessary to 'sanity-check' the quality of the segments. Segment quality criteria are a set of desirable segment characteristics which can be used in both consumer and business-to-business contexts. The original version developed by Kotler (1967) refers to: segment *measurability*, enabling segment size and potential to be judged; *accessibility*, in order that a segment can be reached and served; *substantiality*, ensuring that a segment is of sufficient size and profit potential; and *actionability*, so that a segment can be reached effectively with a marketing programme. These criteria have been endorsed by other authors (e.g. Bonoma et al., 1983; Wind, 1978), some of whom developed their own checklists for assessing the quality of segmentation output. These criteria are distinct from

those variables used when assessing segment attractiveness during targeting (cf. Goller et al., 2002), as discussed in the next section of this chapter.

This distinction is clarified by Hlavacek and Reddy's (1986) view of segmentation, comprising: (i) segment identification; (ii) segment qualification; and (iii) segment attractiveness. Under this scheme, segment identification relates to the design of the segments, while the qualification phase concerns the extent to which emerging customer groups can be operationalized. Segment attractiveness relates to targeting decisions, resource allocation and segment prioritization. This approach establishes the role of qualifying criteria which appraise the quality of segments, rather than those which are used to judge targeting attractiveness.

Segmentation theory is based on assumptions of market heterogeneity (Beane and Ennis, 1987; Wedel and Kamakura, 2002; Wind, 1978). Once this assumption is met, segment qualification criteria can help to assess whether a segment has distinct user characteristics and needs, if the scale of the opportunity is worthwhile, the extent to which these features are measurable/stable over time, whether the competitors can be readily identified, and if a marketing programme can effectively target it. Kotler's (1967) criteria of measurability, accessibility, substantiality and actionability are central to many of the other proposed schemes. Reviewing the literature reveals the following *segment quality* themes are recognized.

1. *Segments are homogeneous*. Each segment being distinctive in terms of its customer profile and needs. This will impact upon the extent to which the segments are accessible.

2. *Segment size and potential profitability*. This involves two sub-themes: the first is that the size of the segment is sufficient so that resource allocation can be justified and future profitability judged adequate. This fits with Kotler's notion of substantiality, yet more specifically expresses the underlying components. The second sub-theme concerns the ability to predict size and profitability, closely fitting with Kotler's measurability criterion.

3. *Segment stability*. Although not directly included by Kotler, given that profitability could rely upon it, this is implied by the substantiality criterion.

4. *Segment accessibility*. This theme mirrors one of those originally expressed by Kotler, concerning whether suitable and distinctive marketing programmes can be developed for emerging segments.

5. *Segment compatibility*. Perhaps the most complex theme, this concerns the extent to which the segment output fits the organizational context. This includes: synergy with corporate and/or marketing strategy; match to resources and capabilities; and fit with organizational factors such as culture, structure and operational considerations. Although this theme is not the same as Kotler's notion of actionability, it highlights issues which affect whether a segment can be served.

6. *Segment actionability*. This theme is consistent with Kotler's original interpretation of the term, referring to whether the organization has the resources and capabilities to serve the emerging segments.

(Adapted from material in Dibb and Simkin (2009a).)

Targeting approaches

No organization has the resources or capabilities to adequately serve all segments in its market with segment-specific sales and marketing programmes. Some tough choices are needed about where to concentrate resources and marketing programmes. Even the largest corporations, such as GM, P&G, IBM, Marriott, Tesco or HSBC, prioritize certain target markets ahead of others, and do not offer all consumers or business customers a proposition. This section considers the available options for selecting target segments. Only by targeting the 'right' segments will an organization enjoy the benefits of adopting the market segmentation concept and enable the costs of identifying segments to be repaid.

A few organizations adopt a single-segment targeting strategy and, in effect, become niche specialists. Most organizations opt for targeting several segments, sometimes called a multi-segment strategy. By pursuing such strategies, organizations are spreading their risks by trading in several different segments and seeking increased sales volumes and revenues. The costs of a multi-segment strategy can be considerable: developing a variety of product offerings and marketing programmes requires substantial resources. Nonetheless, a multi-segment strategy is the more commonly adopted approach in the vast majority of organizations. For these organizations, the challenge is to ensure that the selection of segments is carefully managed, so that resources are allocated to the 'best' mix of segments.

