MARKET SEGMENTATION

HOW TO DO IT AND HOW TO PROFIT FROM IT

Malcolm **McDonald** and Ian **Dunbar**

REVISED AND UPDATED FOURTH EDITION

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and
Ian Dunbar

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Foreword

In 2004, Lord Marshall of Knightsbridge provided the foreword below, which we have retained without amendment, as it encapsulates the spirit and substance of this, our latest 2012 edition of *Market Segmentation*.

■ ■ ■

One of the abiding principles of sound business practice is: 'Know your customer; know your market.'

The objective, of course, is to gain competitive advantage by building sustained customer loyalty, with products and services meeting, quite precisely, the demands of closely defined markets.

As markets have become more complex, so has this essentially basic process of market segmentation. It is the view of many that, in both the manufacturing and service sectors, the art of defining target markets rarely progresses beyond the assembly of somewhat dull demographics. The logical conclusion is that, if everybody is doing the same, differential advantage is difficult to attain.

Now, Professor Malcolm McDonald and Ian Dunbar have peeled away the layers of complexity and confusion to produce a step-by-step guide through the difficult terrain of market segmentation. The value of their book to business people everywhere, is that it offers the kind of practical applications needed in today's intensely competitive marketplace.

*Lord Marshall of Knightsbridge**
Chairman, British Airways

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*Lord Marshall of Knightsbridge, businessman and airline executive, was born on 6 November 1933 and died on 5 July 2012.

Preface and acknowledgements

This book has its origins in a painstaking process of research into the practical difficulties that organizations experience in segmenting their markets, research which we initiated in 1992. We discovered that most of the academic work in this domain is prescriptive, with virtually no pragmatic guidelines provided to enable managers to make sense of the confusing array of data and information available to them.

So we developed a process, which we worked through with some of the best known companies in the world, amending the process until it was sufficiently robust to share with a wider audience. The result was the first edition of this book which was launched in 1995.

Since its launch, the extensive adoption of our market segmentation process by companies ranging from world leaders in their fields to smaller domestic companies has continued to broaden our knowledge base substantially. These insights have enabled us to refine the process, improve the guidelines for its implementation, identify where more detailed explanation is required and, at the same time, develop a quick route through the process for readers looking for a summary of how to implement each step.

The third edition of this book published in 2004 not only built on the improvements introduced into the second edition (1998) with respect to the segmentation process, supporting examples, worked-through case study and worksheets, but also introduced new practical approaches to its implementation, exercises to help with learning and a 'Fast track' for each step in the process.

With further experience of working with companies around the world on their segmentation projects we have been able to identify a number of additional enhancements to our segmentation process. These advances to its practical implementation are all incorporated into this, the revised fourth edition of the book. This latest edition also contains essential updates and has brought together the 'Fast tracks' into a single chapter. This new chapter, 'Fast tracking through the segmentation process', provides a concise guide for new readers as to what the segmentation process entails, and provides those readers conversant with the approach we take to market segmentation with all the memory prompts required for a segmentation project.

Our presentation of the process in this book enables the segmentation practitioner to follow each step manually, utilizing data already held by, or readily accessible to, the company. An important point we would therefore like to stress about this book is that it is most definitely a practical book which, if used properly, will result in actionable market segments. To achieve this result will require time and resources. It is not a book just for reading. It is for reading and doing, and is best used by a team, rather than an individual.

Finally, to name everyone who should appear in this acknowledgements section is impossible, because so many clients we have had the privilege of working with and the many colleagues who have been interested in our work have influenced our education, thinking and practical development of the process presented here over the years until it became 'watertight'. One particular colleague we would like to mention, however, is Professor Hugh Wilson, whose work in 'e-marketing' has enhanced our understanding of the issues to be addressed by market segmentation in this modern, electronic, fast-changing world.

We both wish you a happy and profitable segmentation.

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An important note to the reader from the authors

STOP

1

Successful segmentation is the product of a detailed understanding of your market and will therefore take time.

2

Segmentation is appropriate for those markets where it is essential to combine individual customers or consumers into larger buying 'units' to ensure your marketing activity is both cost effective and manageable.

3

The process as presented in this book is aimed primarily at defining segments in terms of the particular marketing mix each requires. Segmentation at higher levels is, of course, possible and many of the principles contained in this book would apply, although in a less detailed form.

FAST TRACK

For those who need a quick route through the segmentation process, 'Fast tracks' have been put together for each of the steps in the process and can be found in Chapter 3. Be careful however:

A little learning is a dangerous thing. Drink deep,
or taste not the Pierian Spring.

Alexander Pope

Refer to the appropriate chapter whenever this is required to complete a particular step in the process successfully.

Deciding on which track you need

It is important that you complete the following questionnaire before you decide on which track you need.

Are you getting these essential deliverables from your market segmentation?		
		Score out of 10 0 = not at all 10 = totally
Market structure and segmentation		
Q1	Is there a clear and unambiguous definition of the market you are interested in serving, with the definition based on a specific purpose or intended use, not on a product or service?	[ ]
Q2	Is the market clearly mapped, showing product/service flows, volumes/values in total, where decisions are made and the quantities they account for?	[ ]
Q3	Are the segments clearly described and sized? These must be groups of customers with the same, or comparable, set of needs, not demographics or sectors.	[ ]
Q4	Are the real needs of these segments properly quantified, with the relative importance of these needs clearly identified?	[ ]
Q5	Are the segments clearly linked to a set of characteristics that identify the customers found within them?	[ ]
Target segments		
Q6	Are all the segments classified according to their relative attractiveness to the company over the next three years based on clear, unambiguous criteria?	[ ]
Q7	Is there a clear and quantified analysis of how well your company satisfies the needs of these segments compared to competitors, as perceived by the customers found within them?	[ ]
Segment-based marketing		
Q8	Are your marketing objectives set by segment and consistent with their position in the portfolio?	[ ]
Q9	Are the strategies for these segments (including products, price, promotion, place and services) consistent with these objectives?	[ ]
Q10	Is there a structure, information and decision-making system which enables you to serve these segments effectively?	[ ]
Total score		[ ]

Interpretation

In our experience, not many readers are able to score above five on many of these questions. This is not the point, however. The purpose of the questionnaire is to focus your attention at the beginning of the book on what essential deliverables market segmentation should produce. You can then determine the extent to which you need to focus on the detailed contents of this book.

If you work carefully through this book and implement it in your organization, you will be able to give yourself high scores in all boxes. Then, you will be a truly market-focused organization!

Malcolm McDonald and Ian Dunbar

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1 Market segmentation – the bedrock of successful marketing

Summary

This chapter contains a brief review of the state of marketing. It provides some key observations on why it has today lost much of its influence in the corporate world, in spite of all our best efforts. A model outlines what marketing should actually entail if it is to regain its rightful place at the heart of organizational strategy-making. At the core of this model of best practice is market segmentation.

It is the failure to get to grips with market segmentation that lies at the heart of much of marketing's current malaise. This emphasizes the pivotal importance of this book, since little of what is best in marketing theory and practice works without correct market segmentation.

Before starting any project, let alone one as strategically critical as market segmentation, it is important to know where you are heading and what the route map looks like. A clear cut case is presented for the particular methodology to adopt, along with an overview of the process this methodology requires you to follow. Details of the process form the main content of this book.

This chapter is organized as follows:

- A review of marketing
- A definition of 'marketing' and what it actually entails
- The central role of defining markets and segments, and understanding value
- A review of different approaches to market segmentation and why the customer's perspective defines the approach that delivers the best results
- A summary of the two phases and seven steps in the segmentation process
- The importance of setting marketing objectives for segments and implementing appropriate strategies
- A review of the chapter

Perception is everything

There are two principal determinants of whether or not market segmentation is acknowledged as the bedrock of successful marketing:

1. the perceived importance by senior management of marketing's contribution to corporate strategy;
2. the perceived importance by marketing of market segmentation's contribution to marketing strategy.

The first of these depends on the state of marketing in the organization, with the second dependent on marketing's approach to segmentation.

The state of marketing

In numerous companies around the world, dedicated, professional marketers are making major contributions to the financial success of their companies. They achieve this through their detailed understanding of the markets they are in, in-depth insights into the needs of their customers[1] and the development and delivery of carefully targeted value propositions. Yet, in spite of these shining stars, the future does not look good for the marketing discipline.

McDonald (2003) in a review of the record of marketing practitioners, consultants and academics over the preceding 20 years sadly concluded that marketing as an organizational function had been relegated from the position of a core strategy-making engine to a marginalized sales support department, in charge of T-shirts and promotion. To instigate a recovery in marketing and revitalize this key source of competitive power, McDonald went on to recommend that it was essential that the marketing function re-established its central role in strategy-making.

Kotler (2003) was also of the same opinion and described marketing as having declined from responsibility for the four 'Ps', product, price, promotion and place (distribution), to responsibility for only one 'P', promotion. As for how marketers could regain influence and status in their organizations, Kotler, like McDonald, also suggested that marketing needed to be a driver of business strategy.

By 2008 it appeared that the final nail had been hammered into marketing's coffin following Deloitte's highly critical report on how the discipline was viewed by senior management. Although the findings of Deloitte's research[2] were largely negative, marketing being seen as less

[1]For the purposes of the current discussion we will subsume those who decide which product or service will be bought under the title of 'customer', though, quite clearly, for some companies they will be referred to as 'consumers'. We discuss the difference between 'customers' and 'consumers' in Chapter 4.

[2]The research consisted of in-depth interviews with 217 individuals in senior management positions in companies with a turnover of more than £200 million in five Western European countries.

influential, less strategic and less involved in the overall direction of the business than it had ever been, their report also contained some lifelines of hope. For example, the report suggested that chief executives were, in the main, supporters of marketing with, most notably, 85% agreeing, slightly or strongly, that marketing was crucial to the process of determining strategy. While this was certainly encouraging, the report also highlighted that, in reality, many chief executives had no real understanding of what marketing actually is.

From this, and many other papers on the state of marketing, it is not difficult to conclude that in the second decade of the twenty-first century, the discipline of marketing is destined to become increasingly less influential unless there is some kind of revolution, or at the very least a new beginning. Perhaps some paradigm shift will emerge, for little that is new has emerged from marketing for a good many years – and *please* do not say 'relationship marketing'!

So what can be done to recover the marketing community from this sorry state?

First, we have to work hard to recapture the high ground – the strategy domain – and firmly establish it as a key, strategic function with a clearly defined purpose which can be measured, researched, developed, protected and examined. This, however, means reaching some kind of consensus about what marketing is.

The marketing community will have to work hard to recapture the high ground – the strategy domain – and firmly establish it as a key, strategic function.

Resolving the confusion about marketing

One of the stumbling blocks to those of us in marketing is the cacophony of definitions of marketing that exist. A selection of 20 such definitions is to be found in McDonald and Wilson (2011), most of which involve *doing* things *to* customers.

What many of these definitions lack is any form of guidance on what should be included and excluded, with the result that they are difficult to use in practice. Just like finance, human resources, or information technology (IT), marketing is a function, a specific business activity that fulfils a fundamental business purpose. Therefore, let us be unequivocal about marketing and in its definition describe marketing in terms of what it actually entails. **Marketing** is a process for:

- defining markets;
- quantifying the needs of the customer groups (segments) within these markets;
- determining the value propositions to meet these needs;
- communicating these value propositions to all those people in the organization responsible for delivering them, and getting their buy-in to their role;

Definition:
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- playing an appropriate part in delivering these value propositions (usually only communications);
- monitoring the value actually delivered.

For this process to be effective, organizations need to be consumer/customer driven.

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This process is shown diagrammatically in Figure 1.1.

Before expanding on each box, it will be clear that boxes 1 and 2 are about strategy determination, while boxes 3 and 4 are about tactical implementation and measurement. It is these latter two that have come to represent marketing as a function as this is where the sales support and promotional activities occur.

> There is a new housing estate not far from one of the authors, where a large, eye-catching sign in the front garden of the show house proclaims the following: 'The Marketing Suite', loosely translated as: 'This is where you come to get sold to'. And when government bodies, charities and the like say 'we need marketing', what they mostly mean is 'we need some promotion'.

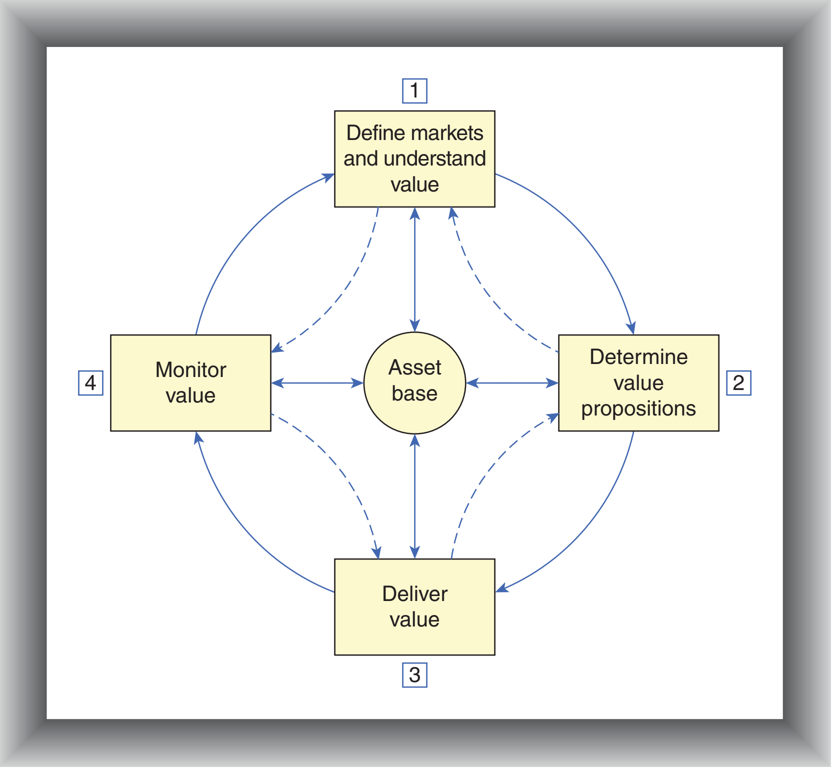

Figure 1.1
The marketing domain
Source: McDonald, M. and Wilson, H. (2011) *Marketing Plans: How to Prepare Them, How to Use Them, 7th Edn*. Chichester: John Wiley & Sons Ltd.

Looking in a little more detail at each of the boxes in Figure 1.1, it is the very first box, 'Define markets and understand value', that drives and determines all subsequent activities. It is here that markets are defined and where the needs of the customers in the segments comprising the market are understood as a precursor to moving onto the second stage of the process, 'Determine value propositions'.

We have used the term 'Determine value propositions' to make plain that we are here referring to the decision-making process of deciding what the offering to the customer is to be – what value the customer will receive, and what value (typically the purchase price and ongoing revenues) the organization will receive in return. The process of delivering this value proposition, such as by making and delivering a physical product or by delivering a service, is covered by 'Deliver value'.

It is well known that not all of the value proposition delivering processes will be under the control of the marketing department, whose role varies considerably between organizations. The marketing department should be responsible for and central to the first two processes, 'Define markets and understand value' and 'Determine value propositions', although even these need to involve numerous functions, albeit coordinated by specialist marketing personnel. The 'Deliver value' process is the role of the whole company, including, for example, product development, manufacturing, purchasing, sales promotion, direct mail, distribution, sales and customer service.

The marketing process is clearly cyclical, in that monitoring the value delivered will update the organization's understanding of the value that is required by its customers. The cycle may be predominantly an annual one, with a marketing plan documenting the output from the 'Define markets and understand value' and 'Determine value propositions' processes, but equally changes throughout the year may involve fast iterations around the cycle to respond to particular opportunities or problems.

Thus, it can be seen that the first two boxes are concerned with strategic planning processes (in other words, developing market strategies), while the third and fourth boxes are concerned with the actual delivery in the market of what was planned and then measuring the effect. Throughout, we use the word 'proposition' to indicate the nature of the offer from the organization to the market, including the channels it uses.

We use the word 'proposition' to indicate the nature of the offer from the organization to the market, including the channels it uses.

Further details on what each of the four boxes entail can be found in McDonald and Wilson (2011). A consolidated summary of these details appears in Figure 1.2.

The various choices made during this marketing process are constrained and informed not just by the outside world, but also by the organization's asset base. Whereas an efficient new factory with much spare capacity might underpin a growth strategy in a particular market, a factory running at full capacity would cause more reflection on

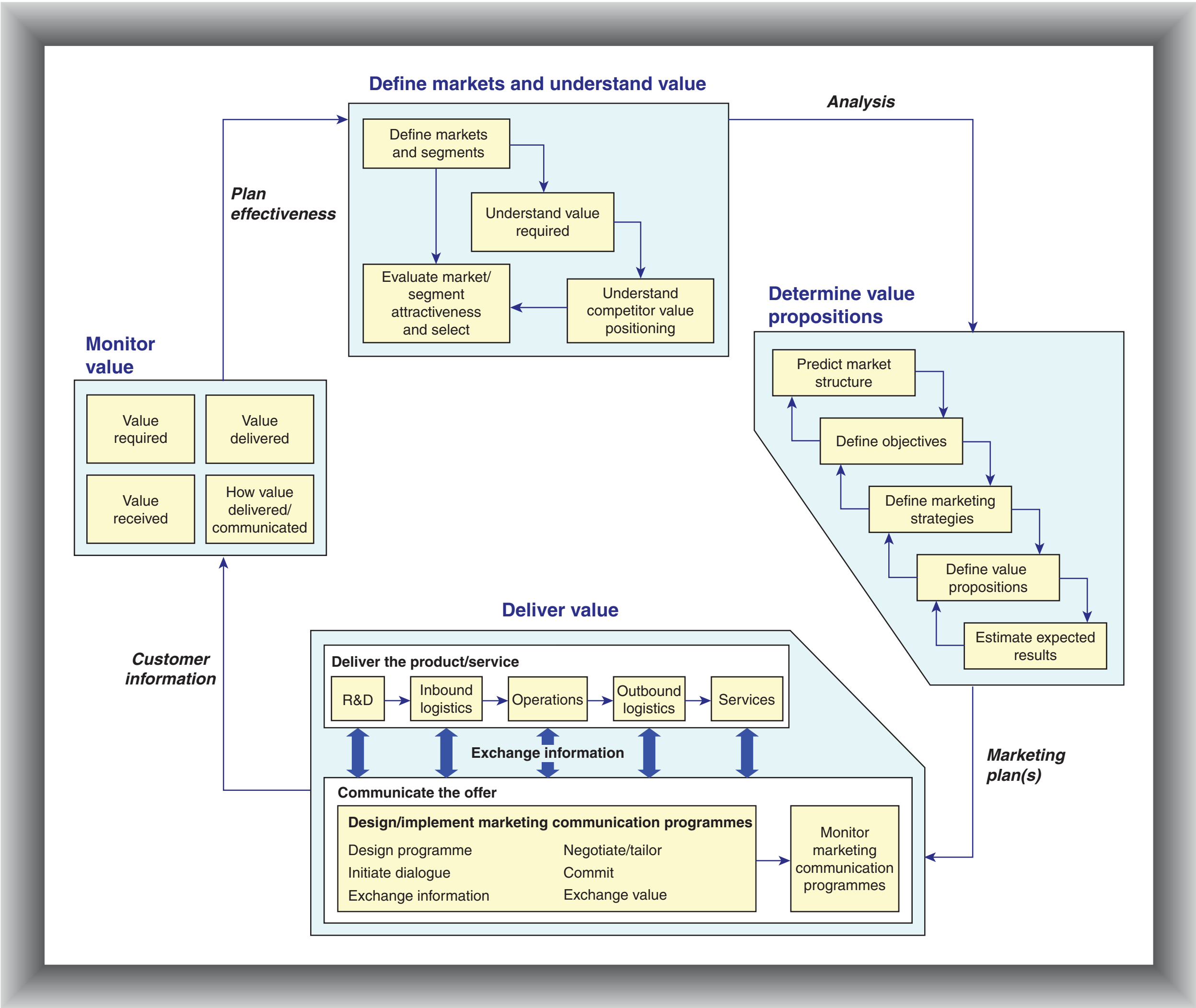

Figure 1.2 Summary of the marketing process
Source: McDonald, M. and Wilson, H. (2011) *Marketing Plans: How to Prepare Them, How to Use Them, 7th Edn*. Chichester: John Wiley & Sons Ltd.

whether price should be used to control demand, unless the potential demand warranted further capital investment. As well as physical assets, choices may be influenced by financial, human resources, brand and information technology assets, to name just a few.

The crucial point about this process is that it is the very first box that determines whether or not marketing is successful. So, let us look at the subject matter of the first box in a little more detail.

The central role of market segmentation

While the fundamental purpose of this book is about market definition and segmentation, the purpose of this section in this chapter is to position the segmentation process as being central not only to marketing but also to every corporate function.

Inputs to box 1 of the marketing process, 'Define markets and understand value', will commonly include:

- the corporate mission and objectives, which will determine which markets are of interest;
- external data such as market research;
- internal data which flows from ongoing operations.

As is apparent in Figure 1.2, this stage of the process involves four major subprocesses, repeated here for convenience in Figure 1.3.

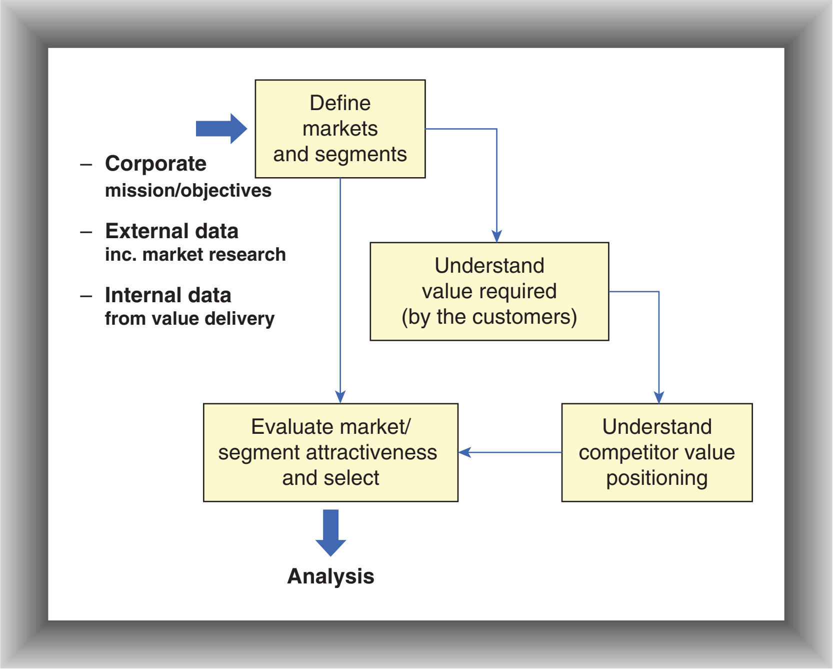

Figure 1.3
Define markets and segments, and understand value
Source: McDonald, M. and Wilson, H. (2011) *Marketing Plans: How to Prepare Them, How to Use Them, 7th Edn*. Chichester: John Wiley & Sons Ltd.

The essential first step is to define the markets the organization is in, or wishes to be in, and how these divide into segments of customers with similar needs.

First, it is necessary to define the markets the organization is in, or wishes to be in, and how these divide into segments of customers with similar needs. The details of how this can be done are the core of this book. The choice of markets will be influenced by the corporate objectives as well as the asset base. Information will be collected about the markets, such as the market's size and growth, with estimates for the future.

Once each market has been defined, it is necessary to understand what value the customers within each of the segments it divides into are looking for. This value is most simply thought of as the benefits gained from the product or service, but it can also encompass the value to the customer of other constituents of the total offer, such as surrounding services (maintenance or information, for example), channels, and so on. This step also encompasses what the customer is prepared to give in exchange, in terms of price and other criteria, such as loyalty. Expressing customer value requirements is dealt with in detail in Chapter 7. This step of 'Understand value required' also includes predicting the value which will be required in the future.

'Understand competitor value positioning' refers to the process of establishing how well the organization and its competitors currently deliver the value that the customers seek. Again it involves looking into the future to predict how competitors might improve, clearly a factor in planning how the organization is to respond.

From these three processes, the relative attractiveness of the different markets and, within each of them, the relative attractiveness of their different segments can be evaluated. One tool of relevance here is Porter's five forces model (1985), showing the forces which shape industry competition and hence the attractiveness of a given market, or of a given segment.

The output will be some form of analysis, and one way of summing up much of the key information is in a portfolio matrix. Such a matrix provides a sensible basis for prioritization among the many possible product/segment combinations which the organization could address. A detailed methodology for doing this is outlined in Chapters 9 and 10.

To conclude this section, it is abundantly clear that organizations need to understand that, without correct market definition and correct market segmentation, marketing will never occupy a central role in strategy-making. It is also the genuine belief of the authors that only by going back to basics and focusing on the bedrock of successful marketing, namely market segmentation, can the cure be found for the malaise that infects the marketing discipline. This, however, means reaching some kind of consensus about what the 'correct' segmentation methodology is.

Definition of market segmentation

Since Smith (1956) proposed market segmentation as an alternative to product differentiation and Wind (1978) in his review of market segmentation pushed it to the top of the agenda of researchers and practitioners, most of the work on the topic has been around what segmentation bases to use. The alternative approaches considered have included size of purchase, customer characteristics, product attributes, benefits sought, service quality, buying behaviour and, more recently, propensity to switch suppliers.

> With the advent of 'relationship marketing' and 'customer relationship management' (CRM), Coviello *et al.* (2002) and many others have gone further and proposed 'one-to-one' marketing as a successor to market segmentation. Wilson *et al.* (2002), however, found that most CRM projects failed because of poor segmentation and Rigby *et al.* (2002) summed this up succinctly by saying that trying to implement CRM without segmentation is like 'trying to build a home without engineering measures or an architect's plan'. Clearly, unless an organization understands the importance of being market driven, concepts such as CRM will simply end up as highly expensive fads with customers all too often remaining the Cinderellas.

Returning to the debate on alternative approaches to segmentation, you may have noticed that we have already laid our cards on the table. In the previous section we described segments as consisting of customers with similar needs.

A reminder: For 'customer' also read 'consumer'. A discussion about these two terms appears in Chapter 4.

Acknowledging that a market is not homogeneous and divides into segments is, of course, recognition that not all customers are the same, with **market segmentation** being the process of splitting customers, or potential customers, within a market into different groups, or segments, but why have we defined segments as consisting of customers with similar *needs*?

Definition: Market segmentation is the process of splitting customers, or potential customers, in a market into different groups, or segments.

To answer this question, let us first consider who is the *final* arbiter of whether or not a company achieves its corporate financial objectives. (In the not-for-profit sector, 'customer satisfaction' is obviously a proxy for 'financial objectives'.)

Quite simply, for the overwhelming majority of companies in the world, especially those operating in competitive markets, the final arbiter is the customer. In these markets the customers no longer see themselves as playing 'second fiddle' in the marketing stakes, they are becoming more marketing literate, more knowledgeable about the options that are available and are increasingly demanding what they want, where they want it, when they want it and how they want it. Customers choose between competing products and services based on their assessment of superior value, in other words, they choose the proposition that consists of the benefits they are looking for at a price they perceive as providing superior value for money, which, we would add, does not necessarily mean it has to be the 'cheapest'. The challenge for every company is to be able to deliver the winning propositions, profitably. But first, of course, the company has to understand from a customer's perspective what these propositions need to be.

Marketing insight

For some companies, experiencing and then having to accede to the views of their customers is a lesson learnt many years ago. A 'classic' example was the launch in 1985 by the Coca Cola Company of 'New Coke' to replace 'Coke' with the claim that it was offering a better taste. 'New Coke' did not meet the needs of their customers, particularly the emotional tie they had with the original brand, and the Coca Cola Company finally bowed to customer pressure and relaunched 'Coke' as 'Coke Classic' not long after their attempt to replace it. The critical point here is that even mighty multinationals get their just deserts when they ignore the power of the customer.

Customers, therefore, segment themselves, and what the company must focus on and understand are the needs that customers are seeking to satisfy and, in doing so, understand the motivations that drive the choices made by customers.

Despite this fundamental truth about market segmentation, supported by the fact that all of us, as customers ourselves, choose between competing products and services on this basis, many companies still predetermine how their market divides into segments based on, for example, such criteria as the products or services offered, or on demographics (sometimes referred to as 'firmographics' in business-to-business markets), and organize their marketing effort principally around these dimensions. The reason for this is that, whereas market segmentation seems comparatively simple as a concept, it is viewed as extremely difficult to implement in practice, requiring, as it does, a *market-based* approach.

The following is a brief review of the 'predetermined' approaches frequently used in market segmentation. In this review we also highlight the part that they can play in a market-based approach to segmentation.

Products and services

The problem with segmenting markets according only to the products or services offered, or the technology type, is that in most markets, many *different* types of customers buy or use the same products or services. For example, if a mail company organizes itself around express packages, or around mail sorting, it is unlikely that the company will ever get to understand fully the real and different needs of, say, universities, banks, advertising companies, direct mail houses, manufacturing companies, retailers, and so on.

However, by understanding which particular features of the product or service appeal to different customers, along with features associated with all the other aspects of a purchase, such as the channel, we have a route for understanding the motivations behind the choices that are made. This is because it is through these features that customers seek to attain the benefits they are looking for. Once this is understood, the needs-based propositions required for different segments can be developed.

Demographics

Definition: Demographics are measurable descriptions of customers.

Variables such as sex, age, **socio-economics**, and so on, when used to define segments are, by implication, claiming, for example, that every 30–35-year-old will respond to the same proposition, that bishops and pop stars will behave the same way simply because they are in the same socio-economic group. Just reflect, for a moment, on the students in your year at school; would you expect them all to be wearing the same clothes, taking the same types of holidays, pursuing the same interests and driving the same cars? When someone wakes up on their birthday, do they become a stereotype associated with that age? For administrative convenience we would like the answer to be 'yes', but the answer is 'no'.

Definition: Socio-economic classifications group individuals according to their level of income and/or occupation (or that of the head of household).

In business-to-business markets, customers are frequently segmented around business classification lines, which implies that all the companies in a particular sector, such as financial services, have exactly the same requirements and will respond to a single proposition. This approach could well be ignoring one or more of the following:

- different divisions and departments existing behind the business descriptor may have different applications for

(*Continued*)

the product or service you supply. For example, would the mail company mentioned earlier find that the advertising and promotions department has the same requirements and specifications for mail services as the sales ledger department?

- the requirements of, say, advertising and promotions departments may well be the same regardless of business type;
- even within a single division of a company, there may well be different applications for the product or service you supply which, in turn, may have different specifications attached to them;
- segmentation along business classification lines assumes all the companies within the classification employ identical people with identical values. Businesses, of course, do not buy anything; it is their employees you have to sell to!

Although demographics on their own cannot define a segment because they do not define the proposition a segment requires, they have an important role to play in a segmentation project. This background information about customers can be used to identify the particular profiling characteristics associated with the customers found in each segment. In other words, demographics helps identify who is found in each segment which, in turn, will help you determine how to reach them.

Definition: Geographics are identifiable locations of customers.

Geographics

Rather like demographics, segments based on geographic areas, however tightly defined, assume that everyone in a predetermined area can be expected to react to a particular offer in exactly the same way. Even at the postcode level this does not appear to work; simply look along your own street. Has everyone got the same furniture, do they buy from the same shops, eat the same food?

Once again, however, although geographic areas on their own cannot define the propositions required by segments and, therefore, cannot define segments, they, too, have a useful role to play in a segmentation project. This particular

(*Continued*)

type of background information about customers can be used to identify the most likely locations the customers in each of the segments may be found and, therefore, further help you determine how to reach them.

A further consideration with respect to 'geography' is its use in international market segmentation. We look at this topic in the next chapter.

Channels

Routes to market are becoming more sophisticated and complex, a topic we look at in a later chapter in this book, and are also becoming an increasingly important component of many winning customer propositions. Channels in themselves, however, do not define segments as they are simply the means by which customers and companies connect with each other. It is only when you understand the motives behind the channel choices made by customers that the channel component of a needs-based proposition can be developed.

However, even if channel does not feature as a key component of a winning proposition, it is, along with demographics and geography, background information about customers that should be tracked during a segmentation project. It could well be that some segments can be associated with particular routes to market; therefore, it is the channel(s) they use that provides the means for reaching them with their specific proposition.

Psychographics

Definition: Psychographics are a customer's inner feelings and predisposition to behave in certain ways.

Here we have another customer insight that can contribute to a segmentation project but, on its own, cannot define the entirety of a winning customer proposition. However, by identifying internal drivers of customer behaviour that can be associated with specific segments, psychographics can help define the most appropriate promotional stance to take. This not only provides the means of catching the attention of target groups in an ever cluttered world of communication, it can also provide the means by which you isolate and reach particular segments.

What we conclude from this discussion is that, while each of the above approaches to forming customer segments may be administratively convenient, they do not on their own define segments but provide insights that are *contributors* to a successful segmentation project.

Marketing insight

Customers segment themselves, they do not slot themselves into predetermined categories, and the propositions that appeal to them are those that satisfy their needs by delivering the benefits they are looking for at a price they perceive as providing superior value for money.

Extended definition: Market segmentation is the process of splitting customers, or potential customers, in a market into different groups, or segments, within which customers share a similar level of interest in the same, or comparable, set of needs satisfied by a distinct marketing proposition.

We can therefore extend the definition of **market segmentation** so that it captures both its focus and its purpose; market segmentation, therefore, is the process of splitting customers, or potential customers, within a market into different groups, or segments, within which customers share a similar level of interest in the same, or comparable, set of needs satisfied by a distinct marketing proposition.

The failure of numerous companies around the world to grasp this fundamental principle of market segmentation is one of the main reasons why, according to Christensen *et al.* (2005), less than 10% of new products succeed, meaning over 90% of new products fail. In a statistical coincidence, only 10% of the marketing plans evaluated by one of the authors over the last 35 years contained proper needs-based segmentation, meaning 90% did not.

Marketing insight

For companies to fully realize the opportunities available to them in their markets, segmentation projects should focus on customers and their needs.

Chapters 4 through to 10 of this book guide you through the process for developing needs-based segments and for determining which of these segments your company should be operating in. It is presented in a format designed to utilize information already held by, or readily accessible to, your company. It also provides a structured approach for the collection and use of information in segmentation research projects. A summary of the segmentation process concludes this chapter.

Segmentation process summary

The segmentation process consists of two phases:

Phase 1 Developing segments

Phase 2 Prioritizing and selecting segments

The first phase of the process, which covers the essential steps you should follow to develop a segmented structure for a market, is applied to the whole market your business is capable of operating in, not just to that part of the market you are currently successful in. It therefore includes the customers of your competitors, as well as your own, along with the products and/or services bought by these customers.

The second phase of the process then looks at how to select which of the concluding segments your business should be operating in.

Developing segments

This first phase of the process contains three stages, broken down into five steps and is summarized in Figure 1.4.

Stage 1: Your market and how it works
The first step, defining the 'market', establishes the scope of the segmentation project by specifying the geographic area covered by the project and by clearly understanding from a customer's perspective their underlying intentions for entering the market in terms of the use or purpose they have for the purchase of your products or services or those of your competitors. Where necessary, the scope is modified to take into account the realistic capabilities of your organization.

The second step, market mapping, requires you to present the market being covered by your project as a diagram. It is rather like a flow chart along which cash from the final users flows to you and your competitors, the suppliers, and the products and services from the suppliers

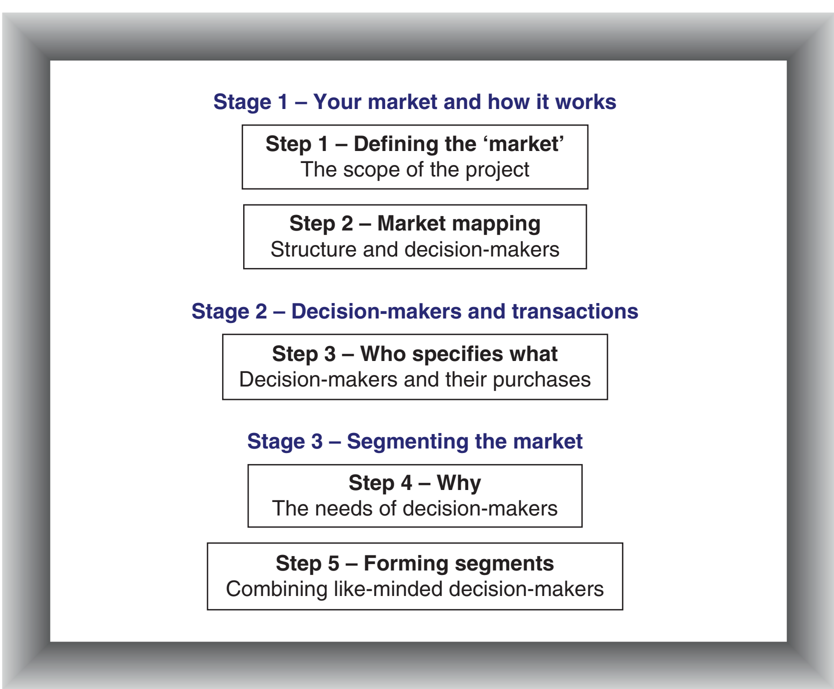

Figure 1.4
The segmentation process: Phase 1 – developing segments

flow to the final users. In many markets, however, a flow chart simply tracking the physical stages of the distribution chain is inadequate in covering the role played by 'influencers' on the purchase decision, and/or the purchase decision routines encountered by companies in the market, both of which should appear on a market map.

From the supplier's perspective, the market map, in truth, is probably better described as the obstacle course they have to overcome in order to get through to the final user.

Once the market map is complete, you are then required to determine at which points along it decisions are made about competing products or services, as it is at these points segmentation should occur.

This step also enables you to introduce into the process any current segmentation structure you may have for the market being segmented and to test its validity. The rigour of the process ensures that it will not prejudice the outcome in any way.

Stage 2: Decision-makers and transactions

Step 3 enables you to look at any of the decision-making points on the market map and construct a model of the market based on the different customers found within it and the transactions they make. It requires you to record the key features sought by the market when deciding between competing offers. These are selected from the actual products and services on offer (what is bought) and from the options presented by where it can be bought, when it is bought and how.

It is during this step that information is recorded about the decision-makers which can be used to identify them in the market.

Stage 3: Segmenting the market

Step 4 moves from the transactional look at the market covered in the previous step to looking at the reasons why the features sought by the decision-makers when deciding between alternative offers are important to them. Once the real needs, the real benefits, have been understood, their relative value to each 'cell' in the model generated by Step 3 is assessed. The importance of price in each purchase is also recorded.

Step 5 then describes techniques for grouping these cells together in order to obtain the best fit. Cells similar to each other in terms of the relative importance of the needs they are looking to have satisfied are therefore combined to form 'segments'.

In most markets the number of concluding segments is between five and 10.

This step then subjects each 'segment' to a reality check based on the size of each segment, the differentiation between the offers they require, your ability to identify and reach the different customers found in each segment, and the compatibility of these segments with your company.

To help explain the process of developing segments, in subsequent chapters a case study is used. This not only helps illustrate each step in turn, it also demonstrates how each step relates to the other steps. Further examples are also included where appropriate, both alongside the case and throughout the text.

Prioritizing and selecting segments

The second phase of the process looks at how to select which of the concluding segments from the first phase your company should be operating in and for which it should be developing marketing strategies. There is a single stage in this second phase, broken down into two steps and summarized in Figure 1.5.

Stage 4: Identifying your target segments
Step 6 in the overall process of segmentation first defines the criteria your company would use in order to determine the attractiveness to the company of any segment. The relative importance of these criteria to each other is then established, followed by a means of quantifying each of them.

An overall attractiveness score is then calculated for each concluding segment based on how well each of them satisfies your company's requirements.

The final step in the segmentation process then establishes your company's ability to meet the requirements of each concluding segment, compared with the ability of the competition to meet these requirements, from the *segment's* point of view.

By combining segment attractiveness and relative company competitiveness, you can construct a strategic picture of the market which can be used to select those segments which will enable your company to achieve its corporate objectives.

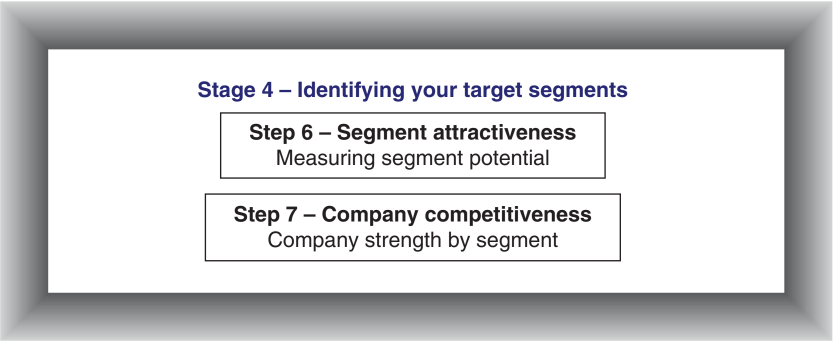

Figure 1.5
The segmentation process: Phase 2 – prioritizing and selecting segments

Marketing objectives and strategies

Segmentation is not an end in itself. Only by developing and implementing the appropriate strategies for each of your chosen segments will your company be able to reap the benefits of segmentation. It is because of this that a chapter has been set aside in this book to discuss the setting of marketing objectives and strategies for segments (Chapter 13).

Chapter 1 review

This chapter highlighted the failure of marketing to have a major influence in boardrooms. We concluded that much of this failure can be attributed to a lack of understanding about what marketing is.

A definition of marketing was put forward which describes what marketing actually entails if it is to have a major impact on corporate strategy development. Each stage of the process this involves was briefly summarized.

It is clear that the critical stage of the process is the first one, namely defining markets and how they split into segments based on understanding the value different groups of customers in each of the markets are looking for. Here, we also identified the significance of establishing an organization's competitiveness by segment and determining the attractiveness of segments to the organization. If this stage is not done correctly, the other stages in the marketing process will be ineffective.

We then discussed different approaches to market segmentation and concluded that understanding customers by their needs was the most appropriate approach to adopt, particularly as this was how customers segmented themselves. This approach also provides companies with the insights they need to produce winning propositions.

Next, we presented an overview of the segmentation process to follow. This has been broken down into two phases, 'developing segments' and 'prioritizing and selecting segments' in which there are seven steps, five in the first phase and two in the second phase.

Finally, we pointed out that segmentation was not an end in itself and that once the segments had been identified, marketing objectives and strategies had to be developed for each segment the company wished to target. Only by implementing these strategies would the benefits from the segmentation project be realized. A chapter on setting marketing objectives and strategies is included in this book.

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2 Preparing for segmentation – additional guidelines for success

Summary

In addition to knowing where you are heading with your segmentation project and what the route map looks like, both of which were addressed in the previous chapter, it is also important to know what you need to get there. The main purpose of this chapter is to provide you with this information.

Other factors that also need to be considered in order to ensure your segmentation project is successful are also covered.

This chapter is organized as follows:

- A brief discussion about the objective of this book and the need to ensure that internal company structures relate to external market segments
- How companies vary on being customer driven and organizationally committed to segmentation
- Issues concerning organizational structure
- A brief review of the impact on companies of the ‘postmodern’ customer and where the three main issues this identifies are covered in this book
- A look at the bases for international market segmentation
- Views on who should be involved in the segmentation team
- A summary of the data required for segmentation
- The rules for segmentation
- A summary of the advantages of segmentation and the additional benefits of the approach detailed in this book
- Three short case histories illustrating the impact of market segmentation
- A review of the chapter

Objective of this book

The objective of this book is to provide a logical process by which managers can explore whether there is any potential for new business opportunities as a result of re-examining the way in which they define their market segments. It then moves on to identifying the appropriate objectives and strategies for these segments and how segmentation fits into the marketing plan.

Segmentation is a creative and iterative process, the purpose of which is to satisfy customer needs more closely and, in doing so, deliver sustainable competitive advantage for the company. It is defined by the *customers'* needs, not the company's, and should be revisited periodically.

The process is as applicable to business-to-business markets as it is to business-to-consumer markets. Both these markets consist of customers looking for the proposition that best meets their needs at a price they perceive as providing superior value for money. The process is designed to uncover exactly what these needs are and, therefore, what value proposition each segment is looking for.

The process of segmentation also helps identify new opportunities, for products, services and markets.

The importance of segmentation to any business should not be underestimated: market segmentation is the basic building block for effective marketing planning, as discussed in the previous chapter and illustrated here in Figure 2.1, and should reflect a market/customer orientation rather than a product or service orientation.