The literature examining the targeting stage of the market segmentation process has identified various factors that impact upon an organization's assessment of target market attractiveness, including:

- The organization's existing *market share* and *market homogeneity* – a company's knowledge of an existing market will influence its view as to the relative attractiveness of this market vis-à-vis others.

- Existing *product expertise* – in related applications or adjacent markets on which the organization can build.

- The likelihood of *production and marketing scale economies* – although each segment targeted will require a bespoke marketing programme, there may be certain savings in product development, brand building activity, customer service, logistics, or marcomms (marketing communications) between two or more segments, which are not available if the organization chooses to prioritize a different set of segments.

- The nature of the *competitive environment* – one segment may be particularly well served by one or two very strong competitors, whereas there may be the opportunity to establish a competitive advantage in a separate segment.

- The forces of the *marketing environment* and *market trend*s – these external developments will present opportunities and threats.

- Capability and ease of matching *customer needs* – the behaviour and expertise of the organization may synergize more strongly with one segment than with the consumers or business customers in another segment.

- Segment attractiveness in terms of *size, structure and growth* – some organizations may deem a segment to be too small or low in spending to be attractive or there may be volatility and instability.

- Available *corporate resources* – no organization has the time, money, people or skills available to address all segments in a market: some segments will be resourced ahead of others.

- Anticipated *profitability and market share* – ultimately an organization must satisfy its owners, shareholders and investors, who generally equate profitability and ROI with successful business strategies. In certain organizations, notably in the Asia-Pacific region, there is a sensible goal to increase market share, which may be possible in only certain segments.

Best practice suggests that 'a basket' of variables should be considered by managers appraising the attractiveness of segments, including short-term and long-term measures; and internal factors such as financial rewards, budgeting costs, operational requirements; along with external factors, including customer satisfaction considerations, competitive intensity, marketing environment factors, and so forth. Not all of the factors which are considered will be equally important in determining whether or not a particular segment is attractive to the organization. Some variables will be more important than others, so there needs to be a process for weighting the selected attractiveness criteria. The importance of variables will also vary for separate organizations. Various portfolio planning models – such as the Directional Policy Matrix or Segment Evaluation Matrix (cf: Dibb, 1995) – have been developed to assist managers in choosing which segments to target. For more information on these approaches see Dibb and Simkin (2008). For the purposes of this chapter, the focus will be on one of these methods, the Directional Policy Matrix (DPM), which is now widely used to identify which segments to prioritize.

The market attractiveness/business strength model or Directional Policy Matrix (DPM) employs multiple measurements and observations. Although originally created to examine product and brand portfolios, the tool works well in directing target segment selection. The *market attractiveness* dimension includes all aspects that relate to the market, such as expected profitability or ROI, seasonality, economies of scale, competitive intensity, ability to develop a competitive advantage, industry sales, the overall cost and feasibility of entering the market, or whatever is deemed appropriate for a particular sector and organization in judging the relative merits of segments. By using a set of variables (rather than a single financial indicator) the technique forces managers to consider attractiveness more broadly than in relation to short-term profitability. The *business strength* dimension is also a composite of factors, perhaps including relative market share, research and development expertise, price competitiveness, product quality and technical performance, market knowledge, customer handling/service, production and logistical competencies, financial resources, managerial expertise, and so forth. Such strengths or capabilities are internal

issues unique to the organization in question and are generally benchmarked against the strongest and most successful competitor. Each organization using the tool selects its own market attractiveness and business strength criteria, but should apply the same ones over time so that comparisons can be made and changes monitored. The DPM grid-clearly portrays the attractiveness of segments, providing a numerical value of their relative attractiveness, as depicted in Figure 11.4. The use of the DPM in directing target segment selection is described in Case Study 11.3.