Many organizations are likely to find that the process of segmentation has to be carried out at more than one stage in the overall distribution and value added chain, different stages having distinct customer types

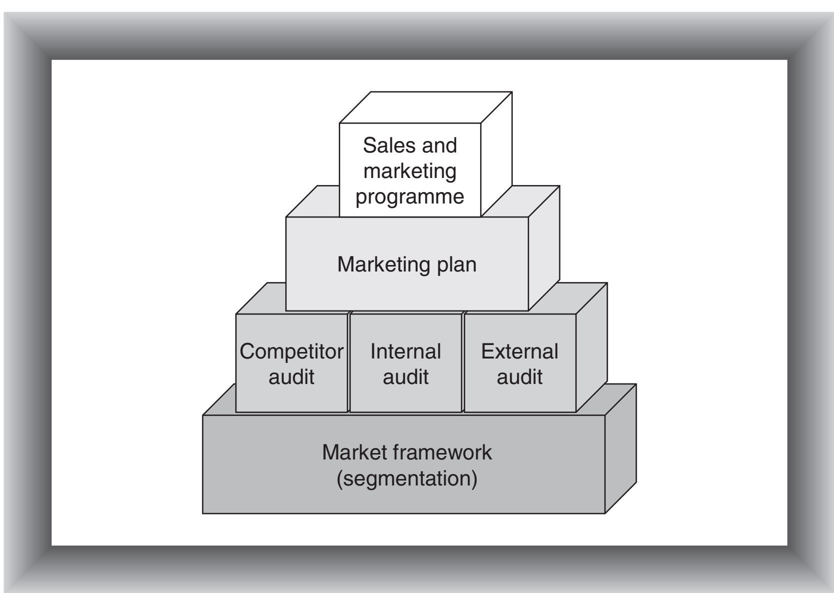

Figure 2.1
The building blocks of effective marketing planning

with their own specific needs. (The distribution and value added chain is looked at in Chapter 5.)

Market segments offering the greatest opportunities will be those that are growing and profitable, in which companies can effectively meet the needs of these customers today, and for which companies can develop their products or services to better meet these, and the evolving needs of tomorrow.

Following the selection of market segments to be targeted, companies can then develop focused marketing strategies. This planned approach to meeting the needs of customers helps companies to be proactive instead of reactive, enabling them to take advantage of market opportunities and gain competitive advantage.

It should be noted, however, that, while the segmentation process itself is externally focused in its consideration of the market 'out there', companies looking to 'meet their customers' needs effectively' should also consider how the company's own departmental structure and staff relate to the chosen target segments. For example, when a customer from a particular segment contacts your company in the course of doing business with you, it could well negate the company's segmented approach in its external marketing activity if, in dealing with this customer's requirements, the applicable internal department subsumes the customer under one, all-embracing procedure, and fails to match up to the external activity.

No computer program, let alone a book, however advanced, could ever cover all possible market segmentation outcomes. This particular book does not claim to provide the definitive answer to any organization's segmentation problems. What it will do is provide a logical process for you to follow. Above all else, however, it requires you to be creative and flexible in your thinking and asks you not to be hidebound by your current market segmentation definitions.

Segmentation archetypes in companies

The 'internal' (company) and 'external' (market) matching required for effective segmentation provides a convenient framework for looking at how companies currently define and segment their markets.

Piercy and Morgan (1993) provide a conceptual framework for viewing market segmentation which acknowledges the distinction between 'explicit' and 'implicit' aspects of the market. An 'explicit' perspective refers to the view that markets are 'out there' and are essentially groups of customers. The 'implicit' perspective relates to the role of a company's perceptions, culture, processes and structure in determining the company's view of the market.

By assessing a number of companies on the basis of their framework, a series of archetypes which represent differing approaches and emphases in segmenting the marketplace have been developed by Jenkins and

McDonald (1997). These archetypes help demonstrate how companies actually relate to their target markets and the potential implications of these differing positions.

This section is important because, although the case studies are not recent, the abiding lesson to be learned, even in the second decade of the twenty-first century, is that, unless the total organization is prepared to align itself behind the identified market segments, segmentation will have a limited impact on results.

Company archetypes

In order to develop a clearer picture as to how different approaches to explicit and implicit segmentation may appear in companies, four case studies are described.

Case 1 – The international airline

Many of today's major international airlines have, on the whole, traditionally segmented their global market on the basis of geographic territories.

Before the development of products and brands in British Airways, the airline's marketing was driven by powerful territorial line managers with revenue responsibility for specific routes and the geographic areas served by these routes. The only exception was the country manager for the UK who, primarily because of the size of revenue generated in the UK, operated autonomously and was equivalent in status to a 'route general manager'.

Although its markets were discussed in terms of 'business', 'leisure' and 'visiting friends and relatives' (VFR), even at times having campaigns focused into these travel sectors, marketing expenditure budgets were set by territory and were often judged in terms of the revenue generated by that territory. The route general managers, however, were judged both by territory and by route, with route revenue coming from all over the world. A prime function for the routes, therefore, was the allocation of seats and cargo space to the different territorial markets around the world. Obtaining such capacity, however, was particularly difficult on services operated by a route division other than the one in which a territory was located.

With an aircraft fleet and crew traversing all geographic boundaries, product design was primarily a corporate task and was kept fairly simple by looking at the world in terms of different classes of travel, such as first, business and economy. Schedules were rarely designed around customer requirements and were governed by:

- the drive to keep aircraft in the air for as much time as possible, as this was when they were earning revenue;
- night-time restrictions at airports;
- agreements between governments and airlines themselves.

(*Continued*)

Tweaking of the in-flight offer was, however, available to the route offices. They could request menus to suit the palates of the geographical areas through which the aircraft flew, and they could employ extra cabin crew members from their overseas territories to bring a 'local flavour' to their services for the indigenous traveller. Essentially, however, the company was sales oriented, the emphasis being to fill capacity and thereby requiring seats to be sold. Customers were those who happened to sit in the seats. There was no strategic perspective as to how particular groups of customers should be managed.

Case 2 – The chemical company

In 1924, Brunner Mond and Company began to manufacture nitrogen fertilizer from ammonia at a site in Billingham on the north bank of the River Tees. Nitrogen, however, is not the only element likely to be depleted in the soil on commercial farms and by 1930 the company was producing 'complete' fertilizers containing nitrogen and two further important soil nutrients, phosphate and potash, in compound form. This extension of the product range suited the company, as it meant its nitrogen was being used in a greater number of products.

Usage of fertilizers tends to fall into three distinct product groups: nitrogen on its own; nitrogen with phosphate and potash; and a third group consisting of just phosphate and potash. To ensure the company had a complete range, the third group of products, those just containing phosphate and potash, were also sold, primarily because it was believed that offering the full range pulled through sales of the separate product lines (which later proved to be largely a myth). The principal focus of the business, however, was around the ammonia production technology. This was the most complex chemical process for the fertilizer business, and the company's greatest margins came from products containing the most nitrogen. The production of compounds was fairly simple in comparison (once the nitrogen had been produced) and was carried out in a separate plant on the site.

Given the origin of the business, the source of its margins and distinct manufacturing plants, it could only appear logical to structure the management of the business and its information flows around the three product lines. This is exactly what happened and the three product lines were represented in the marketing function by product managers. The product management teams not only liaised with the manufacturing plant on product specifications and production volumes, they also drove the promotional campaigns of the business and set the sales targets, though only for their products. This was perfectly acceptable, of course, because the market, on the whole, bought these three product types largely at different times of the year.

(*Continued*)

It was readily accepted in the company that, broadly speaking, the market was split between fertilizers for growing grass and fertilizers for the growing of arable crops. There were even products specifically manufactured for each of these two sectors, distinct services offered to each of them, and dedicated specialist advisers based at headquarters. Despite this, the thrust of the business was based around product lines, each of which eventually fell under the control of its own business team. Lying over this split was the sales force, divided, for management purposes, into geographical territories. Their sales targets were, as already mentioned, presented to them along product lines, and any sales support literature was similarly divided, as all the budgets were allocated along product lines.

Case 3 – The bank

Some years ago, the senior customer services representative of one of the UK's largest banks was being interviewed on the radio. The main area of discussion centred around opening times (usually 10.00 a.m. to 3.30 p.m. at that time) and the limited number of cashiers (tellers) on duty during the peak, lunchtime period. The reason given for the opening times was that the public forgot that the transactions which the bank undertook on their behalf took time, and if they were open to their customers from 9.00 a.m. to 5.30 p.m. during the week, never mind at weekends, the staff at the bank would probably need to work from 8.00 a.m. to 7.00 p.m. The bank's public hours were the most it could offer when its staff worked from 9.00 a.m. to 5.30 p.m., which seemed fair, of course, because these were the hours worked by most of their customers! With regard to the lunchtime queues, the reasons for these were equally straightforward and reasonable: the bank's cashiers also had to have lunch breaks.

These issues, rather than humbling the customer into acceptance, fuelled the growth of the building societies. Marketing arrived in the financial world in a big way during the 1980s and attractive salaries and extra financial benefits tempted some of the best. They had found a gold mine waiting to be developed. Unlike many businesses, banks clearly know who their customers are. The switching costs for these customers are high when compared to other industries. This means the banks have traditionally enjoyed a high level of customer retention. Here, therefore, was a great opportunity for developing financial products and selling the variety of services available from the bank into a known customer base. Here, also, was the opportunity to develop products suited to the different stages of life and put them in front of the customer progressively as they travelled along life's highway.

The large, in-house database could also be profiled by matching them up against externally held databases containing psychographic information. This would help in the better targeting of new product offers into the bank's own customer base, and enable the banks to specify target customer profiles from externally held lists when prospecting for new customers. Inevitably complex segmentation structures

(*Continued*)

were devised and numerous new products developed, and the banks became portrayed more as centres for financial services.

However, the purpose of these segments was to find ways of selling internally or competitively defined products, these segments being variable according to the different projects for which they were devised. The majority of banks still opened at the times the customers were in work and the cashiers still went to lunch during the peak period. If anyone wanted to talk about any of the new services, the unmanned enquiry desk always had a welcome for them, once someone had responded to the bell!

Case 4 – The retailing group

There is a very large retailing group in the UK which became a prime example of an organization that structured itself around its chosen segments.

The different high street brands of the group were targeted into specific segments and were not just fronts. Behind each lay a complete infrastructure with its own marketing group, buyers, financial controllers, administration, and so on, all focused into the survival of the brand in its segment. Some brands eventually tired, but that was due, in part, to 'time out' being called on the segment. At the same time, however, the company introduced new brands to exploit the opportunities available in newly emerging segments.

Case studies conclusion

These cases are presented as illustrations of the potential alignment of the organization to market segments. In the international airline, segmentation is driven by internal structures and processes. The power of the territory manager defines the way the organization aligns itself to the market. This perspective does not begin with the customer, but with the structure of the sales organization. This view of the market is also limited to particular functions and activities within the organization and does not appear to operate across functions or at a strategic level.

In contrast, the chemical company represents an organization whose entire structure and mode of operation represents a particular view of the market. This view is clearly process led or product led and is not a customer-driven view of the marketplace. Unlike the international airline, it is a view which is embedded throughout the organization.

The bank presents a different type of situation. Here, the organization has a customer-based approach as to how it segments the marketplace.

This view, however, is restricted to the functional marketing activities of the organization. It does not permeate the way in which the organization, as a whole, sees the external world and does not appear to influence many of the processes and procedures which do impact on the customer.

The retailing group provides an organizational view which is centred on customer groups. This form of segmentation is deeply embedded in the operations and perspective of the employees as it forms the basis for the organizational structure.

All of the above examples reflect different approaches as to how an organization may align itself to the segments within the marketplace and it appears that there are two principal dimensions which differentiate between these examples:

1. customer driven;
2. organizational integration.

1. Customer driven

The example of the bank and the retailing group are both approaches which are clearly centred on the customer. In these situations, a market and its segments are customer groups as defined by, among others, Kotler (1991). In the case of the bank, the customer focus is limited to particular initiatives which are task specific and function specific. In the case of the retailing group, customer focus permeates and defines the separate business units. In contrast, the approach taken by the international airline and the chemical company is not centred on the customer. This is not to imply that at some point they were not customer driven. The issue is that these approaches for defining and segmenting the market no longer begin with the customer. They have become internalized and are thereby driven by internal factors such as sales force territories, budgets and organizational structures. These are implicit views of the marketplace which have become part of the organization's culture and perspective on its environment.

2. Organizational integration

The international airline and the bank both exhibit low levels of organizational integration. The way in which the market is segmented is the domain of particular groups, or functions within the organization. In these situations, segmentation is very much an operational, as opposed to a strategic, process. It is concerned with a particular media campaign or for establishing particular sales objectives. Outside these particular groups, these segments are not understood or recognized. In contrast, the chemical company and the retailing group both illustrate a high level of organizational integration. In these situations, segmentation is not just a way of targeting potential customers, but an intrinsic part of the structure and culture of the organization. All parts of the organization recognize that the market is segmented in this particular way, these segments providing a strategic basis for how the organization understands its interaction with the business environment.

Classifying market segmentation in organizations

These two dimensions for considering the organizational aspects of segmentation, customer driven and organizational integration, can be incorporated into a matrix as shown in Figure 2.2.

1. Sales-based segmentation

The first cell (bottom right), sales-based segmentation, describes an organizational archetype where the market is segmented on the basis of how the sales function is organized, which does not necessarily reflect clusters of particular customer characteristics or needs. In addition, these approaches are relatively superficial, and they are not embedded in the way the organization, as a whole, is structured, or the way it operates. This archetype represents segmentation which is driven by, and is largely exclusive to, the sales operations of an organization. The international airline is an example of this particular archetype. Here, the approach to segmentation operates at a territory level where some adjustment of the offer is permitted (use of local menus and cabin staff). However, this view of the market is not embedded in the way the organization as a whole is driven. The organizational priorities are represented by the need to maximize the capacity of the fleet of aircraft and the fact that this capacity resource is allocated through the management of routes rather than particular territories. The international airline, therefore, provides an example of an approach to segmentation which is internally (sales territories), as opposed to being externally (customer) driven and which does not reflect the priorities and focus of the organization as a whole.

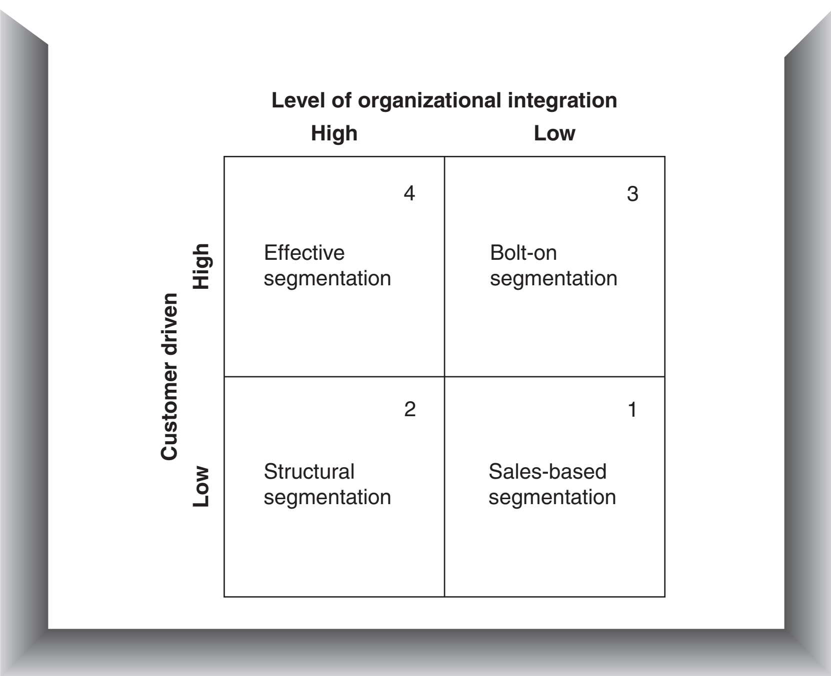

Figure 2.2 Segmentation archetypes in companies
Source: Jenkins, M. and McDonald, M. (1997) 'Market segmentation: organisational archetypes and research agendas'. *European Journal of Marketing*, 31(1), 17–32.

2. Structural segmentation

The second cell, structural segmentation, represents a further archetype where there is little emphasis on segments as groups of customers. Segments are defined by how the organization is structured. However, in contrast to the sales-based archetype, this approach to the market is deeply embedded in the organization as a whole. The chemical company is an example of this situation. The organization described in this case uses product management teams, who are responsible for marketing activity at both the strategic and operational levels. These groups are also working with sales territories which are allocated on a geographical basis. At this level, therefore, the segmentation is not explicitly customer driven, although the sales territories may reflect differing patterns of agriculture, and the differing product types may be applied at different times of the year. However, the product divisions which are fronted by the product management teams are embedded in the structure and nature of the organization. The requirements of a complex and capital-intensive process (producing ammonium nitrate) have meant that the product divisions which represent different aspects of this process are highly integrated into the fabric of the organization. This cell, therefore, presents an approach which is both production and sales driven and which is embedded in all the structures and processes of the organization.

3. Bolt-on segmentation

The third cell, bolt-on segmentation, presents an archetype where a high level of customer focus is brought into the defining of market segments. In this case, the organization applies customer data which are often available within the organization, such as location, purchase patterns and product preference. These data are combined with external classification systems which align the customer base to particular socio-economic profiles. In contrast to the previous archetypes, this segmentation approach is driven by the information held on the customer base as opposed to the structure of sales operations. However, this archetype is close to sales-based segmentation, as it is limited to a number of functional areas within the organization and is not integrated into the organization as a whole. In this case, the purpose of the segmentation exercise is to assist in selling existing products and targeting promotional campaigns, which are essentially operational, as opposed to strategic issues. In this archetype the segmentation framework does not guide new product development, nor does it affect the core processes and power base of business. The bank is presented as an example of this particular archetype. In this example, a high level of customer information already exists within the business. In many situations this is applied simply to target mail shots or other promotions, aimed at selling existing products. These segments do not provide a focus for redefining the business processes, a basis for new service concepts or the removal of existing products. A customer focus exists, but this does not permeate the whole operation of the business, as it is not considered at a strategic level.

4. Effective segmentation

The fourth cell, effective segmentation, combines both a customer focus and a high level of organizational integration. In this cell, the organization is able to apply customer-based data in order to develop a set of defined segments. In contrast to the bolt-on segmentation approach, the organization has integrated these segments across the key functional activities. They provide a basis, not only for the promotional activity, but also for strategic decision-making and internal marketing; in the case of the latter, this clarity of particular market segments provides a powerful basis for bringing the customer into the organization; see Levitt (1960). They also provide a focus for the entire processes and operations of the organization on these market segments. The large retailing group is suggested as an example for this cell. This group has a set of retailing concepts which are driven by clearly defined market segments. These segments have been defined around customer groups, but are also deeply embedded in the organization through their own operations and processes, which are tailored to the needs of their respective segments. In this case, all those in the organization can picture the target segment and have a basic appreciation of how the segment can be served most effectively.

Classification conclusion

The four case studies indicate that it must surely be better to be more customer focused and organizationally committed to a particular form of segmentation. The international airline concerned made massive losses for a sustained period and only survived through this period because of its state-owned status. The chemical company experienced enormous losses during the 1980s and only escaped closure by the narrowest of margins. Likewise, banks made substantial losses. The aim of this framework is, therefore, to provide a basis for beginning to assess segmentation, not only as an external clustering of customers, but also in terms of the strategic and internal implications for an organization.

Organizational structure

A particular factor that requires further consideration before proceeding to your segmentation project concerns the organization and its structure.

The most important point about organizational structure is that there are a number of issues that *all* firms have to address. These are:

- geographic location;
- functions (such as finance, research and development, marketing, and so on);
- products;
- markets;
- channels.

Of these, increasing competition has forced organizations to agree that the two main issues are *products* and *markets*, which is why many organizations have 'product/technology managers' and/or 'market managers'. Each has its strengths and weaknesses. A product manager-oriented system will ensure strong technical competence, but can easily lead to superficial market knowledge.

Marketing insight

Many a company has been caught out by subtle changes in their several markets causing a product to become practically redundant. In consumer goods, for example, many companies are beginning to admit that their rigid product/brand management system has allowed their major customers to take the initiative, and many are now changing belatedly to a system where the focus of marketing activity revolves around major customer/market groups rather than individual products.

On the other hand, a market manager-oriented system can lead to poor overall product development.

Consider, for example, Northern Sealants, who manufacture a broad range of adhesives that fall into two broad categories: seals and sealants. They supply these products to a large number of markets internationally, with the main users coming from: gas, oil and petrochemical refineries; automotive; electrical; and original equipment manufacturers (OEMs).

Their organizational structure is as shown in Figure 2.3.

It can be seen that Northern Sealants have both a product management and market management structure. Market segmentation is clearly the role of the market managers and close liaison between the two functions is crucial. However, it is becoming increasingly clear that in the new climate of customer power, the major authority has to be vested in market managers. In the case of Northern Sealants, the market management structure was repeated in major geographic territories, which took account of differences in local conditions, such as routes to market.

In this case, segmentation, as described in this book, took place at the 'gas', 'automotive', 'electrical' and 'OEM' levels, as each of these sectors was sufficiently different to justify separate approaches. It was also possible in this instance to have an in-depth knowledge of and an international focus on these vertical markets, rather than allowing territory 'barons' to dictate the product/market mix.

There is a more detailed discussion of this topic in Chapter 14. For now, all that is necessary to appreciate is that all organizations have to have an organizational structure for the purpose of management and control. It is obvious that segmentation should take place as near to the final customer as possible, but segmentation will also take place at other points, as necessary, in organizations with complex routes to market (see Chapter 5).

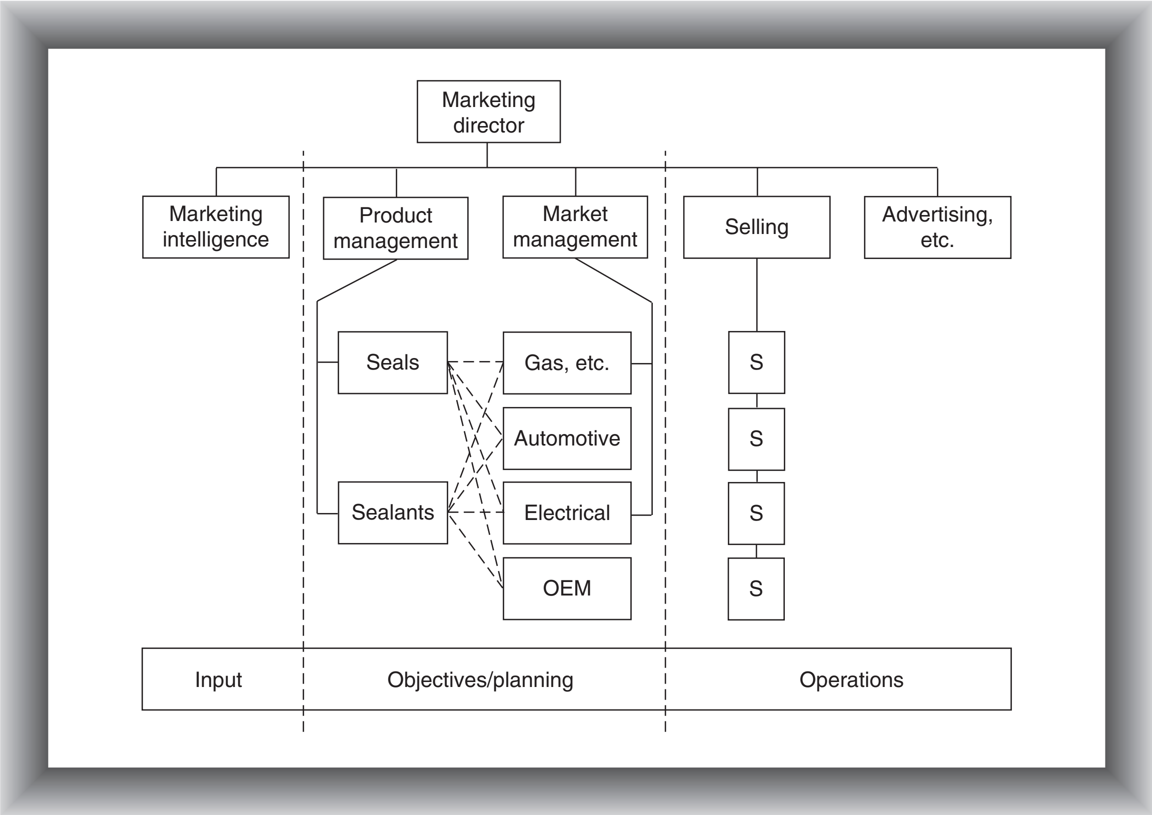

Figure 2.3 Organizational structure of Northern Sealants

The point to be made here is that the process detailed in this book is universally applicable, so readers should concentrate on the process rather than being overconcerned about organizational considerations.

From the case studies discussed in the previous section, it can be seen that for three of them the organizational structures took precedence over market considerations with disastrous consequences. While it is not always possible to organize internally around segments as opposed to markets or products, it should nonetheless be segments that are the ultimate drivers of corporate strategy.

The 'postmodern' customer

A great deal of discussion has occurred in recent years about the impact on companies of what is being referred to as the 'postmodern' customer or, put more simply, the 'new' customer. This debate has been generated largely because of the rapid developments in information technology (IT) and communications, with such prospects as the kitchen oven communicating with a potato on how long it should be cooked, and the realization that previously convenient classifications of 'markets' no longer appear to work.

Putting the potato and oven to one side for the moment, the observation with respect to 'markets' is that individual customers appear to differ in the propositions they are looking for within what were once seen as single markets. For example, when buying a bottle of wine, the wine bought when an individual has been invited round to dinner with friends can be different from the wine bought when the same individual is looking for a drink to take home for a quiet night in, even when both types of wine are available at both purchasing opportunities. As another example, when an individual is looking for a savings plan, their requirements are often different from those when they are looking for car insurance, though both are financial services products and may even be bought from the same company. And, as a final example, the individual who on Tuesday travels business class when flying to a meeting in Europe is found in the economy section when flying on a family holiday the following Saturday.

All this, of course, requires there to be a correct definition of 'market', an issue we first raised in the original edition of this book in 1995, extended to a number of pages in the second edition in 1998 and, since the third edition in 2004, now occupies a full chapter on its own and forms the first step in the segmentation process. We will, therefore, leave further discussion on this aspect of the postmodern customer to Chapter 4.

The main outcome of the debate about the postmodern customer is that the implication for business is that they must now drive their internal processes from the demand side of the business equation rather than purely from the supply side. In other words, drive these processes from an understanding of the needs of customers in terms of the product or service they require, its price, how it is promoted and from where it can be acquired. At the same time, the business has to ensure that they can supply these customers with what they need at a price the customer is willing to pay, and do all of this profitably. Understanding the demand side of the business equation has always been at the heart of our segmentation process and is comprehensively covered in this book.

Regarding the impact of IT, in particular the impact of the internet, what this has achieved for customers is a breaking down of the physical barriers to a more 'perfect' market, thereby enabling customers to find out about and source more of the various alternative offers available. It has also: introduced an additional delivery channel for non-physical products such as those found in financial services, along with music and videos; provided an additional medium for promotional messages; and presented an additional route to market. With respect to the latter, this additional route to market presented by the internet can, in many respects, be regarded as an evolution in direct marketing. Not only has it improved the efficiency of direct marketing, it has also introduced new dimensions to this method of doing business. From the customer's perspective, it has, for example, put them in control of the sales process and removed the challenge of fighting off unwelcome sales pitches from the telesales operatives. In doing so, it has attracted new customers to direct marketing. We look at the impact of the internet on channels in Chapter 12.

International market segmentation

Segmentation models in international marketing tend to consist of geographical groups, such as Europe, North America, Association of Southeast Asian Nations (ASEAN), Australasia, and so on. Unfortunately, however, such groupings are of very limited value as actionable marketing propositions, since they bear little relationship to actual consumption or usage patterns other than at a very high level of aggregation, such as those given in the next paragraph.

Marketing insight

Segmentation models based on geographical groups bear little resemblance to actual international markets.

Taking Europe as an example, there are typically two discrete groupings: Western Europe and Eastern Europe. Within Eastern Europe, however, there are at least three subgroups: the 'strong' group (Estonia, Poland and the former Czechoslovakia); the 'middle' group (Bulgaria, Romania and the former Yugoslavia); and the 'poor' group (many of the former Soviet republics). Even within Western Europe, there are significant differences arising from natural phenomena. For example, Scandinavia has short summers and long winters; Greece, Portugal, Italy and Spain have long summers and short winters; the Netherlands has low plains; and Switzerland has mountains.

Similarly, the per capita gross domestic product of Switzerland is much greater than that of Portugal and, at the same time, there are significant communication and distribution differences. As examples: domestic television penetration in Norway is low, whereas in Italy, television has very high levels of penetration; retail channel concentration is very dense in Northern Europe, whereas there is a preponderance of small, independent outlets in Southern Europe; there are also significant cultural and linguistic differences; and so on. If, therefore, geography is to be relevant, it is more sensible to think in terms of: the Anglo Saxon North; the Latin South; North-east France, Benelux and North-west Germany; and so on. Even this, however, is simplistic, in the sense that there are basically three kinds of 'products' which have to be considered when looking at such segmentations.

1. Truly global products

These are either products or services that are inherently global, such as international services, world-standard industrial products, high-technology products, and so on, or they are fashion or national products that have become global, such as Chivas Regal, Coca-Cola, Rolls-Royce, McDonald's and Dunhill, and so on. These have become global because their national appeal is replicated in other countries, though this has not precluded the need for some local variations. For example, 'think global, act local' became Coca-Cola's strategy for achieving global leadership, and McDonald's is not the only company to have experienced local rejection of a global proposition.

2. National products

These typically exist where the market thrives on supplier responsiveness, client relationships, national preferences, and where global efficiencies are less critical.

3. Hybrid products

Here, adaptation across countries is possible and this requires a rethinking of simple geographical segmentation bases to ones based on customer groups with similar needs across national boundaries. In advertising, for example, J. Walter Thompson discovered:

- Three broad breakfast types across Europe.
- A fashion lager segment across Europe.
- Commonalities in computer software applications across Europe.

There are, as a result, significant legal, regulatory, linguistic, communication media and distribution channel differences across Western Europe and even throughout the world. There are, consequently, few truly global products and many traditional habits remain deep rooted, militating against international segmentation. On the other hand (and this applies particularly to Western Europe), there are a number of growing trends that suggest that the need for international market segmentation will become increasingly important. These include:

- The desire for monetary union, social affairs union, foreign affairs union and defence policy union.
- Increasing product and technical standardization.
- Deregulation of transportation, telecommunications, pharmaceuticals and others.
- Attitude convergence towards work, individuality, materialism, the environment, and so on.
- Pan-European buying.
- International mergers, acquisitions and joint ventures.
- Increased international travel, education, media exposure, fashion, and so on.

The bases for international market segmentation are, therefore, likely to be specific groupings of countries such as the new 'European regions' outlined earlier, or customer groups across selected countries.

Just as the use of demographics (referred to in Chapter 1) is useful at a high level of aggregation, in the sense that, for example, there clearly is a large potential market for furniture for newly-weds, so it is useful to think regionally in international marketing. Thereafter, however, the normal rules of market segmentation spelled out in this book apply.

Segmentation team

Before embarking on a segmentation project, a key question to answer concerns who should be involved in the segmentation team.

While it is not unusual for short-term sales and profit pressures to prevent the allocation of time and resources to carry out market segmentation, it should be the primary responsibility of the general manager to ensure that it is done.

Ideally, a mixed team of representatives from the main functions of the company is required, because segmentation is central to corporate strategy and affects all areas of the business, and because each function has different contributions to make to the process. Within the team, a core group consisting of two to three individuals should be established. The function of this core group is to carry out all the detailed work required in the segmentation process, the core group reporting back to the full team for consultation, comment and guidance.

Team members from the functional disciplines should have had customer contact and have a good knowledge of the products, markets, customers and the company.

In some circumstances, there should also be an outsider, who is not involved in the industry, but has experience in *market* segmentation, to act as a facilitator for the process and to offer an objective and alternative viewpoint to the discussion. Segmentation, however, is not a project to be contracted out to an external consultancy from which you eventually receive a report and presentation. Complete ownership of the project and its conclusions is essential if the company intends to commit itself to implementing the findings.

Segmentation is not a project to be contracted out to an external consultancy from which you eventually receive a report and presentation.

Segmentation can be carried out at all levels of the organization. Strategically, there needs to be a corporate segmentation which will fit within or help companies develop their mission statement. At lower levels within the organization, there will be segmentation within the strategic business units (SBUs), and, finally, segmentation at a lower level, such as at customer group, product, or at geographic level. This book principally concerns segmentation at the strategic business unit and lower levels.

Segmentation is also a subject that should be periodically revisited, as markets are dynamic, segments can alter over time and changes in the macro-economy and the markets can alter the attractiveness of different market segments, especially in fast-changing markets. Also, there are benefits in being creative and innovative and developing new alternative approaches in order to gain and then sustain a competitive advantage.

As your selected team progresses through the process, you will need to answer the following questions:

- How should you segment the market?
- How detailed should your segmentation be?
- How do you define segments in the best possible way?
- Which segments offer the greatest opportunities?

Data for segmentation

The process in this book is primarily presented in a format designed to utilize data already held by, or readily accessible to, your company.

The process in this book is primarily presented in a format designed to utilize data already held by, or readily accessible to, your company, and segmentation, when carried out thoroughly, often requires a broad range of data. The segmentation team will therefore require access to sales and financial data, market research findings and to reports from external sources, such as industry bodies and central government, in order to provide extra information to help the decision-making process. Inevitably, the quality of the input will have a large impact on the quality of the output.

In some markets, data will be comparatively scarce. Informed estimates and models based on the available data and plausible assumptions will therefore have to be used to infer market size, structure, dynamics and segment size.

The data required for segmentation can be summarized as follows:

- the customers' underlying intentions for entering the market;
- an understanding of how the market works and who makes the decisions;
- the size of the market and how this divides between the competing products and services (informed approximations at least);
- characteristics that can be used to identify the different customers found within the market (customer profiling);
- the key product and service requirements, and key channel, frequency and method of purchase requirements, from the customer's point of view;
- the benefits delivered by these requirements, also from the customer's point of view;
- the relative importance of these benefits to the different customers found within the market.

Marketing insight

Standard segmentation schemes available from external agencies rarely, if ever, provide the insights required by individual companies to achieve significant competitive advantage. Even if you gain advantage from them today, your competitors can buy them tomorrow and rapidly catch up with you. In the main, companies acquiring these schemes have had their vision of the market blinkered.

Guidelines appear throughout this book on how to use the data you have and develop it into the information required for a successful segmentation project.

Guidelines appear throughout this book on how to use the data you have and develop it into the information required for a successful segmentation project.

As you progress through the various steps in the process you may identify information shortfalls which you will need to address. In many instances, the most appropriate method of addressing these shortfalls will be by commissioning market research. Guidelines on how to incorporate **market research** findings can be found in the text. The segmentation process in this book also provides a structured approach for the collection and use of information in segmentation research projects.

Definition: Market research is concerned specifically with research about markets and involves the collection, organization, analysis and dissemination of facts and opinions from existing or potential customers about themselves and about organizations and/or their products and services. (Marketing research is concerned with research about marketing processes.)

A particularly useful exercise at the end of the project is to consider what changes are required to the current information systems in your company to support segmentation.

Rules for segmentation

The criteria used for segmentation must have the following characteristics:

- each segment should consist of customers who are relevant to the purchase situation in that they are responsible for making the decision or can affect buying behaviour;
- each segment should have sufficient potential size to justify the time and effort involved in planning specifically for this business opportunity;
- each segment should be distinguishable from other segments, such that each has a distinctive set of requirements and can be served by an equally distinctive marketing strategy;
- each segment should be reachable by sales and distribution channels currently being used or which could be used;
- each segment should be capable of being identified by a set of characteristics, such that the customers in that segment can be reached by a distinctive and cost-effective communications strategy;
- the company must be capable of making the necessary changes to its structure, information and decision-making systems so that they become focused on the new segments.

Marketing insight

The biggest obstacle to successfully implementing a segmented approach to marketing can often be the company itself because of a reluctance and, in some cases, a resistance to change by employees at all levels. Early anticipation of potential difficulties along with the development and implementation of countermeasures designed to win over the hearts and minds of key decision-makers in the organization will be time well spent. In most cases this can often be achieved by engaging them in the project, preferably as a member of the overall team, or at least by seeking their views and keeping them up to date with progress.

The advantages of segmentation

These can be summarized as follows:

A reminder: We use the word 'proposition' to indicate the nature of the offer from the organization to the market, including the channels it uses.

- recognizing customers' differences is the key to successful marketing, as it can lead to a closer matching of customers' needs with the company's propositions;
- segmentation can lead to niche marketing, where appropriate, where the company can meet the needs of customers in that niche segment resulting in segment domination, something which is often not possible in the total market;
- segmentation can lead to a concentration of resources in the market, focusing them on where competitive advantage is greatest and returns are high;
- segmentation can be used to gain competitive advantage by enabling you to consider the market in different ways from your competitors;
- by means of segmentation, you can position your company as a specialist in your chosen segments, with a better understanding of customers' needs, thus giving your products or services advantages over those of your competitors'.

The additional benefits of the approach to segmentation detailed in this book are:

- it checks your logic and your basic assumptions about the market;
- it helps with your team-building approach;
- it goes across vertical structures, often uncovering hitherto undiscovered customer needs.

Segmentation case histories

This chapter concludes with three short case histories, the first two of which illustrate how superior profitability results from successful market segmentation. The third case history illustrates how failure to recognize that past successes were segment-based nearly ended up in disaster.

Case 1 – A national off-licence chain[1]

A national off-licence chain, with retail units in major shopping centres and local shopping parades, was experiencing both a decline in customer numbers and a decline in average spend. The original formula for success of design, product range and merchandising, meticulously copied in each outlet, no longer appeared to be working.

The chain had become a classic example of a business comfortably sitting in the middle ground, attempting to be all things to all people, but managing to satisfy very few of them.

Rather than sit back in the belief that the business was just passing through a difficult patch, and what worked yesterday was bound to work again, the company embarked on a project designed to understand both their actual and potential customer base.

The first stage of this study turned to one of the more sophisticated geodemographic packages in order to understand the residential profiles of each shop's catchment area. Not unexpectedly, many geodemographic differences were found, and the business quickly accepted it was unlikely that the same retail formula would appeal to the different target markets found in them.

Rather than look at each shop separately, the catchment area profiles for each shop were subject to a clustering routine in order to place similar catchment areas together. This resulted in 21 different groupings, each of which was then profiled in terms of their potential to buy different off-licence products using purchasing data from national surveys. (The company's own in-house retailing data would, of course, only reflect the purchasing pattern of their existing customers, or, at worst, only a proportion of their requirements if this was limited by the company's current product range.)

However, stocking the requisite range of products in their correct geographical location would not necessarily attract their respective target markets. The chain was already associated with one type of offer which, in addition to including a particular range of drinks, also included the basic design of the shops and overall merchandising.

The project, therefore, moved into a second stage, in which the market's attitudes and motivations to drinking were explored and relative values attached to the various dimensions uncovered. This was achieved through an independently commissioned piece of market research and resulted in the market being categorized into a number of psychographic groups. This included, among others, 'happy and impulsive' shoppers, 'anxious and muddled' shoppers, 'reluctant but organized' shoppers, and the 'disorganized, extravagant' shoppers.

(*Continued*)

[1]Real company name disguised for reasons of commercial confidentiality.

By ensuring this stage of the project linked the attitude and motivational findings to demographic data, the two stages could be brought together. This enabled the original 21 clusters to be reduced to five distinct segments, each of which required a different offer.

The company now had to decide between two alternative strategies:

1. to focus into one segment using one brand and relocate its retail outlets accordingly through a closure and opening programme; or
2. to develop a manageable portfolio of retailing brands, leave the estate relatively intact, and re-brand, re-fit and re-stock as necessary.

They decided to pursue the second.

Realizing that demographic profiles in geographic areas can change over time, and that customer needs and attitudes can also evolve, the company began to monitor its market quite carefully and was quite prepared to modify its brand portfolio to suit changing circumstances. The five retail brands of 'Raise a Glass', 'Wine Cellar', 'Wine Store', 'Wine Connoisseurs' and 'Party Store' sat comfortably within the five segments.[2] They also sat comfortably together in the same shopping centre, enabling the group to meet effectively the different requirements of the segments found within that centre's catchment area.

Perhaps more importantly, this strategy sat comfortably alongside the financial targets for the business.

Case 2 – Sodium tri-poly phosphate

Sodium tri-poly phosphate (STPP) was once a simple, unexciting, white chemical cleaning agent. Today, one of its uses is as the major ingredient of a sophisticated and profitable operation, appearing under many different brand names, all competing for a share of what has become a cleverly segmented market.

Have you ever wondered how the toothpaste marketers classify you in their segmentation of the market? Much simplified and for illustrative purposes only, Table 2.1, based on Haley (1968), which presents an overview of the main segments, may assist you.

[2]Real brand names disguised for reasons of commercial confidentiality.

Table 2.1 Segments in the market for toothpaste

		Segment name			
		Worrier	***Sociable***	***Sensory***	***Independent***
Profile	Demographic	C1 C2 25–40 Large families	B C1 C2 Teens Young smokers	C1 C2 D Children	A B 35–40 Male
	Psychographic	Conservative: hypochondriacs	High sociability: active	High self-involvement: hedonists	High autonomy: value oriented
What is bought, where, when and how	Product examples	Signal Mentadent P	Macleans Ultra brite	Colgate Aquafresh	Own label
	Product features	Large canisters Health properties	Large tubes Whitening properties	Medium tubes Flavouring	Small tubes
	Outlet	Supermarket	Supermarket	Supermarket	Independent
	Purchase frequency	Weekly	Monthly	Monthly	Quarterly
Why it is bought	Benefits sought	Stop decay	Attract attention	Taste	Functionality
Price paid		Medium	High	Medium	Low
Percentage of market		50%	30%	15%	5%
Potential for growth		Low	High	Medium	Nil

Note: 'C1', 'C2', and so on appearing in the demographic profiles of each segment represent socio-economic groups which were in use in the UK until 2001, now replaced in official statistics by eight analytic classes numbered from 1 through to 8.

Case 3 – Amber nectar

A privately owned brewery in the UK was enjoying exceptional profitability for its industrial sector. In terms of output, it was by no means the largest brewery in the UK, and in terms of geographic cover, it only operated within a particular metropolitan area.

At one of the regular meetings of the board, it was agreed that the company had clearly developed a very successful range of beers and it was time to expand into new geographic areas.

The expansion programme met with aggressive opposition from other brewers, particularly the very large brewers. This came as no great surprise to the board who, before setting on the expansion path, had built up a large 'war chest', largely made up of past profits, to finance the plan. The board knew the competition would react in this way because they were being challenged by a very successful range of beers, a 'success' that would ensure product trial, then customer loyalty, in the new areas.

As with all good marketing-focused companies, the progress of the marketing plan was regularly monitored against its target by a specially appointed task force headed by the chief executive. In addition, the sales and marketing director, a key member of the task force, held regular meetings with his own key staff to ensure continuous evaluation of the sales and marketing strategies being followed.

The plan badly underperformed and was eventually abandoned.

In the post-mortem that followed, the brewery discovered why it had been so successful in the past, and why this success could not be extended to other areas of the UK. To its loyal customers, a key attraction of the beers manufactured by this brewery was the 'local' flavour. The 'market' for this company was the metropolitan area it already operated in, its competitors being other local brewers in the same area. Exporting this success was clearly, therefore, not going to work. Expansion could only be achieved by setting up new local breweries in other areas, or by acquiring already established local breweries, or by a completely different positioning of its beers.

Without this brewery realizing it, the customers for beer in the UK had already segmented themselves. This brewer's segment was the 'regional chauvinist', and in the particular region it operated in, the company already had an overwhelming market share: hence its profitability.

With an earlier understanding of this segmentation structure, the company would have spent its war chest more effectively and achieved its growth objectives.

Case history conclusion

These three case histories illustrate the importance of intelligent segmentation in guiding companies towards successful marketing strategies. However, it is easy to understand this success *after* the event, as occurred in one of the cases! The problem, for most of us, is how to arrive at market segments that will enable us to create differential advantage. That is the purpose of this book.

Chapter 2 review

This chapter provides additional guidelines for a successful segmentation project.

We began by presenting the objectives of this book and, while doing so, pointed out that the segmentation process contained within the book is as applicable to business-to-business markets as it is to business-to-consumer markets. The relationship between segmentation and marketing planning was highlighted along with the importance of ensuring that internal company structures relate to external market segments.

A suggested framework for looking at how companies currently define and segment their markets was then put forward which matched the degree of customer focus in their segmentation to the extent to which they organize their structures around these segments. Four company archetypes were suggested based on their approach to segmentation: sales-based segmentation, structural segmentation, bolt-on segmentation and effective segmentation.

Next, we raised the issues that organizations have to address regarding their own internal structures and concluded that, in those situations where it is not possible to organize around segments, it should nonetheless be segments that are the ultimate drivers of corporate strategy.

The impact of what is being referred to as the 'postmodern' customer was then briefly reviewed in which three main issues were identified. These were: the importance of correct 'market' definition; that companies should understand customer needs and take more account of them in their internal processes; and the changes brought about by recent developments in IT. All three are covered in this book.