Case Study 11.3   Targeting decisions and outcomes in the mobile phone segmentation case

Following segment quality checks, managers from the four countries considered their targeting options and reviewed the allocation of resources to the emerging segments. Although all eight segments were found in each of the four countries studied, the size and relative attractiveness of each varied for the countries and separate operating companies. Using a jointly agreed set of attractiveness variables (see Table 11.4 below) within a Directional Policy Matrix (DPM) analysis, the management teams in each country decided which segments should be prioritized. The managers were helped in their task by having a full range of information about each of the segments and the customers contained within them. This included detailed breakdowns of the customers' technology affinity, communication and mobility, mobile phone attitudes and usage behaviour, spending and price sensitivity, internet and mobile office usage, brand awareness, preferences for operator/service providers, current network satisfaction, demographics/lifestage, and lifestyle/leisure activities.

Each national team had particular market and competitive conditions in which to operate, so each made its own decisions about which segments to target. For one country, marketing resources were focused primarily on three of the consumer segments. One of these had particularly strong growth prospects, while in the others a challenger brand had been stealing market share. A second national team opted to address five of the eight segments. None of the countries

Table 11.4   Illustrative target market attractiveness criteria

Attractiveness variables

- Disposable income in the segment
- Willingness to spend on mobiles in the segment
- Interest in value-added services (mobiles) in the segment
- ARPU/revenue/profitability (the financial worth of the segment)
- Share in prospects in the segment
- Loyalty level in the segment
- Size of the segment
- Competitive intensity (degree of competition in the segment)
- Potential growth of the segment
- Existing market share in the segment

These criteria were the variables that managers chose to use in the Directional Policy Matrix (DPM) which they deployed to aid the selection of segments to target.

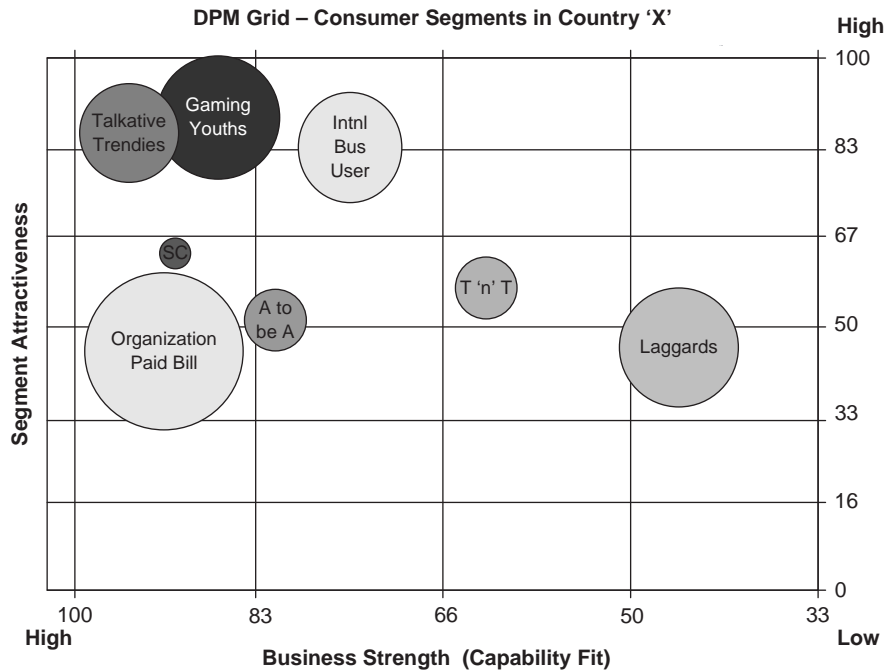**DPM Grid – Consumer Segments in Country 'X'**

Figure 11.4   The use of the DPM in identifying segments to target

focused on all eight segments and no two national teams shared exactly the same selection of target marketing priorities. Figure 11.4 presents an example of one country's DPM.