This was followed by a review of the bases for international market segmentation where we observed that many of the models based on geographic groups had little value as actionable marketing propositions. We concluded that different groupings of countries, or customer groups across selected countries, may prove to be more useful, after which the normal rules of segmentation spelled out in this book would apply.

We then moved on to discuss who should be involved in the segmentation team and suggested that this should consist of representatives from the main functions of the company in which resides a smaller, core team who undertake the project. We also suggested that an independent outsider experienced in market segmentation, but not involved in the industry, would be a useful addition to the team. The point was made, however, that segmentation was not a project to be contracted out.

In discussing the segmentation team, we also emphasized that segmentation was a subject that had to be periodically revisited as markets change over time.

The data requirements for segmentation were looked at next. Here we pointed out that the process in this book is presented primarily in a format designed to utilize data already held by, or readily accessible to, the company, and this may identify information shortfalls that require market research. If research is required, it, too, can follow the structure of this segmentation process.

We then presented the characteristics that each segment was required to have, such as having sufficient size to justify the expending of business resources on them, being sufficiently different from all the other segments in terms of their requirements and being reachable in some way. We also emphasized the importance of ensuring that companies focused on these segments and were prepared to make the changes this required to their current processes.

Next we briefly summarized the advantages of segmentation and the additional benefits of the approach detailed in this book.

Finally, we presented three short case histories that illustrate the importance of *market*-based segmentation.

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3 Fast tracking through the segmentation process

Introduction

We have diligently put together what we term 'fast tracks' for each of the steps in the **market segmentation** process. These include the main learning and action points for each step.

Definition: Market segmentation is the process of splitting customers, or potential customers, in a market into different groups, or segments, within which customers share a similar level of interest in the same, or comparable, set of needs satisfied by a distinct marketing proposition.

The fast tracks therefore give you the essentials of what you need in order to complete your segmentation project. Please be aware, however, that you will almost certainly have to refer to the appropriate chapter for each step from time to time if you are to achieve the best results for your project.

The principal purpose of the fast tracks is to provide those of you new to the segmentation process with a concise guide to what it entails. For those of you familiar with the process as presented in this book, the principal purpose of the fast tracks is to provide you with all the memory prompts you require for a segmentation project.

Process structure

The segmentation process consists of two phases:

Phase 1 Developing segments

Phase 2 Prioritizing and selecting segments

The first phase contains three stages, broken down into five steps:

Stage 1 Your market and how it works

- Step 1 – Defining the market
- Step 2 – Market mapping

Stage 2 Decision-makers and transactions

- Step 3 – Who specifies what

Stage 3 Segmenting the market

- Step 4 – Why
- Step 5 – Forming segments

The second phase consists of a single stage, broken down into two steps:

Stage 4 Identifying your target segments
Step 6 – Segment attractiveness
Step 7 – Company competitiveness

As it is only by developing and implementing the appropriate strategies for each of your chosen segments that your company will be able to reap the benefits of segmentation, a chapter has been set aside in this book to discuss the setting of marketing objectives and strategies for segments (Chapter 13).

Phase 1 – Developing segments

The first phase of the segmentation process is applied to the whole market your business is capable of operating in, not just to that part of the market you are currently successful in. It therefore includes the customers of your competitors, as well as your own, along with the products and/or services bought by these customers.

Determining the scope of a segmentation project

This section looks at the most crucial and complex issue in marketing, namely, how a market is defined. Until this is clearly understood, issues such as market share, the identification of target customers and their needs, and even the recognition of competitors, will continuously cause difficulty. It is the essential first step of your segmentation project, as illustrated in Figure 3.1.

Fast track

Definition:
A market is the aggregation of all the products or services which customers regard as being capable of satisfying the same need.

- Describe the geographic area covered by the project. Keeping it within the borders of a single country is a manageable starting point. If you want to include other countries ensure that the stage of market development, the available routes to market and the pattern of marketing activity are all the same, or at least very similar to each other.
- Describe the '**market**' being segmented in terms of a *customer need* in a way that covers the aggregation of all the alternative products or services which *customers* regard as being capable of satisfying that

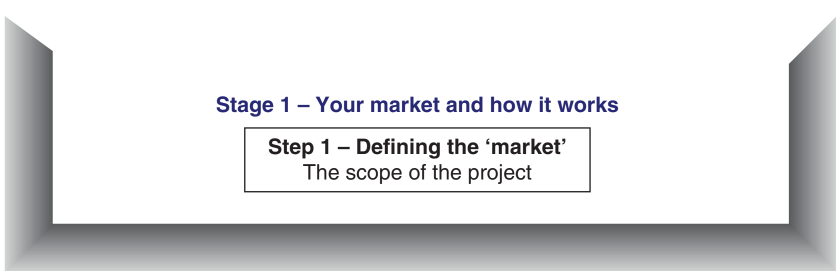

Figure 3.1
The segmentation process – Step 1 (Chapter 4)

same need.[1] Capture this description by completing the following sentence with a phrase that identifies *the* specific purpose or intended use *customers* have in mind for the products or services *they* see as being in a competitive set, along with any relevant circumstances.

This book refers to those whose needs are being defined as 'customers'.

The customer *need* is to . . .

List the products or services included in the definition, but ensure that the market definition itself does not refer to any particular one of them. For example, to state that the customer need is to have a 'pension' ignores the fact that customers can choose from a range of options when looking to 'secure a desired standard of living for when they retire'. Also ensure that the definition does not contain any meaningless words such as 'quality' or 'brand'.

- *If necessary*, refine the geographic area and/or the need so that the scope of your project is meaningful in terms of your company's capabilities and therefore represents opportunities that are realistically available to you. For example, a manufacturer of buttons with no current capability, or plans to manufacture other product lines for the 'garment fastenings' market, such as zips or Velcro, would focus their segmentation project on that part of the market only applicable to buttons.

  If absolutely necessary, further refine the scope to take into account any internal company 'boundaries', such as those imposed by strategic business units (SBUs), as initially it may be more pragmatic to segment that part of the market currently satisfied by your product line. Using the button example again; if your company produced the full range of garment fastening products but you were in the buttons' business unit, the most practical focus for your segmentation project may, once again, be that part of the market only applicable to buttons.

  It is important, however, that you monitor the trends in the use of the products or services you have elected not to include within the scope of your segmentation project but which satisfy the same need. This is because you may need to consider moving into these products or services in the future in order to meet corporate objectives. In the meantime, continue this project for your specified market.

We use the word 'product' to avoid unnecessary references to 'services', 'not-for-profit services', 'capital goods' and 'retail'. The text is equally relevant to these.

- Size the defined market you plan to work with in its geographic area in terms of the volume or value that is available to you and your competitors. A figure that is an informed, intelligent approximation is acceptable.

[1]While a 'market' describes a customer need in a way which covers the aggregation of all the alternative products or services customers regard as capable of satisfying that need, 'segments' focus on specific products or services, their characteristics and properties, along with other components of the total marketing proposition, that different groups of customers are looking for in order to satisfy their particular needs within a market. A key difference, therefore, between a 'market' and a 'segment' is that a specific marketing strategy can be defined for a segment, whereas for a market, we can only list the alternative products or services. It is simply a different level of aggregation of customer needs.

Completion of this step is when you are sure that you have a clear and appropriate description of the geographic area and 'market' boundaries for your segmentation project.

Portraying how a market works and identifying decision-makers

This book refers to those whose needs you must understand (if you are to develop successful marketing propositions) under the title of 'decision-maker'. You may find it more appropriate in your market to refer to them as 'specifiers'.

This section takes a detailed look at the way a market works in order to identify where decisions are made about competing products and services. It is these decision-makers who then proceed to the next stage of the segmentation project as it is their requirements you must understand in order to develop successful marketing propositions. *Successful segmentation* is based on a detailed understanding of decision-makers and their needs.

In some cases, the diversity of the decision-makers is such that it is necessary to divide them between more than one project. This is to ensure that the segmentation process is both manageable and arrives at meaningful conclusions.

The parameters for this, the second step in the segmentation process, as illustrated in Figure 3.2, are those established in the previous step when you determined the scope of your segmentation project.

Fast track

- Starting with the final users of the products or services included within the scope of your segmentation project, note what proportion of the specified market they actually decide on: that is, make the decision on which of the competing products or services will be purchased. If this is not 100%, note who the final users turn to next for the decision and then record what proportion of the specified market this group decide on. Make the most informed estimate you can; approximate percentages are acceptable.
- List the alternative decision-makers in a sequential order according to how close they are to the final users. Continue until you have accounted for 100% of the market. If it is showing signs of getting complicated and you have already found where, say, 80% of the

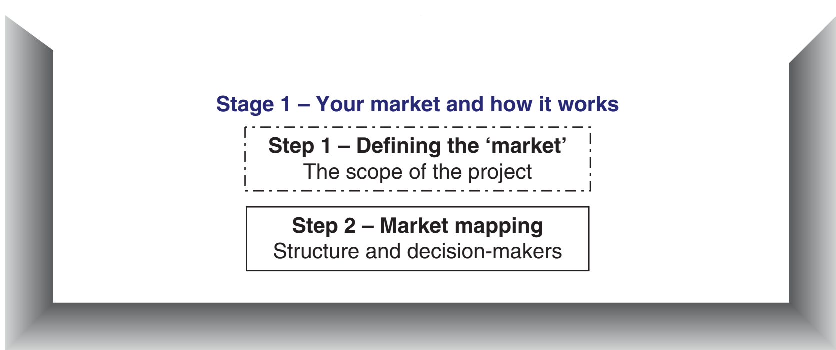

Figure 3.2
The segmentation process – Step 2 (Chapter 5)

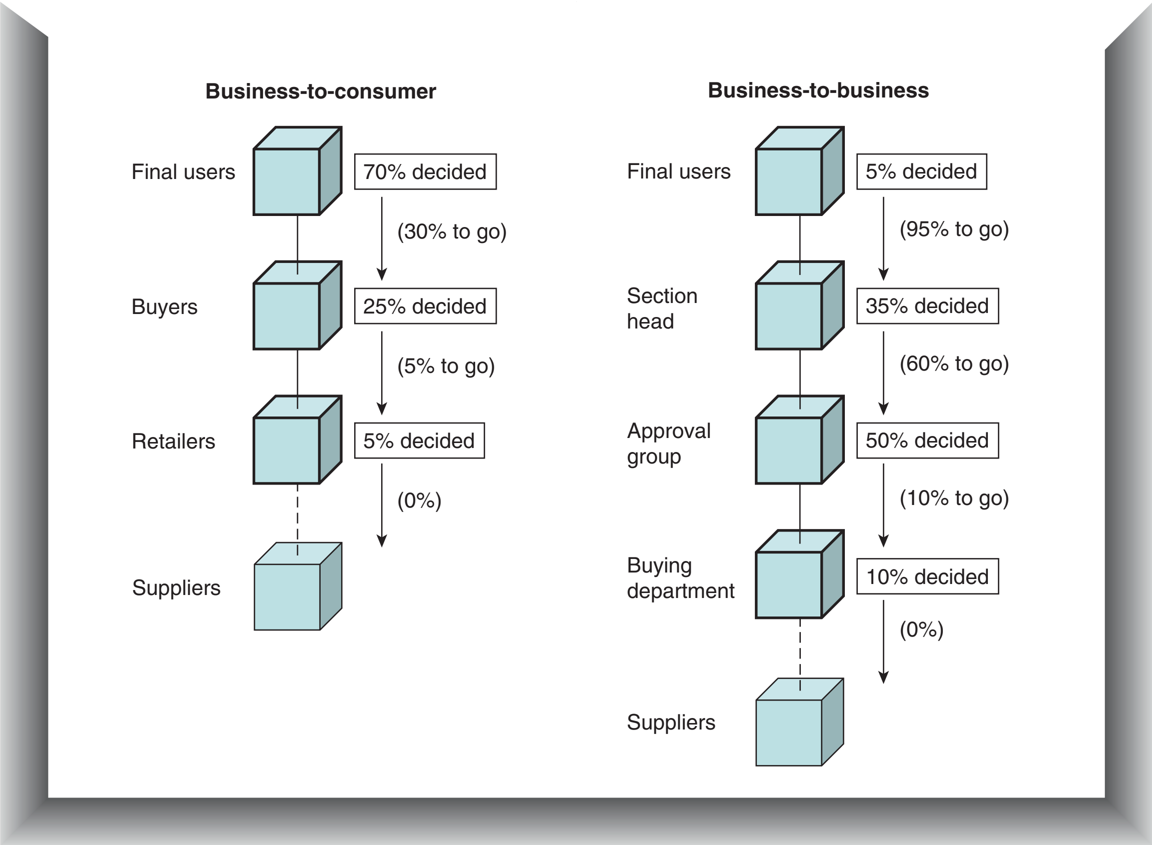

Figure 3.3 Fast track – market mapping
Note: In a business-to-consumer market the 'final user' could, for example, be a child with the 'buyer' being a parent.
This book refers to those who produce the products or services supplied to a market as 'suppliers'.

decisions are made, that should be sufficient to progress with your project. Each stage along the '**market map**' (represented by a cube in Figure 3.3) is called a 'junction' and a junction where decisions are made is known as a 'market leverage point'.

Definition: A market map defines the distribution and value added chain between final users and suppliers, which takes into account the various buying mechanisms found in a market, including the part played by 'influencers'.

- Use the decision-making percentages and the market size (from Step 1) to determine the quantity decided on at each leverage point.
- It helps if you sketch out the market map and capture the decision-making along the lines suggested in Figure 3.3.

  Clearly some final users will also be buyers. What we are trying to establish on the market map are buyers, and others, who make the decision on behalf of final users.

  Do not overlook the possible role of advisers, buying guides or consultants on your map.
- Select the junction with leverage to be taken through to the next stage. It is usually easier to progress the segmentation project a

single junction at a time. As a normal rule it is best to start with the final users. This would work with the business-to-consumer example in Figure 3.3 but appears to be nonsense in the business-to-business example. The next guideline would be to start at the junction nearest the final user where significant leverage occurs. However, in the business-to-business example, starting with the 'Approval group' would appear to make more sense as they account for the highest proportion of the decisions. A further possibility exists in the business-to-business example: a single project which includes the 'Section heads' and 'Approval groups', along with the 'Buying department' and 'Final users', should be both manageable and productive. This is because in business-to-business markets in particular, including in one project all the different leverage points located in the same category of organization on the market map (such as companies that 'consume' the product, or companies that add to it before selling it on) often works well. Try it and see.

- When the junction you are segmenting consists of some who make the decision and others who do not, and it is a junction where it would be to your advantage to have them make the decision themselves, include *all* of them in your segmentation project *if it is by choice* that the decision is left to others. Better targeted offers may persuade them to make the decision themselves. If, on the other hand, those who do not make the decision have no other choice in the matter (which could well be the case in the business-to-business example in Figure 3.3), they can be excluded from your segmentation project.
- Optional: At the selected leverage point(s), you may already have a segmentation structure or see a natural division you want to test out in your segmentation project. It is quite acceptable to structure the project around these groups and take them through the segmentation process. The rigour of the process ensures that it will not prejudice the outcome in any way. We refer to these groups as 'preliminary segments'. Each preliminary segment should be sized.
- A worksheet for market mapping appears as Figure 5.21 in the Exercises section of Chapter 5.

You can progress to the next step when you are confident that you have identified the individuals in the specified market who should become the focus of your segmentation project.

Developing a representative sample of different decision-makers

For projects which include current decision-makers and potential decision-makers, this book now uses the term 'decision-maker' to refer to both.

For the vast majority of markets it simply is not feasible, or even necessary, to include all the decision-makers who are now the focus of your segmentation project. The concluding segments are therefore derived from a sample of decision-makers who, between them, represent the specified market as a whole.

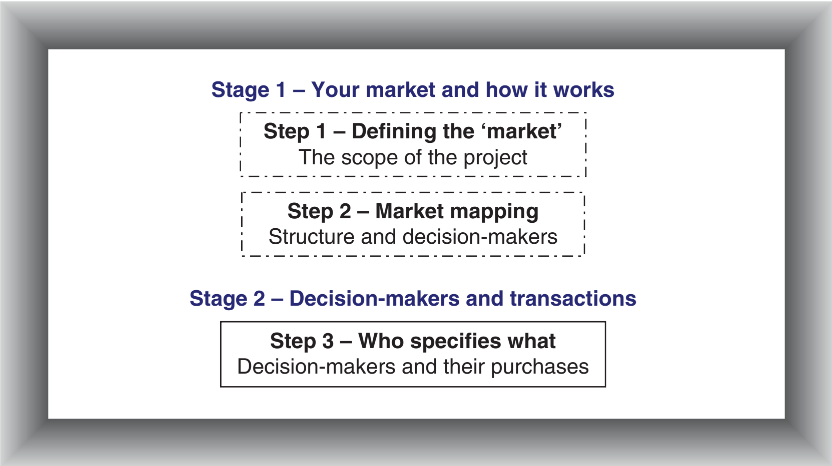

Figure 3.4
The segmentation process – Step 3 (Chapter 6)
Note: 'What' refers to all aspects of a purchase and therefore includes 'where' products are bought, 'when' they are bought and 'how' they are bought in addition to what the actual product or service itself is, consists of, or is made from.

This section provides the guidelines you require in order to develop a representative sample of different decision-makers when conducting a segmentation project using internal resources. In building your model of the specified market, this, the third step in the segmentation process, as illustrated in Figure 3.4, identifies the characteristics and properties of a purchase on which decisions are made along with the customer attributes that will be used to describe the decision-makers. It is the very heart of the segmentation process and, as such, requires you to give it careful thought.

This step is the very heart of the segmentation process and requires careful thought.

Fast track

- To start this step, and to ensure that it is driven from a customer's perspective, divide all the selected decision-makers included within the scope of your segmentation project into identifiable groups of customers you can visualize and talk about. They provide the basis for developing the sample for your project (referred to as '**micro-segments**'). Base each group on criteria that clearly link it to a particular set of individuals, such as age, lifestyle, income, turnover, size, occupation, type of company, location, and so on. This can be multi-tiered as illustrated in Figure 3.5.

  Preliminary segments are a good starting point, though you may want to break them down further if this helps associate them with particular groups of customers. Size each group as best you can (volume, value or percentage of the market).

Definition: A micro-segment is a group of decision-makers who share a similar level of interest in a specific set of features.

- Take one group at a time, familiarize yourself with the customers it represents and develop it into a micro-segment by carefully listing the **features** that the individuals in this group particularly look for and use to discriminate between competing propositions in the

Definition: A feature refers to a characteristic or property of a product or service, distribution channel, purchasing frequency and purchasing method.

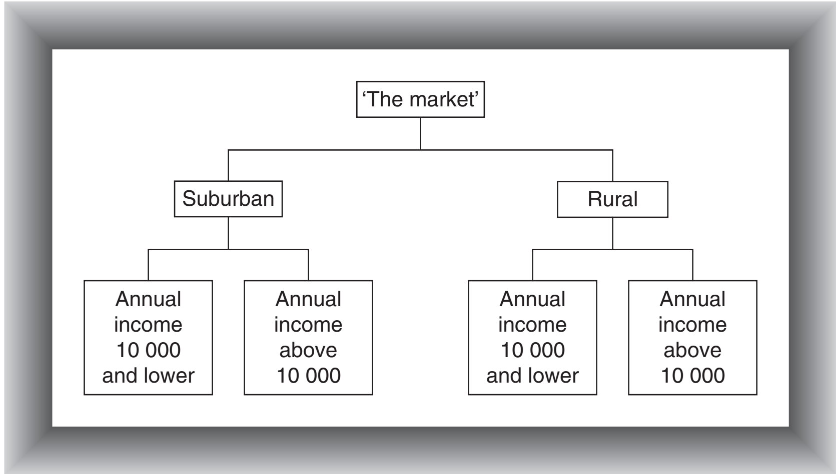

Figure 3.5
Fast track – customer groups for developing micro-segments

Definition:
Key discriminating features are the characteristics and properties of a purchase which customers regard as decisive when making a distinction between alternative offers.

Definition:
A meaningful difference occurs when some of the customers within a group would not respond positively to an offer consisting of the key discriminating features listed for them.

market (referred to as '**key discriminating features**' (KDFs)). Capture any **meaningful differences** within the group as separate micro-segments. Appropriate features are selected from 'what' is bought, 'where' it is bought, 'when' and 'how' it is bought and describe what it is, consists of, or is made from (as opposed to its advantage, which is what it does, or its benefit, which is what the customer gets that they explicitly need). Ensure the selected features are market differentiators and not market qualifiers (what all competitors must have to simply enter the market and be seen as a contender).

Exclude vague feature descriptions such as 'brand', 'quality' and 'service' as they tell you nothing about what is being bought and note it is *not* appropriate at this stage of the process to associate customers with the degree of focus they may have on 'price'. Price is better covered in the next step.

A suggested layout for recording micro-segments and their key discriminating features appears in Table 3.1 which also illustrates a grading structure for these features, your next task. Using a spreadsheet on a PC is particularly helpful for this part of the process.

- Because a micro-segment is defined as consisting of a group of decision-makers who share a *similar level of interest* in a specific set of features, attempt to indicate the relative importance of the listed features to each other for the micro-segment. A simple grading structure based on, for example, up to three stars is usually sufficient at this point, as illustrated in Table 3.1. Capture any further meaningful differences as separate micro-segments. (If you do not feel able to indicate the relative importance of features for micro-segments, simply leave them with a single star.)

Table 3.1 Fast track – recording micro-segments and indicating the relative importance of their KDFs

Feature category	*Group*	*Specification*	*Micro-segments*				
			1	*2*	*3*	*4*	*5*
'What'	Style	Slipstream		★ ★ ★			
		Medium cover				★	★ ★
		Full cover			★ ★		
		Latest fashion	★ ★ ★				
	Colour	Bright				★ ★	
		Subdued			★		★
		'This year's'	★ ★ ★				
	Brand	Sports – general				★	
		Olympic link		★ ★ ★			
		Fashion label	★ ★ ★				
'Where'	Retailer	Sports specialist		★ ★		★	
		Department store			★ ★		
		Fashion house	★ ★ ★				
		Catalogue co.					★ ★

Note: The most important KDFs are identified by three stars (★ ★ ★) in this table. Note the structure of features into 'Categories', then 'Groups' and finally the 'Specification' of the feature itself. As you will see in the above, micro-segment 2 has no KDF related to colour and micro-segments 3 and 5 have no KDF related to brand. A quick and easy way of identifying for each concluding segment the source of its customers is to give each micro-segment a name to describe who they represent and/or a 'label' that illustrates the group they came from, such as H1 (the 'H' referring to its originating group of customers).