Once the targeting had been finalized, each country's management team developed a bespoke marketing plan, focusing on each of the chosen target segments. These plans were designed to reflect the needs of targeted customers, the competitive and regulatory context, and distribution channel characteristics in each country. The detailed consumer insights obtained from the marketing research were invaluable to this process.

Using the directional policy matrix is just one of a number of ways in which managers can make decisions about segment priorities (Dibb and Simkin, 2008, provides a more comprehensive review). Whatever method is used, it is important to recognize that decisions about targeting are likely to dictate the success or otherwise of the entire segmentation strategy. Consequently, this stage inevitably requires further analyses and input from colleagues armed with financial performance data and details of operational costs. Before any final decisions are made, it is often necessary to allocate some or all of the organization's existing customers to the newly created segments, so that a fuller assessment of likely revenue streams and profitability levels can be made. This form of data mining can be extremely costly and demanding in terms of the required time and skills.

Overcoming operational problems

Whichever segmentation approach is adopted, there is much more to segmentation than merely identifying segments. Once segments have been identified, managers must decide which of these segments to target or prioritize. For those segments which are deemed to be priorities, an appropriate and compelling brand positioning must be developed. Then a suitable go-to-market plan is needed, creating appropriate marketing programmes and suitable methods of engagements with these customers. This is likely to involve re-thinking existing marketing programmes and approaches to handling the organization's customers.

Segmentation inevitably requires a reallocation of staff and resources, often resulting in disquiet and disruption within the organization. Operationalizing the segments is likely to involve the realignment of reporting systems and performance measurement to reflect the new target segment strategy. There are likely to be significant data mining demands, as managers explore the current customer base and attempt to allocate these customers to the newly created segments. This will require appropriate skills, time and expense. It is important not to underestimate the likely required changes and to ensure that they are carefully managed.

The implementation literature reveals a range of potential problems that can strike before the segmentation project even gets underway. Typically these relate to skill gaps, data deficiencies, internal behaviours, leadership and the extent to which there are realistic expectations about the nature of the journey. With segmentation under-way, there are resource, skill and behavioural impediments likely to jeopardize progress. Once segments have been identified, the problems do not cease. The nature of these well-observed problems together with some of the remedies are summarized in Table 11.5 (see also Dibb and Simkin, 2009c). Some of these difficulties can be pre-empted by beginning the segmentation programme with a systematic period of auditing. This often takes the form of a review of available financial, data and other resources matched to the project requirements. Early identification of a suitable project team is also important, particularly in ensuring clear allocation of project responsibilities. This team should involve managers from a variety of functional areas. Outside experts can also have a role to play in filling internal skills gaps and bringing greater objectivity to the programme. Involving such expertise from the outset is important where shortages of personnel or of particular skills are identified.

Devices such as workshops and briefings can play a crucial role in involving organizational members in the segmentation programme. These events help managers to set aside the people and time needed for the project. Using external facilitators helps smooth political sensibilities around the project. Off-site events can be especially valuable as a mechanism to begin the process; to carry out some of the required analysis; or to negotiate implementation changes. Cross-functional events are particularly important in breaking down internal barriers to the project. Establishing a system of personal mentoring can also be invaluable, particularly for projects with far-reaching strategic and operational implications. Managing anxiety among staff through periods of uncertainty reduces the likelihood that personal interests might threaten the project outcomes.