- Attach profiling characteristics to each micro-segment to describe who is found within it, including, if appropriate, their company's characteristics. These tend to be **demographic**, **geographic**, geo-demographic and/or **psychographic** descriptors. Also add details about the outlets and channels they use, regardless of whether or not they are key discriminating features, as this may provide the vital link between a specific proposition and its target segment. Ensure the profiling descriptors are of practical use to your sales and marketing activity in identifying customers. Use a simple grading structure to indicate what proportion of a micro-segment's customers each characteristic applies to with, for example, three or four tick marks indicating the characteristics applicable to all of them, as illustrated in Table 3.2. If you are not sure about the proportions, just indicate each profiling attribute that is applicable to a micro-segment with a single tick mark.

Definition: Demographics are measurable descriptions of customers.

Definition: Geographics are identifiable locations of customers.

Definition: Psychographics are a customer's inner feelings and predisposition to behave in certain ways.

Table 3.2 Fast track – adding profiling characteristics to micro-segments

Feature category	***Group***	***Specification***	***Micro-segments***				
			1	***2***	***3***	***4***	***5***
'What'	Style	Slipstream		★ ★ ★			
		Medium cover				★	★ ★
		Full cover			★ ★		
		Latest fashion	★ ★ ★				
. . . and so on		. . . and so on					
Profiling category	***Group***	***Specification***					
Demographic	Age	Up to 15		✓			
		16 to 29	✓✓	✓	✓	✓	
		30 to 45	✓	✓	✓	✓✓	✓
		46 and over			✓		✓✓
Psychographic	Personality	Socialite	✓✓✓				
		Sports enthusiast		✓✓✓			
		Sports interested				✓✓✓	
		Traditionalist			✓✓✓		✓✓✓
Acquisition routes	Outlet	Sports specialist		✓✓✓		✓✓✓	
		Department store			✓✓✓		
		Fashion house	✓✓✓				
		Catalogue co.					✓✓✓
	Channel	Face-to-face	✓✓✓	✓✓	✓✓✓	✓✓	
		Direct – tel. & mail					✓✓✓
		Direct – internet		✓		✓	

Note: The distribution of a micro-segment between the alternative characteristics in each profiling group has to be looked at separately. Three tick marks (✓✓✓) are used in this table to indicate characteristics applicable to all the customers represented by a micro-segment.

Add a number of profiling characteristics to each micro-segment as this improves the success of identifying customers by their segment and, therefore, targeting them with their specific offer.

Other interests and product usage can also be used as part of the profiling if they are known, or suspected to correlate with different needs. (If required, refer to 'Profiling – additional categories' in Chapter 6 for guidelines.)

- Size each micro-segment by referring back to the group it originated from and utilizing any market figures that may be available. Informed approximations are acceptable.

- Once all the customer groups have been converted into micro-segments, review and compare the finished micro-segments with each other. Look for any features listed for later micro-segments that may be applicable to earlier micro-segments and add them in, and change the importance of appropriate features if this better reflects the differences between individual micro-segments. Limiting the highest importance to no more than five stars will ensure that the final picture remains visually comprehensible.

  Merge duplicate micro-segments if you are sure that their intended end-use is the same and you believe the benefits they are looking for are the same (which may require you to wait until the next step).
- You should develop as many micro-segments as necessary to represent the market you are looking at, which could be around 20 or 30. If the number becomes unmanageable, refer to 'Managing micro-segments – keeping control' in Chapter 6.
- While developing micro-segments it is crucial to remind yourself and the team that:
  - micro-segments are based on actual decision-makers and their transactions, not fictional individuals or hypothetical purchase criteria;
  - they represent the whole of the market covered by your project, not just your own customers;
  - their key discriminating features are for the specified market as a whole, not simply limited to the features you and your particular intermediaries offer; and
  - their key discriminating features are what they see as important, not what you would prefer them to see as important.

  Micro-segments therefore represent the customer's view of the market.
- A worksheet for developing micro-segments appears as Table 6.13 in the Exercises section of Chapter 6.

You are prepared for the next step when you are reasonably confident that you have developed a representative sample of different decision-makers in the market falling within the scope of your project.

Accounting for the behaviour of decision-makers

To really understand what lies behind the choices made by customers requires their behaviour to be understood in terms of the needs they are seeking to satisfy. This is the most useful and practical way of explaining customer behaviour as it provides the insights required for putting together the most appropriate offer for each of the concluding segments, thereby realizing the most valuable benefits of segmentation.

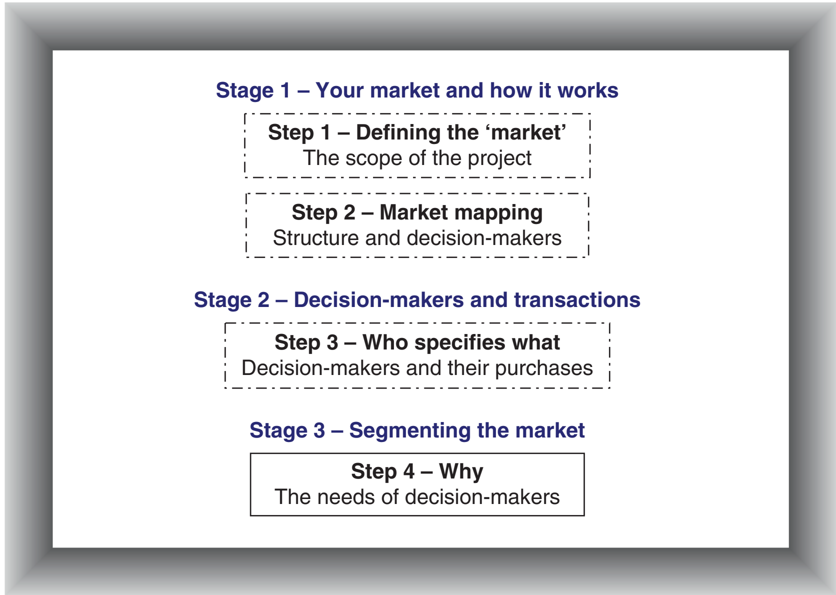

Figure 3.6
The segmentation process – Step 4 (Chapter 7)

It is the needs of decision-makers that are identified by this, the fourth step in the segmentation process, as illustrated in Figure 3.6.

Fast track

Definition:
Decisive buying criteria are the attributes of a purchase that customers evaluate when choosing between alternative offers.

Definition:
A meaningful difference occurs when some of the customers within a micro-segment would not respond positively to an offer based on the decisive buying criteria listed for them.

- Take one of your micro-segments, re-familiarize yourself with the customers it represents, and then carefully think through what their key discriminating features (KDFs), both individually and together, really mean to these customers in terms of the underlying needs they are satisfying. As these needs determine which of the competing offers the customers will choose, they are referred to as their '**decisive buying criteria**' (DBCs). Capture any **meaningful differences** between customers as separate micro-segments, redistributing the size between them and, if necessary, adjusting their profiling characteristics.

Definition:
A benefit is a perceived or stated relationship between a feature and what a customer gets that they explicitly need.

  To progress from a feature to a **benefit**, first describe the feature in terms of what it is, consists of, or is made from, then its advantage, what it does, and then describe what this gives the customer that they explicitly need, in other words, the benefit. For example, 'Teflon' is a surface coating for kitchen utensils (feature) which is non-stick (advantage), which means that less time is required for washing up (benefit). To check that you have arrived at the benefit, ask, 'so what?', and if this prompts you to go further in explaining what this means to the customer and why it is of interest to them, it is likely that you have yet to identify the benefit.

  Ensure you get to their true motivations by understanding what it is they are really trying to achieve and what it is they would like to achieve, keeping alert to any possible unsatisfied needs, so as to

Table 3.3 Fast track – recording **DBCs** and indicating their relative importance to micro-segments

Features	*DBCs: benefits + price*	*Micro-segments*				
		B1	***B2***	***C***	***D***	***E***
Modern design	Eye-catching			★ ★ ★		
Latest technology 'Blue-chip' brand	Holds value better					★ ★
Latest technology	Innovative functionality			★ ★		★ ★ ★
Upgradeable	Future-proofed					★ ★ ★
Proven technology	Unlikely to go wrong	★ ★ ★	★ ★ ★		★ ★	
'Blue-chip' brand	Trusted performance	★ ★ ★	★ ★ ★			
Local retailer	Able to touch and see	★ ★				★ ★
Reputable retailer	Confidence in choice	★ ★	★ ★		★	
Online retailer Telephone ordering	Armchair shopping			★ ★		
Online retailer	Avoids sales patter		★			
Mail order						
	Price	★	★	★	★ ★	★

Note: While it is useful to show the link between DBCs and their KDFs, it is optional. The most important DBCs are identified by three stars (★ ★ ★) in this table. As you will see in the above, a single feature can have more than one benefit and different features can deliver the same benefit.

avoid providing answers that simply represent the status quo. (If required, refer to 'Looking beyond the status quo' and 'Techniques for uncovering unsatisfied needs' in Chapter 7.)

A suggested layout for recording micro-segments and their decisive buying criteria appears in Table 3.3 which also illustrates a grading structure for these buying criteria, your next task. Using a spreadsheet on a PC is, once again, particularly helpful for this part of the process.

- Complete the list of decisive buying criteria by adding 'price' and attempt to indicate the relative importance of the listed buying criteria to each other for that micro-segment. Ensure that the relative importance of 'price' only reflects how readily customers will give up their key discriminating features and associated benefits to get a cheaper price. Capture any further meaningful differences as separate micro-segments. Up to three tick marks or stars can, once again, be usefully employed for the grading structure here, as illustrated in Table 3.3. If it helps, extend the range at this stage by using 'half' tick marks ($^1✓_2$) or an equivalent 'half' star, such as an outline star '☆'.

'Price' is a measure of value placed by the customer on both the tangible and intangible components of a purchase.

Use a single tick mark or star if you are unable to indicate the relative importance of buying criteria (this does not prevent you from completing the project, though it could have implications for the next step).

Numbers can be used to indicate the relative importance of the buying criteria to each other if preferred by either scoring each out of 10 or by apportioning a total sum of 100 between them. (If required, refer to 'Expressing the relative importance of decisive buying criteria numerically' in Chapter 7.)

Add this information to any spreadsheet file set up on your PC for the previous step.

- Once all the micro-segments have had their decisive buying criteria identified for them, review and compare the micro-segments with each other. Look for any buying criteria listed for later micro-segments that may be applicable to earlier micro-segments and add them in, and change the importance of appropriate buying criteria if this better reflects the differences between individual micro-segments, but avoid imposing differences if they do not really exist. Limiting the highest importance to no more than five tick marks or stars will ensure that the final picture remains visually comprehensible. Use half-values if this helps better reflect the differences between micro-segments.
- With all the decisive buying criteria established you have the 'Market's decisive buying criteria'.
- While identifying benefits it is crucial to remind yourself and the team that:
  - the benefits are for the whole of the market covered by your project, not simply limited to those that you deliver to your customers; and
  - these benefits are what the decision-makers regard as their decisive buying criteria, not what you would prefer them to see as their decisive buying criteria.
- A worksheet for developing key discriminating features into benefits and a worksheet for recording decisive buying criteria and their relative importance by micro-segment appear as Tables 7.6 and 7.7 in the Exercises section of Chapter 7.

Before moving on to the next step, you should be reasonably confident that you have captured the needs-based buying requirements of your micro-segments.

Forming market segments out of like-minded decision-makers

When this book refers to 'segments' in the text it is referring to 'market segments'.

The segmentation process has now reached the point where all the details required for segmenting the market are in place. This, the fifth and final step in the development of segments, as illustrated in

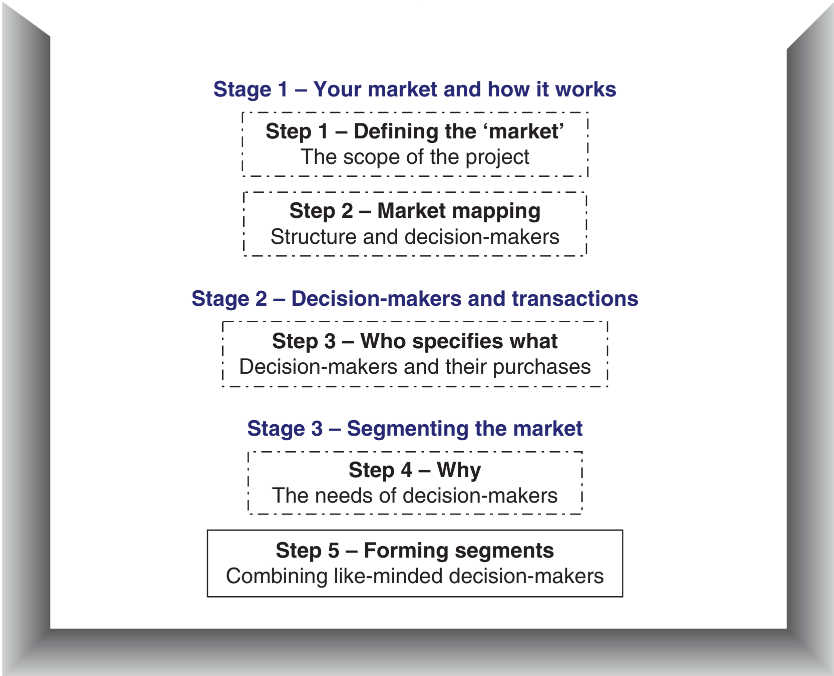

Figure 3.7 The segmentation process – Step 5 (Chapter 8)

Figure 3.7, constructs these segments based on the decisive buying criteria identified in the last step.

Fast track

- So that the micro-segments are directly comparable with each other, ensure that all the market's decisive buying criteria (DBCs) appear for each micro-segment and in the same order. Remove any buying criteria that appear in all the micro-segments with the same or very similar importance values. Consider clustering the micro-segments using only their most important buying criteria, such as those accounting for, say, 80% of the decision.
- For visual clustering (pattern analysis), transfer each micro-segment onto a separate sheet of paper with the importance values of each buying criteria represented by one of the three formats in Figure 3.8, along with its size.

  If you would prefer to follow a mathematical clustering routine, please refer to 'Mathematical clustering' in Chapter 8.
- Arrange the micro-segments on a table or wall so that all of those which have the same buying criterion as their most important one are placed next to each other.
- Select one of the micro-segments, find its closest match and place them together. Take another micro-segment and repeat the same routine and build clusters of micro-segments by progressively

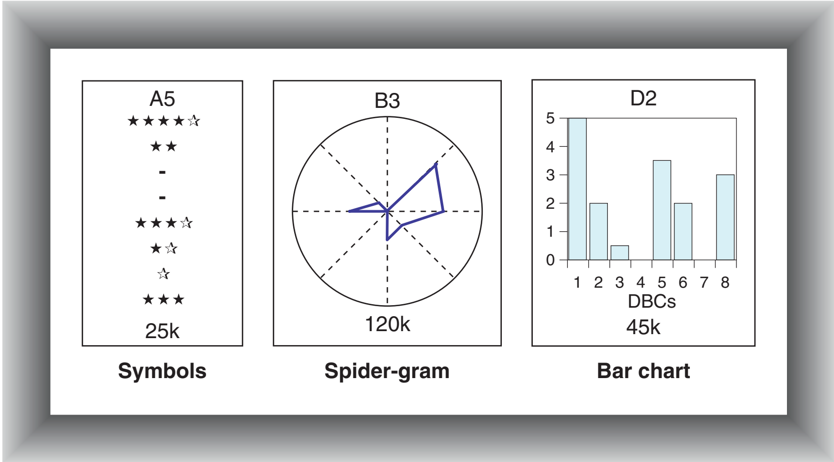

Figure 3.8 Fast track – alternative approaches to comparing micro-segments with each other visually

Note: Consider transferring the details of each micro-segment onto acetates with white backing paper so that you have the option of overlaying them when checking how similar they are to each other. The 'Y' axis on the bar chart is the importance value of the DBCs.

decreasing the level of similarity customers or clusters must have with each other before they can be merged together. Periodically produce consolidated pictures for each cluster if this makes them easier to work with, and express the importance value of each buying criterion as an average (or weighted average) of the micro-segments in each cluster. Label each cluster CL1, CL2, and so on, record their size and make a note of the micro-segments each represents. Do not overlook the fact that a segment can consist of a single micro-segment, particularly if that micro-segment is of sufficient size to qualify as a segment (see later).

- Continue until you have produced a series of clusters, each populated by customers who share a similar level of interest in the same, or comparable, set of needs (the definition of a '**market segment**'). If the number of clusters either corresponds to the number of segment-specific marketing strategies your company could work with, or is up to 50% more than this number, you have arrived at an ideal conclusion (you are unlikely to find all of the segments attractive to your company). Most markets tend to divide into between five and 10 segments.

Definition: A market segment consists of a group of customers within a market who share a similar level of interest in the same, or comparable, set of needs.

- Once you have completed your clustering, take each cluster and from the information associated with its constituent micro-segments, work out the importance values for each of its decisive buying criteria (as an average or weighted average), produce its profiling characteristics and calculate its overall size. As a minimum, this size should at least equal the minimum size you require a segment to have for it to justify the expense of putting together a separate marketing strategy for it. If required, include future growth forecasts in this figure. Consolidating the key discriminating features (KDFs) for each cluster is optional at this stage of the process.

- For a cluster to qualify as a segment, it is essential that: it is of sufficient size to make it worth being considered a business opportunity; it can be served by a distinct marketing strategy; it can be reached by sales and distribution channels currently used, or could be used; the customers in it can be identified and reached by means of a distinctive and cost-effective communications strategy. It is also important to check that your company can adopt a structure, information and decision-making system which will enable it to serve these segments effectively.
- A worksheet for recording market segments, their decisive buying criteria and profiling characteristics appears as Table 8.13 in the Exercises section of Chapter 8.

This first phase of the segmentation process is completed when you believe the business can move forward with the segments you have developed for the specified market.

Phase 2 – Prioritizing and selecting segments

The second phase of the process looks at how to select which of the concluding segments your company should be operating in and for which it should be developing marketing strategies.

Determining the attractiveness of market segments

It is neither essential, nor always desirable, to serve every segment in the market. The financial and managerial resources of the company need to be focused into those segments that provide the greatest opportunities for the organization to achieve its objectives. This section looks at how a company determines **segment attractiveness** and is the sixth step in the segmentation process, as illustrated in Figure 3.9.

Definition: Segment attractiveness is a measure of the potential of a segment to yield growth in sales and profits.

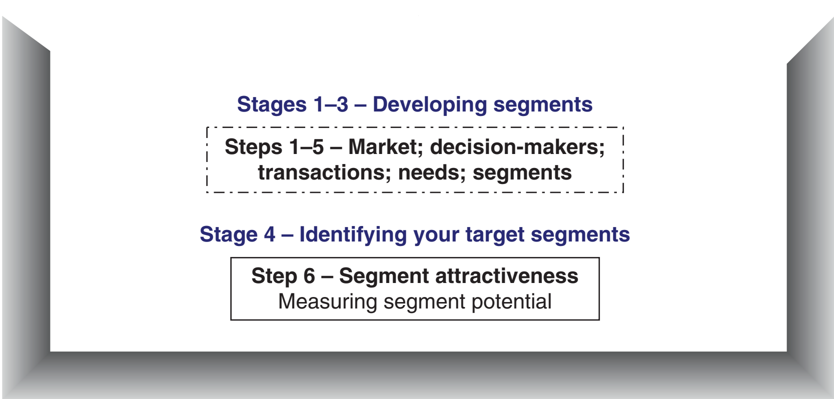

Figure 3.9
The segmentation process – Step 6 (Chapter 9)

Fast track

It is advisable to use no more than five or six factors for segment attractiveness, otherwise the calculations become too complex and lose focus.

- List the factors you wish to consider in comparing the attractiveness of your segments – these will generally fall under the headings of 'growth rate', 'accessible segment size' and 'profit potential'.
- For each of the factors, weight their relative importance to each other according to your own particular requirements by distributing 100 points between them.
- Define the high, medium and low parameters for each of the factors selected, where very high scores 10 and very low scores zero.
- Take one of the segments and, based on the parameters, determine its score for each factor at the end of your planning period (usually three years), ensuring that it is an objective assessment based on data *external* to the organization. Multiply these individual scores by the weight that has been given to its respective factor and divide by 100, then add all these together to arrive at a total between zero and 10 as illustrated in Table 3.4. Repeat for each segment.
- A worksheet for listing segment attractiveness factors, their weights and parameters, and for calculating the segment attractiveness scores, appears as Table 9.15 in the Exercises section of Chapter 9.
- Transpose the results on to the vertical axis of a **portfolio** matrix, as illustrated in Figure 3.10. Ensure the scale from the point of origin to the highest point allows a spread of segments between them rather than having the segments all grouping together at one or the other end of the scale (see the 'Note' to Figure 3.10).

Definition: A portfolio plots markets, segments or products using at least a two-dimensional matrix in order to balance growth, cash flow and risk.

Table 3.4 Fast track – segment attractiveness evaluation (Year 3)

Segment attractiveness factors	*Weight*	*Parameters*			*Segment 1*		*Segment 2*	
		High 10–7	*Med 6–4*	*Low 3–0*	*Score*	*Total*	*Score*	*Total*
Profitability	35	>15%	10–15%	<10%	8	2.8	3	1.05
Volume growth	25	>10%	5–9%	<5%	10	2.5	2	0.5
Size (m)	15	>100	33–100	<33	1	0.15	10	1.5
Competitiveness	15	Low	Med	High	6	0.9	2	0.3
Seasonality	10	Low	Med	High	9	0.9	5	0.5
Total	100					7.25		3.85

Note: The attractiveness factors, their weightings and parameters remain constant for each segment. Only the scores are specific to each segment. Parameters described as 'low', 'medium' or 'high' should be associated with a measurable definition to avoid subjective interpretation.

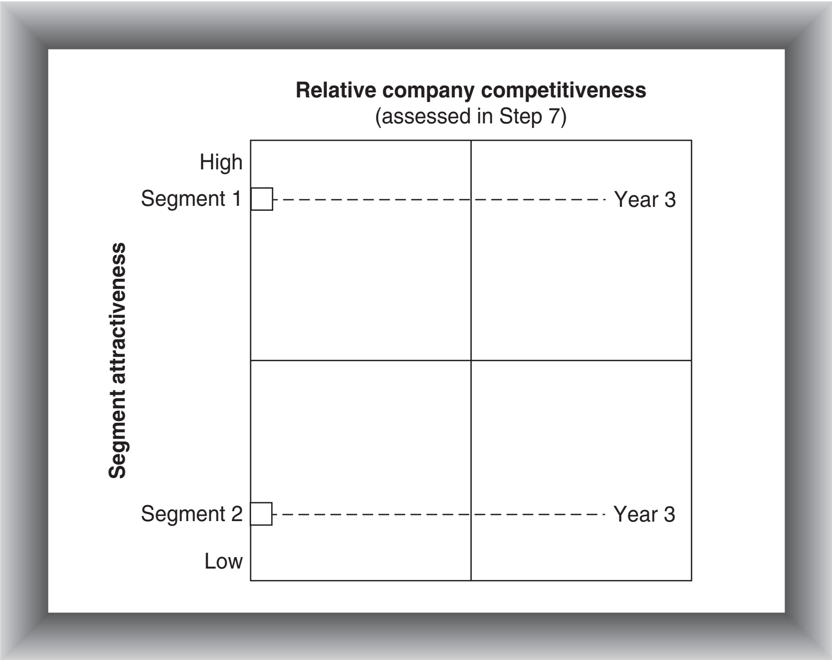

Figure 3.10
Fast track – plotting segments on the portfolio matrix according to their attractiveness
Note: To ensure a spread of segments along the attractiveness axis, the point of origin has been set to '3.0' (being the next whole number below the lowest score in the example) and the highest point set to '8.0' (being the next whole number above the highest score in the example).

Segments positioned in the lower half of the matrix should *not* be treated as unattractive, they are simply less attractive than segments positioned in the top half of the matrix. The cash they generate will be an important contribution to the investment required in those segments appearing in the top half.

Segments positioned in the lower half of the matrix should *not* be treated as unattractive, they are simply less attractive than segments positioned in the top half of the matrix.

- A worksheet for plotting segments on the portfolio matrix appears as Figure 10.11 in the Exercises section of Chapter 10. When completed, this portfolio will enable you to see the balance between sales growth, cash flow and risk for your company.
- Three golden rules for this step:
  1. Never do this in isolation.
  2. Make sure your key colleagues are in agreement over the factors, weightings and parameters to be used.
  3. Whenever quantitative information, or techniques such as market research, is available, it should be used in preference to opinions, no matter how well founded these opinions might be.
- Note that absolute precision in your calculations of attractiveness is not required. What you need to ensure is that the position of each segment *relative* to the other segments along the attractiveness axis is approximately right. In the absence of market and/or company data, informed estimates are perfectly valid.

When you have established an agreed list of attractiveness factors, their weights and parameters, and are confident that you have made an objective assessment of segment attractiveness, you can go to the next step.

Assessing company competitiveness and the portfolio matrix

To complement the analysis of segment attractiveness, it is essential that the company assesses how well equipped it is to deal with each segment before finally deciding where to focus its financial and managerial resources (**company competitiveness**). However, no matter how 'fit' your company may be in meeting the needs of a segment, customers will make their choice based on which of the competing companies is, in their view, the 'fittest'. It is, therefore, the company's *relative* competitiveness that has to be balanced with segment attractiveness in order to determine where the greatest realizable opportunities are to be found for the organization.

Definition: Company competitiveness is a measure of an organization's actual strengths in each segment (in other words, the degree to which it can take advantage of a segment opportunity).

Assessing relative competitiveness and balancing it with segment attractiveness is looked at in this section. It is the seventh and final step in the segmentation process, as illustrated in Figure 3.11.

Definition: Critical success factors are the constituents of an offer that enable companies to deliver the benefits customers are seeking.

Decisive buying criteria are from the customer's perspective and describe needs; critical success factors are from the company's perspective and describe the relevant product, price, promotion and place requirements, the 4Ps.

Fast track

- For each segment, list the needs they are seeking to satisfy – these, along with 'price', were identified in Step 5 as their decisive buying criteria (DBCs) – and note the constituents of the offer required to deliver each of the buying criteria successfully (frequently referred to as '**critical success factors**' (CSFs) in a portfolio matrix, many of which will be aligned to the segment's key discriminating features (KDFs)).
- Associate a weight with each of the buying criteria that reflects its relative importance (and, therefore, the relative importance of its constituent critical success factors) to the segment. This was also identified in Step 5, though where the relative importance of a segment's buying criteria remain expressed as symbols, they now

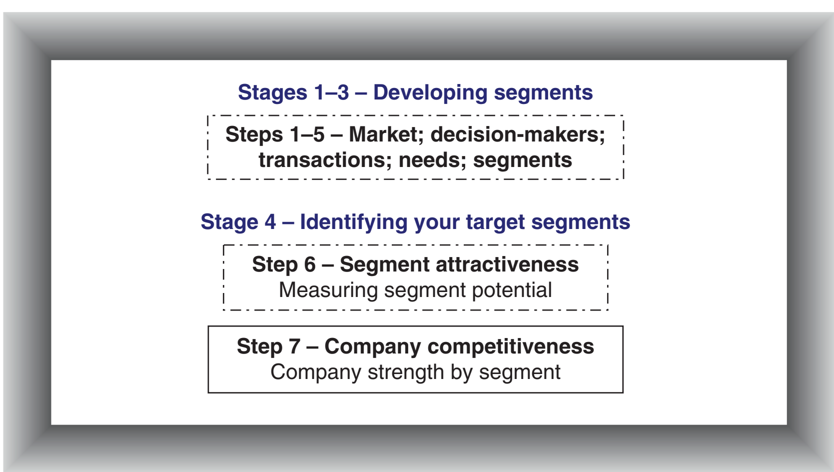

Figure 3.11
The segmentation process – Step 7 (Chapter 10)

need to be expressed numerically and 100 points distributed between them as follows:

1. Convert the symbols to numbers with each 'half-star', for example, being equivalent to a single unit, thus '★ ★ ★ ☆' (three and a half stars) is equivalent to 'seven'.
2. Add up the individual numbers to arrive at a total for the segment.
3. Divide each individual number by the total and multiply the answer by 100.

If required, refer to Table 10.2 in Chapter 10 for a worked example.

- Set the parameters for competitiveness to 'highly competitive' scoring from 10 down to seven, 'competitive' from six down to four and 'uncompetitive' from three down to zero – these are fixed and do not change.
- Take one of the segments and, in considering the critical success factors required to deliver each of its buying criteria, separately score your own company's and your main competitors' current (Year 0) performance for each of these criteria based on the parameters for competitiveness *as perceived by the customers in the segment*. Multiply the individual scores by their respective weight and divide by 100, then add all these together to arrive at a total between zero and 10 for each company, as illustrated in Table 3.5.

Competitive performance is *as perceived by the segment.*

- A worksheet for listing the decisive buying criteria, along with their constituent critical success factors, and for calculating the competitive scores for the segments appears as Table 10.10 in the Exercises section of Chapter 10. This worksheet also accommodates the company's relative competitiveness ratio, your next task.
- Now assess for the segment your own company's competitiveness relative to the competition by dividing your company's total weighted

Table 3.5 Fast track – competitive strength evaluation (Year 0)

Segment 2								
DBCs & CSFs		***Weight***	***Your company***		***Competitor A***		***Competitor B***	
			Score	***Total***	***Score***	***Total***	***Score***	***Total***
1.	Product	45	6	2.7	8	3.6	4	1.8
2.	Service	25	8	2.0	8	2.0	8	2.0
3.	Image	20	6	1.2	5	1.0	4	0.8
4.	Price	10	4	0.4	5	0.5	7	0.7
Total		100		6.3		7.1		5.3

Note: The scores are based on the parameters for competitiveness as described in the previous bullet point and are as perceived by the segment. The DBCs and CSFs are abbreviated to a single word in this table due to limitations on space. An example of a more detailed listing can be found in Table 10.1 in Chapter 10.

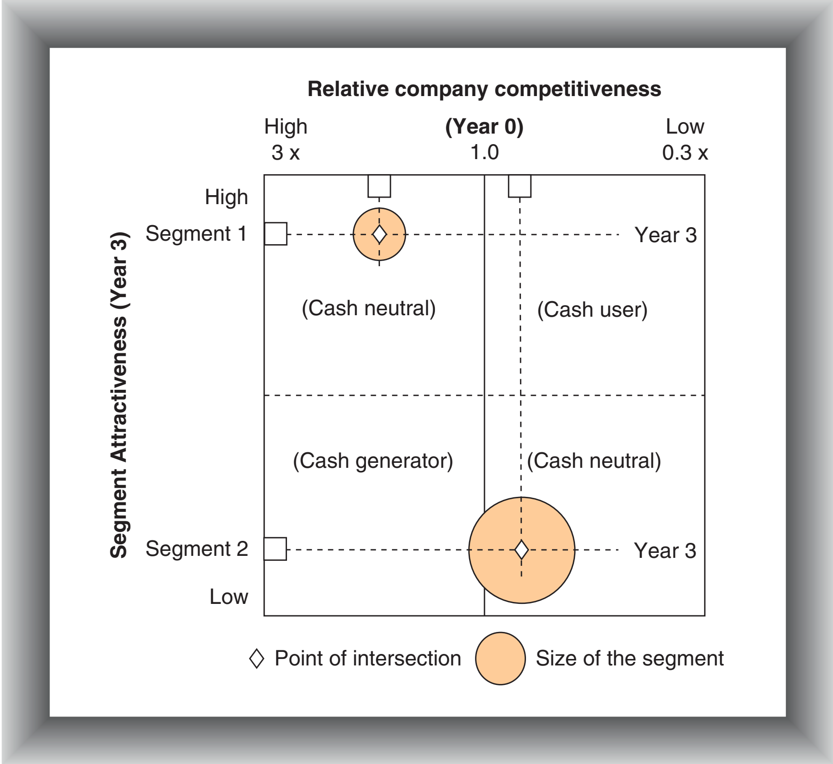

Figure 3.12
Fast track – plotting business positions on the portfolio matrix for each segment according to their relative competitive strength
Note: Although 'high' is positioned on the left of the horizontal axis it can, if you prefer, be placed on the right and its scale can be extended if circumstances require it. To portray the relative size of each segment, the easiest approach is to draw each circle with the radius proportional to that segment's share of the specified market.

score by the highest total weighted score of the competitors, expressing the result as a ratio (your company:best competitor). For Table 3.5 this would be 6.3:7.1 = 0.89:1.0 (0.89 being 6.3 ÷ 7.1).

- When the company's relative competitiveness scores have been calculated for each segment, transpose the results on to the horizontal axis of the portfolio matrix, as illustrated in Figure 3.12, using a logarithmic scale ranging from 3 × to 0.3 × (normally sufficient for most projects). At the point of intersection with the appropriate attractiveness line, draw a circle to represent the forecast size of the segment in Year 3.
- A worksheet for plotting segments on the portfolio matrix appears as Figure 10.11 in the Exercises section of Chapter 10.
- A golden rule for this step:

1. The competitive performance of each company is *as perceived by the segment*.

To which can be added the three golden rules put forward in the previous step:

2. Never do this in isolation.
3. Make sure your key colleagues are in agreement.
4. Whenever quantitative information, or techniques such as market research, is available, it should be used in preference to opinions, no matter how well founded these opinions might be.

- Note that absolute precision in your calculations of competitiveness is not required. What you need to ensure is that the position of each segment on the competitiveness axis is approximately right. In the absence of market data, informed estimates are perfectly valid, though you may wish to verify these given that competitiveness is assessed purely from the customers' perspective.
- Capture your company's share of each segment as a 'cheese' in each circle. Alternatively, your company's own sales into each segment can be used to determine the size of the circle. This analysis should indicate whether your portfolio is well balanced or not, and should give a clear indication of any problems.
- Now introduce some dynamics into your matrix for it to become a directional policy matrix (DPM). For example, re-score your relative competitive strength for each segment assuming that your company continues with the strategies already in place, or based on realistic assumptions about your competitor's strategies but with your company standing still, or some combination of either of these. Also consider showing the position of segments using the competitiveness of Year 0 with the attractiveness of Year 0, and then redraw these for Year 3 along with any of the competition scenarios you have developed. This will see segments moving vertically as well as horizontally in the matrix.

You have completed the segmentation process once you have established a realistic assessment of relative competitiveness and completed the portfolio matrix for your segments.

This concludes the 'fast tracks' for the segmentation process.

Although it is an option to go straight to setting marketing objectives and strategies for your segments (Chapter 13), you may find it useful to at least review Chapters 11 and 12 before doing so. Chapter 11 explains how to take your market map to the next level of detail and include on it the segments you will now be working with, while Chapter 12 takes a detailed look at how to develop channel strategies for these segments particularly in the light of IT-enabled innovations in the routes to market.

Chapter 3 review

This chapter provides a quick route through the segmentation process. However, as stated in our note to readers at the very beginning of this book, be careful:

> *A little learning is a dangerous thing. Drink deep,*
> *or taste not the Pierian Spring.*
> Alexander Pope

We then went on to suggest that you referred to the appropriate chapter whenever this was required to complete a particular step in the process successfully.

4 Determining the scope of a segmentation project

Summary

This chapter looks at the most crucial and complex issue in marketing, namely, how a market is defined. Until this is clearly understood, issues such as market share, the identification of target customers and their needs, and even the recognition of competitors, will continuously cause difficulty. It is the essential first step of your segmentation project, as illustrated in Figure 4.1.

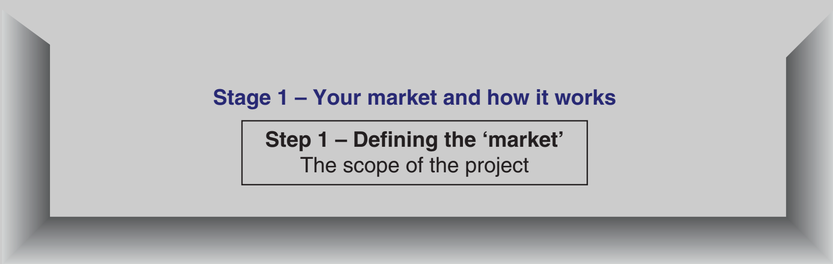

Figure 4.1
The segmentation process – Step 1

Although it is not an unfamiliar term, it is important to note what we mean when we use the term 'market'. A 'market' refers to a particular need that customers are seeking to satisfy. It is not product or service specific, and is looked at from the customer's perspective clearly describing what the customer intends the product or service to do for them. Defining a market this way ensures you consider all the competing products and services that are capable of satisfying a particular need.

This chapter is organized as follows:

- A discussion about the geographic scope
- Using the needs-based approach to define the market being segmented
- The difference between wants and needs
- Care in using products and product categories to define markets
- Striking a meaningful balance between a wide definition and a narrow definition
- Using distinct price bands and using different end-uses or applications of the product to make projects more manageable

(*Continued*)

- A discussion about whose needs are being defined
- The difference between customers and consumers
- Making the market definition appropriate to your company and its capabilities
- Allowing for limitations imposed by corporate structure
- Sizing the market being segmented
- A review of this step in the segmentation process
- Background to the case study being used to illustrate Steps 1 to 5 of the segmentation process, the definition of its market and further examples
- Exercises further to help you determine the scope of your project

Geographic scope

A segmentation project clearly requires a geographic boundary as this will enable the project team to size the market, identify the localities in which the market dynamics have to be understood and, once the segments have been identified, develop the appropriate marketing objectives and strategies for those localities. This can be as much of an issue for local companies as for global companies.

Keeping the project within the borders of a single country is a manageable starting point because the stage of market development, the available routes to market and the pattern of marketing activity will probably be the same throughout the country. Even this, however, may be too extensive for some companies, simply because their geographic reach is limited by physical and/or economic considerations, or even because their appeal has a strong local sentiment attached to it. For example, a local medical practice will find it difficult to offer an effective service beyond a certain distance, a regional distribution company will find it difficult to provide a viable home delivery service around the country and in Chapter 2 we saw how a privately owned brewery struggled to 'export' its product to other localities because its beer had a strong 'local' appeal.

For companies trading in numerous countries around the world there is clearly an enormous attraction in finding a single global segmentation model that can be applied to every country. However, the experience of 'globalization' has highlighted for many of these companies that they have to 'act local' in order to succeed in their market. This does not mean that every country is completely unique in respect of the segments found within it. What the international company may find is that the global picture for their market can be captured by one of the following:

1. to all intents and purposes there is a single global segmentation model which at the local level simply requires a series of small changes to the segment details to make the global model applicable; or
2. although different segmentation structures exist in many countries, individual segments are found in more than one country, the total of which can be brought together into a global model consisting of a manageable pool of segments; or
3. a combination of 1 and 2 with not every segment found in each country, as in 2, and various segments requiring small changes to their details to make them applicable at the local level, as in 1.

To get to this point will require a progressive series of segmentation projects with each project based on a sensible geographic boundary. As experience builds up with each project it is likely to reach the point where no additional segments are being uncovered and patterns emerge which associate external dimensions, such as the stage of market development and socio-economic factors, with specific segments. Once this occurs, subsequent projects can be reliably scaled back to exercises that simply test the existence of various segments.

As a guide to predetermining which countries can be included in a single segmentation project, ensure that in each of these countries the stage of market development, the available routes to market and the pattern of marketing activity are the same, or at least very similar.

The advent of e-commerce has added another dimension to this discussion both for those companies who once only served a local market but now, thanks to the internet, serve a global customer base and for start-up companies looking to the internet for a wide geographic reach. It is unlikely that many (if any) of these companies can afford a global segmentation project, so the most sensible starting point would be the geographic area that is key to the business with a progressive rollout of the project as already described. Guidelines as to which geographic areas the segmentation project should be extended into could, of course, be based on the areas from where enquiries to the company website originate and where sales are made.

Defining markets

Let us start the discussion about 'markets' by referring to that well-known (and often abused) concept of market share.

Most business people already understand that there is a direct relationship between relatively high share of any market and high returns on investment, as shown in Figure 4.2.

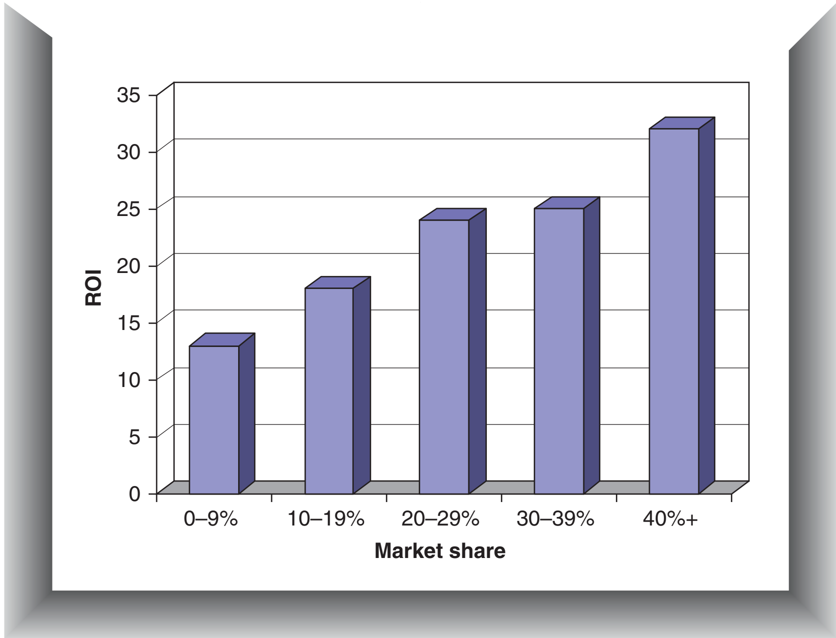

Figure 4.2
The relationship between market share and return on investment (ROI)
Source: Strategic Planning Institute's 'Profit Impact of Market Strategies' (PIMS) database.

Clearly, however, since BMW branded cars are not in the same market as Ford branded cars, for example, it is important to be most careful about how 'market' is defined. Correct market definition is crucial for:

1. measuring market share and market growth;
2. the specification of target customers;
3. recognition of relevant competitors; and, most important of all,
4. the formulation of marketing strategy, for it is this, above all else, that delivers differential advantage.

One of the most frequent mistakes that is made by people who do not understand what market share really means is to assume that their company has only a small share of some market, whereas, if the company is commercially successful, it probably has a much larger share of a smaller market.

Definition:
A market is the aggregation of all the products or services which customers regard as being capable of satisfying the same need.

This book refers to those whose needs are being defined as 'customers'.

Developing the market definition

The general rule for **'market'** definition is that it should be described in terms of a *customer need* in a way which covers the aggregation of all the alternative products or services which *customers* regard as being capable of satisfying that same need. It is not, therefore, defined in terms of what a company sells,[1] but in terms of what customers are setting out to

[1]For companies that do not sell products or services, such as suppliers of public services, simply substitute the word 'sells' with 'supplies' as the rule is applicable to all types of companies.

achieve, clearly describing what the customer intends the product or service to do for them. For example, we would regard the in-company caterer as only one option when it came to satisfying lunch-time hunger. This particular need could also be satisfied at external restaurants, public houses, fast food specialists and sandwich bars. The emphasis in the definition of 'market', therefore, is clearly on the word 'need'.

Marketing insight

An important distinction to note at this point is that, while a 'market' describes a customer need in a way which covers the aggregation of all the alternative products or services customers regard as capable of satisfying that need, 'segments' focus on specific products or services, their characteristics and properties, along with other components of the total marketing proposition, that different groups of customers are looking for in order to satisfy their particular needs within a market.

A key difference, therefore, between a 'market' and a 'segment' is that a specific marketing strategy can be defined for a segment, whereas for a market, we can only list the alternative products or services. It is simply a different level of aggregation of customer needs.

Aggregating currently available products or services regarded by users as alternatives is, however, simply an aid to arriving at the definition, as it is important we recognize that new products, yet to be developed, could better satisfy the users' need. For example, the button manufacturer who believed its market was the 'button market' would have been very disappointed when zips and Velcro began to satisfy the need for garment fastenings! A needs-based definition for such a company would have enabled the management to recognize the fickleness of current products, and to accept that one of their principal tasks is to seek out better ways of satisfying their market's needs and to evolve their product offer accordingly. Other examples would include the manufacturer of video cassette recorders (VCRs) who believed its market was the 'VCR market' and now sees the facility to store and play TV broadcasts and films on demand being satisfied by Digital Versatile Discs (DVDs). The manufacturer of fax machines who believed its market was the 'fax market' has seen e-mails and the internet replace the fax machine as the preferred method for the immediate transfer of documents, data and images to another location. The supplier of board games who believed that 'board games' defined their market has seen it eroded by PlayStations, Xboxes, Wiis and interactive TV. The manufacturer of portable Compact Disc (CD) players who believed that 'portable CD players' defined their market has seen their product lose out to MP3 players. There are many more examples of myopic market definitions which generate their short-sighted views of the market by focusing the definition on today's products.