Table 11.5   Diagnosing and treating Key Segmentation Barriers

	Infrastructure	Segmentation process	Implementation
DIAGNOSIS	Problems include data gaps or lack of an MIS; shortfalls in other required resources; low level of marketing or segmentation expertise; lack of customer focus; weak inter/intra-functional communication; organizational resistance to change; insufficient commitment from senior management.	Barriers include a shortfall in required data for identifying segments; insufficient budget; lack of suitably skilled personnel; weak understanding of the segmentation process; poor sharing of data and ideas; inadequate inter-functional buy-in; poor appreciation of the fit with corporate strategic planning.	Problems include inadequate financial resourcing for implementation; insufficient time or suitably skilled employees committed to the segment roll-out; poor internal/external communication of the segment solution and lack of senior management involvement; unclear demarcation of implementation responsibilities; poor fit between tactical marketing programmes and the segment solution; organizational resistance to required changes and/or inflexibility in the distribution system.
TREATMENT	Prior to undertaking segmentation: • Conduct a review of available marketing intelligence. • Identify relevant skills and personnel. • Ensure there is senior management participation. • Plan and facilitate channels of communication. • Earmark required resources. • Instigate internal orientation of segmentation principles and of the programme.	During the segmentation process: • Specify sequential steps for the segmentation process. • Identify skills gaps. Seek external advice and training. • Prioritize information gaps. Collect data. Create/update the MIS. • Instigate regular internal debriefs of data and ideas. • Review the on-going fit with corporate strategy.	Facilitate implementation: • Identify key internal and external audiences. • Prepare an internal champion-led marketing programme to communicate the segment solution to audiences. • Facilitate necessary changes to organizational culture/structure/distribution. • Re-allocate personnel and resources to fit the segmentation solution. • Specify a schedule and responsibilities to roll-out segment solutions. • Instigate a mechanism for monitoring segment and associated marketing plan roll-out.

Source: Adapted from Dibb and Simkin, 2001.

No matter how well planned, segmentation projects seem inevitably to incur problems. These do not cease with the creation of the segments or after targeting decisions have been made. Problems are also likely during the implementation of the target segments and with the execution of newly created marketing plans/ programmes. Expecting there to be problems is an important step towards overcoming them, increasing the likelihood that the segmentation will be effective.

Summary

Market segmentation focuses on customers' needs, buying behaviour, expectations, aspirations and share of wallet, assisting in building improved and stronger relationships with customers in targeted segments. The approach assists organizations in identifying the most attractive customer groups and in deciding where to focus marketing programmes and resources. Barriers to competition are created and better focused product and service propositions can result, which are differentiated from rivals' propositions. Increased revenues from targeted segments are the desired outcome. Within the organization, there are important 'wins' associated with segmentation. These include determining which customers *not* to pursue, instead focusing resources and marketing spend on the most worthwhile opportunities. Above all, undertaking segmentation establishes commitment and single-mindedness within the organization – one vision, one voice, and harmonized messages. As the *Gaming Youths*, *Sophisticated Careerists*, *Laggards* illustration from the mobile phone example shows, segments exist in all markets.

Different approaches can be used to create market segments. Sometimes new segments emerge almost accidentally, as a result of marketing research insights attained by an organization for other purposes. The macro-micro model, which was illustrated using the energy company example, is also popular, particularly in business-to-business markets. However, many organizations still opt for a more 'traditional' survey-led quantitative approach, as in the mobile phone illustration. Each of these approaches has advantages and disadvantages, which organizations must consider when deciding how to proceed. In general, as access to data and the technological capacity to manage them improve, organizations are using a broader mix of customer insights to generate segments.

Emerging segments should be assessed for their quality along several key dimensions, including segment size and potential profitability, segment stability, segment accessibility, segment compatibility, and segment actionability. Once deemed robust, organizations must make trade-off choices in selecting which segments to pursue. Most organizations opt to target only some of the emerging segments. Bespoke tools such as the Segment Evaluation Matrix can help in this selection process, or more general portfolio planning approaches such as the Directional Policy Matrix can help in prioritizing target segment selection. When such approaches are used, it is important to ensure that a balanced and broad set of criteria is used to judge segment attractiveness. Detailed marketing plans and compelling brand positionings must then be produced for each of the segments selected as the priorities for an organization's marketing programmes and resources.

Marketers need to be realistic about the difficulties which are associated with undertaking segmentation and operationalizing a new segment strategy. These impediments can be encountered *before* the segmentation commences, *during* the segmentation process, and *after* segments have been identified and the new targeting is being implemented. Understanding the scope and scale of these problems is critical if their impact is to be minimized and damage avoided. Although market segmentation is rarely problem-free, by taking a proactive stance on these issues, organizations are more likely to reap its rewards.

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