Table 4.1 Defining markets

Definition based on the product	***Definition based on the need***
Car insurance (personal)	. . .to cover the unexpected financial costs of accidents and losses associated with a motor vehicle
X-ray equipment (medical)	. . .to have visual images of the inner parts of a body (as an aid to diagnosis)
Business books	. . .to have accessible information about business
Piano (home)	. . .to provide entertainment for the family/friends
Internet search engines	. . .to find information
Fertilizers	. . .to provide nutrients to plants
Potato crisps	. . .to have a savoury snack
Lubrication oil	. . .to increase the working life of mechanical parts by reducing the negative impact of friction

Marketing insight

It is crucial that the market definition should avoid the inclusion within it of any reference to specific products or services, as this can lead to a narrow and blinkered understanding of the real market.

We use the word 'product' to avoid unnecessary references to 'services', 'not-for-profit services', 'capital goods' and 'retail'. The text is equally relevant to these.

Table 4.1 contrasts some product-specific definitions with their possible needs-based definitions.

Closely aligned to specific products are 'product categories' which were primarily created from a production and sales perspective by the suppliers to capture what they saw as a competitive set. These industry-defined categories, therefore, became convenient boundaries in which marketers could measure the market share of their brand. Customers, however, do not confine themselves to industry-imposed definitions and look for products which fall within what they perceive as 'needs categories'. Measuring market share in a category that customers do not recognize either provides delusions of adequacy that could be masking a terminal decline, or delusions of inadequacy that hold you back from realizing your true competitive strength.

In the early twentieth century a number of companies became household names for travel across the Atlantic. These companies operated some of the finest ships found anywhere in the world and provided the only means of passenger transportation across the Atlantic. 'We're in shipping', they said, 'and that's what our customers want' and between them they had a 100% share of the 'market'.

Later in the same century some enterprising engineers made flying a commercial proposition and it did not take long before a number of new companies became household names for travel across the Atlantic. What was really annoying (to the shipping companies) was that these new companies not only attracted new passengers to transatlantic travel but also took passengers away from the shipping companies, initially from the premium end of the market and eventually across every category of passenger.

Interestingly, not one of these airlines had ever operated a ship!

By focusing on their product and defining the market along product lines the shipping companies had become blinded to the true market their customers were in. Their transatlantic customers did not need a ship; they were looking for transportation in order to be on the other side of the Atlantic. Today, the shipping companies that still provide passenger services across the Atlantic have little presence in the market they were originally in. The passengers they now carry across the Atlantic primarily travel by sea in order to satisfy needs other than that of pure travel.

Had the shipping companies recognized the market their customers were in they could have considered developing an air travel product. This would have enabled them to avoid the trauma they went through in the second half of the twentieth century.

Marketing insight

The transatlantic travel example highlights the danger of relying on industry defined 'categories' of products or services to define a 'market', especially for long-term planning and survival. Measuring your share of passengers travelling on ships was useful during the time that ships provided the only means of transport across the Atlantic, but useless when airlines appeared on the scene and began to compete with the shipping companies. Where a 'market' begins and ends is defined by the competitive set as perceived by the customers in that market and described in terms of the need that they are satisfying. Any other definition of a market will endanger the long-term survival of your company.

The above example also highlights what is possibly one of the greatest areas for misunderstanding in marketing, namely the distinction between customer wants and needs. This is therefore an opportune moment to briefly turn our attention to the subject of customer wants.

Companies are often accused of manipulating their customers by making them want things they do not really need. If this were so, we would not have a situation in which a very high proportion of all new products launched actually fail! The fact is that people have always had needs, such as, say, getting to one place from another, be it across land or across water. What changes in the course of time is the way people satisfy this need, as was witnessed by the transatlantic shipping companies.

What customers *want* are the products and services that best meet their *need* at the price they are prepared to pay.

What customers want is the product or service that they perceive best meets their need at whatever price they are prepared to pay. They may have wanted to travel by sea between the old and the new world in the first half of the twentieth century, but once the airlines could provide the desired service at an acceptable price, customers headed for the airport rather than the seaport. The airlines themselves, of course, only became commercially viable because people needed a means of getting to one place from another. Without the existence of this need, both the shipping companies and the airlines would have found themselves launching products that actually failed.

It is necessary to strike a meaningful balance between a narrow definition and a wide definition to arrive at a market definition customers would recognize.

In addition to avoiding a market definition that is too narrow, it is also important you avoid arriving at a market definition that is too wide. For example, ‘financial services’ embraces a vast range of very different products and services, far too many to be regarded as a single market. Besides, has anyone actually bought a product or service called ‘financial services’? The carbonated drinks company that believes its products should be measured in terms of their share of the total human liquid intake, which therefore includes tea, coffee, water, and so on, is clearly defining a ’market’ few, if any, customers actually operate in. Perhaps the individual emerging from the Sahara desert after having nothing to drink for days on end could view this vast product range as representing a realistic breadth of options, but even then they tend to ask only for water.

The outcome for a project which is attempting to segment a market which is defined too widely is usually one of the following:

1. the segmentation project becomes unmanageable because of the wide range of products and services being looked at and because of the very diverse needs the different ranges of products and services are actually satisfying; or
2. the concluding segments (markets often divide into between five and 10 segments) can only be described in vague terms, making it very difficult, if not impossible, to define clearly the specific marketing mix (product/service, price, promotion and place) each segment requires, therefore defeating the whole object of segmentation.

A UK company which had originally started as a supplier of home mortgages and savings products was looking to extend its portfolio of products in order to compete with banks and insurance companies. To help develop products and services targeted at specific customer groups the company commissioned a single segmentation project looking at 'financial services'. After months of detailed discussions with numerous customers costing well over £60,000 the project ground to a confused halt. Individual customers were being 'inconsistent' because they were seen to change their buying criteria across the product range. For example, when customers were being asked about holiday insurance and pensions, they had quite different views as to what criteria they would use to choose between different products and suppliers. This, as far as the company in question was concerned, made the project unmanageable. The company concluded that it was impossible to segment their market and the project was abandoned.

If only they had listened to how their customers categorized the product range and how their customers defined the markets this company was trying to sell into, the project would have worked.

Marketing insight

The only true arbiters of what constitutes a market are customers, though they are unlikely to be able to answer the question, 'what is the market?' However, by understanding how they categorize products and services in terms of the specific use or purpose they are putting the products or services to will enable the marketer to correctly define the market(s) they have to segment.

If you are a company with a range of products and services that you suspect may fit into more than one market, Exercise 4.4 at the end of this chapter provides a series of steps you can follow which will help define the market(s) you are in.

Another possibility that may refine the scope of a market definition can be the circumstance or the mind-set in which the customer is operating. For example, a customer may be looking to buy clothing that is suitable for work at one moment, then looking to buy clothing for a fun evening out at another moment, and all during the same shopping trip. In choosing a venue for an evening out, a customer may be looking for a quiet relaxing venue one evening and for a themed and fun venue the next evening. The busy worker trekking home after a hard day in the office or on the factory floor faced with squeezing in a meal for the family before setting off for their Pilates[2] session at the local gym would possibly turn to a ready-made meal for that evening, but would not be seen dead serving the same meal when hosting a dinner for friends. In all three of these examples the competitive sets and buying criteria will differ according to the circumstance, purpose or objective the customer has in mind. Therefore, they should all be treated as separate markets. Do not be surprised, however, if you find a particular product appearing in more than one market.

Marketing insight

'Market hopping', which is what the above examples illustrate, generates a great deal of confusion for marketers who have failed to understand the market(s) they serve from the customer's perspective. This is particularly the case for companies that serve a number of different 'needs sets' and see their customers being inconsistent in the criteria they use to choose between alternative products or services.

But there is nothing new in this. Take the basic human requirement of food and drink; providing for guests and the everyday household has been different for thousands of years. What has happened, however, especially since the middle of the twentieth century, is that the choices available to customers have increased, the socio-economic environment has changed and acceptable social norms have evolved. This has resulted in markets fragmenting into a number of sub-markets which are now large enough to be segmented in their own right.

In 2010 a total of £1740 million was spent in the UK on chilled and frozen ready-made meals and, from research conducted earlier that decade, nearly one in three British adults ate a ready-made meal more than once a week (compared with one in six in France). 'Convenience' is certainly one of the attractions (a MORI poll in the UK found that approaching 80% of purchasers claimed that they only bought these meals when they did not have time to cook) but they have also become the mainstay meal for those who are generally time-poor and/or have no inclination to cook (often replacing Indian and Chinese takeaways). In addition, some of the higher quality chilled foods, such as 'count on us' from Marks & Spencer, are now promoted as suitable for those looking to lose weight (and claimed to be 'a delicious way to diet'), while others, such as 'Tesco Finest Restaurant Collection', are promoted as being equivalent to restaurant quality food (customers can now 'enjoy a great new restaurant experience at home').

Any suppliers who still consider that ready-made meals serve a single market are clearly misleading themselves.

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[2]Pilates is an exercise regime currently in vogue which increases core strength and suppleness.

The following is a further example of a business striking a meaningful balance between a wide market definition and a manageable market definition.

> Television broadcasting companies could be described as being in the 'entertainment' market, which also consists of theatres, cinemas and theme parks, to name but a few. This is a fairly wide definition. It may, therefore, be more manageable and productive for the television broadcasters when looking at segmenting their market, to define their market as being the 'home entertainment' market. This could then be further refined into the pre-school, child, teenager, family, or adult home entertainment market.

If the 'market' you have defined for your segmentation project still appears to be too wide, there are two further refinements which you may be able to apply in order to break the market down into more manageable units:

1. by using distinct price ranges within which customers appear to operate; or
2. by using distinct end-uses or applications of the product or service as market boundaries.

The first of these two refinements may be appropriate to competitive sets which span a broad price range, such as exists for many types of motor vehicle. As we pointed out in our opening comments for this section, BMW branded cars are not in the same market as Ford branded cars, even though they both manufacture what could be regarded as similar categories of cars, such as family saloons and multi-purpose vehicles (MPVs). The BMW marque is, however, competing with the likes of Mercedes, Jaguar and Lexus, all of which fall into a particular price range, a price range within which a customer group clearly operates. The question now becomes: is this customer group large enough to be regarded as a 'market' which can be further broken down into economically viable segments? For the car example the answer is clearly 'yes' and the criteria used by customers to choose between alternative cars in each of the price ranges are quite different.

If you believe that breaking down the market into price ranges is an appropriate step to take, check out the following two questions before adopting this refinement:

1. Do they represent price ranges within which customers clearly operate? The clue clearly comes from the customers themselves and the alternatives that they consider fall into a particular competitive set.
2. Is the amount of business in each price range large enough to justify a separate segmentation project, leading to segments that can produce an acceptable return on the investment each of them will require?

You need to answer ‘yes’ to both questions in order to have the case for splitting a market into distinct price ranges with each of them treated as separate segmentation projects.

Marketing insight

Most markets consist of products at different price points, usually reflecting a variation of some sort around the core product. In addition, most markets have some customers who always look for the cheapest and others for the most expensive. This does not mean that these markets should be split into different price ranges. The two check questions we have provided should help you decide, but if you are still unsure regard it as one market in your first pass.

Turning now to the second suggested refinement, using distinct end-uses or applications as market boundaries. Companies supplying, for example, industrial lubricants may find segmentation more manageable and productive if their market is defined in terms of the particular application of the product, such as heavy industrial use or precision engineering. Manufacturers of televisions may find that dividing the market between televisions for the lounge and televisions for the children’s bedrooms also makes much more sense. Likewise, the manufacturer of paint may find it useful to break down the market for paint according to whether it is for external use or internal use. Interestingly, some research among domestic users of paint has even highlighted that the selection process for paint differs according to the type of room it is being bought for (the buying criteria for paint in the ‘public rooms’ being different from the buying criteria for paint in the ‘private rooms’). It would, however, really depend on how widespread this practice was before concluding that differentiating between ‘private room’ decoration and ‘public room’ decoration at the market definition stage would be a sensible starting point.

Marketing insight

Whenever there are different end-uses, or applications, for a product or service, this often indicates that more than one market is being served.

With the above considerations in mind, how should the market(s) you serve be defined? As a reminder, the general rule for ‘market’ definition is that it should be described in terms of a *customer need* in a way which covers the aggregation of all the alternative products or services which *customers* regard as being capable of satisfying that same need. To help, try to capture this description by completing one or the other of the following sentences with a phrase that identifies *the* specific purpose or intended use *customers* have in mind for the products or services *they* see as being in a competitive set, along with any relevant circumstances.

1. When choosing between these alternative products/services the *need* that each customer is looking to satisfy is to. . .
2. Customers acquire these products/services because they have a *need* to. . .
3. What customers *need* these products/services to do for them is to. . .

Or, more simply:

1. The customer *need* is to. . .

Ensure that the market definition does not refer to any particular product or service, or contains any meaningless words such as 'quality' or 'brand'. It is, however, useful to list the products or services covered by the definition.

Whose needs are being defined?

A question that sometimes occurs when developing a market definition, particularly in complex markets, concerns the use of the word 'customer'. Specifically, who is the customer and, therefore, whose needs are being defined?

Let us start with the difference between **customers** and **consumers**. The term 'consumer' is interpreted by most to mean the final user of the product or service, who is not necessarily the customer. Take the example of the parent who is buying breakfast cereals. The chances are that they are intermediate customers, acting as agents on behalf of the eventual consumers (their family) and, in order to market cereals effectively, it is clearly necessary to understand the needs of the end-consumer, as well as the needs of the parents.

Definition:
The consumer is the final user of goods or services. Customers are intermediate people or organizations who buy directly from us.

The point here is that it is necessary to be aware of the needs of eventual consumers down the buying chain.

> Consider the case of the industrial purchasing officer buying raw materials such as wool tops for conversion into semi-finished cloths, which are then sold to other companies for incorporation into the final product, say a suit, or a dress, for sale in consumer markets. Here, we can see that the requirements of those various intermediaries and the end-user are eventually translated into the specifications of the purchasing officer to the raw materials manufacturer. Consequently, the market needs that this manufacturing company is attempting to satisfy must in the last analysis be defined in terms of the requirements of the ultimate users – the consumer – even though our direct customer is quite clearly the purchasing officer.

Given that we can appreciate the distinction between customers and consumers and the need constantly to be alert to any changes in the ultimate consumption patterns of the products or services to which our own contributes, the next question to face is: who are our customers?

Direct customers are those people or organizations who actually buy direct from us. They could, therefore, be distributors, retailers and the like. However, as intimated earlier, there is a tendency for organizations to confine their interest, hence their marketing, only to those who actually place orders. This can be a major mistake, as can be seen from the following.

> A fertilizer company that had grown and prospered during the latter part of the twentieth century, because of the superior nature of its products, reached its farmer consumers through agricultural merchants (wholesalers). However, as other companies copied their technology, the merchants began to stock competitive products and drove prices and margins down. Had the fertilizer company paid more attention to the needs of its different farmer groups and developed products especially for them, based on farmer segmentation, it would have continued to create demand pull through differentiation.
>
> As it was, their products became commodities and the power shifted almost entirely to the merchants. At the eleventh hour this fertilizer company recognized whose needs it truly had to serve, those of the farmers, and rescued itself from an untimely death by redefining its product range and targeting its products accordingly.

Marketing insight

There are countless other examples of companies which, because they did not pay sufficient attention to the needs of users further along the value chain, gradually ceased to provide any real value to their direct customers and eventually went out of business.

In summary, therefore, the term 'customer' for many practitioners of marketing refers to the distribution channel and the term 'consumer' refers to the final user, which means that every company has consumers ('consumption is the sole end and purpose of production', Adam Smith, 1776, *The Wealth of Nations*). However, companies whose final users are found in other businesses do not see themselves as selling to consumers; they are in business-to-business marketing, the terms 'consumers' and 'consumer marketing' being associated with selling to the general public. But just to confuse matters even further, companies who see themselves as being in consumer markets deal with consumer queries through their 'customer' service department.

In most cases, the definition for a market should focus around the needs of the final user, the consumer, and in many markets this also happens to be the one who has to find the money which pays everyone else along the distribution chain, though there are exceptions to this latter point, as highlighted earlier. However, given the association of 'consumers' with particular types of markets, that segmentation is applicable to both consumer and business-to-business markets, and that there is not a general consensus on the distinction between customers and consumers, this book will subsume both under the title of 'customer'. As a general rule, therefore, the definition for a market should focus around the needs of the final customer; in other words, the final user.

As a general rule, the definition for a market should focus round the needs of the final user. Because there is not a general consensus on the distinction between customers and consumers, this book will subsume both under the title of 'customer'.

The exception to this general rule is when the product or service in question has little, if any, perceived value to the final user, a situation that can occur when the product or service is incorporated into another. For example, the manufacturer of small electronic components for cars is unlikely to find that the drivers of cars have a great deal of interest in their particular product. Defining the market in terms which describe the needs of car drivers with respect to this product is therefore unlikely to be very useful. In such circumstances the 'customer' for market definition purposes would be the final individual who attributes value to the product or service in question. On the other hand, the chemical company that uses environmentally friendly manufacturing processes may find that extending their understanding of a market to the final users, even with products that completely lose their identity in their final form, can provide the company with a competitive edge. 'Environmental', 'green' and 'sustainability' are becoming increasingly important selling points in many markets.

An exception to the general rule for market definition is when the product or service has little, if any, perceived value to the final user.

Marketing insight

One of the best known, and successful, examples of a company that spent resources on both understanding and marketing to its final users, even though its product becomes incorporated into another, is the Intel Corporation. The success of both the 'Red X' campaign[3] launched in 1989 promoting the '386' processor followed in 1991 by the 'Intel inside' campaign, however, was dependent on customers accepting that a value proposition could be attributed to a computer's microprocessor. Once this had become established, manufacturers of computers became compelled to include these microprocessors in their products which, in turn, limited their price negotiation powers.

A point to note here is that a product which is perceived by customers to have little 'value' today may be seen in a completely different light in the future, and there is a great deal of value in having customers specify your product.

[3]The campaign featured the number '286' with a large 'X' spray-painted on top of it in bright red, followed by the number '386' with 'SX' spray-painted immediately below it in the same colour, the '386SX CPU'.

Finally, let us return to the parents buying breakfast cereals for their family. The manufacturers of breakfast cereals have to segment the final users of these products in order to produce successful product lines. These manufacturers also have to ensure that the retailers stock their products. To do this the manufacturers have to understand the needs of retailers and ensure that their business practices meet the requirements of their retailers. In turn, the retailers have to ensure that the parents who buy breakfast cereals choose to shop at their outlets. The retailers therefore have to understand the needs of these intermediate customers and ensure that their outlets meet the preferred shopping experiences of different parents. The breakfast cereal manufacturer would, therefore, benefit from segmenting both the final users of their products and the retailers of their products in two quite distinct projects.

An excellent example of a company that has developed detailed insights into both its consumers and intermediaries is Procter & Gamble (P&G). As can be seen from the simple diagram in Figure 4.3, P&G create demand pull (hence high turnover and high margins) by paying detailed attention to the needs of consumers. But they also pay detailed attention to the needs of their direct customers, in this instance being Wal-Mart, the giant food retailer in the USA. Wal-Mart are able to operate on very low margins because, as the bar code goes across the till, this triggers P&G to invoice them, produce another and activate the distribution chain, all of this being done by means of integrated IT processes. This way, they have reduced Wal-Mart's costs by hundreds of millions of dollars.

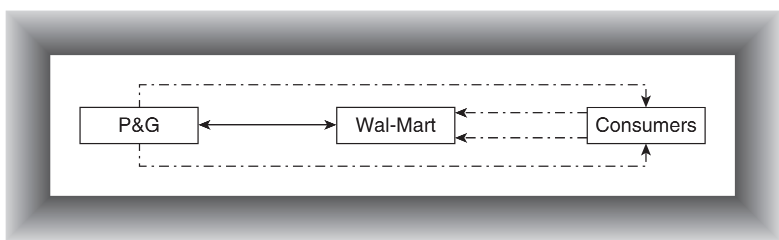

Figure 4.3 Developing insights into both consumers and intermediaries

Ensuring the definition is meaningful to your company

In some instances the sequences discussed in this chapter so far still result in a market definition that is not as meaningful as it could be to your company, particularly if you are a company focused into a particular part of an overall market. The following example may therefore provide further help in defining the market your business is in.

A company manufacturing nylon carpet for the commercial sector wanted to check that it had a realistic definition of the 'market' it was in. The first step was to sketch out the total available market for all floor covering. This is summarized in Figure 4.4.

Clearly, it would be wrong to include the first group, namely those used in the industrial sector, in the company's market definition. The qualities required from such flooring cannot hope to be matched in a carpet made from any currently known type of fibre; they are, therefore, not seen as alternative products to the industrial sector. Similarly, in both the commercial and domestic sectors, nylon carpet is not a competitor for the luxury end of the market. This luxury part of the market buys carpet made from natural fibres, particularly wool.

This leaves the non-luxury commercial and domestic sectors which, in total, represented the company's potential available market. It was potentially available because the company could, for example, produce nylon carpet for the domestic sector and extend its market this way. Similarly, the company could move into manufacturing nylon carpet tiles and extend its operation into this product for both the domestic and commercial sectors. There was also no reason why the company should not look at replacing lino, cork or mosaic flooring with nylon carpet.

Many of the opportunities in the potentially available market, however, represent possible strategies for the future. They would be considered during the marketing planning process

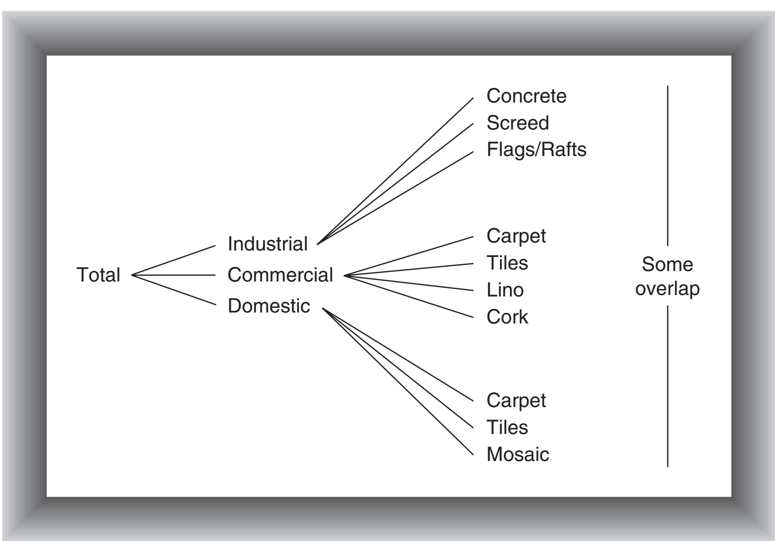

Figure 4.4 The market for floor covering

when the future plans for the current business activity did not achieve the required financial targets (see McDonald and Wilson, 2011). The question now, therefore, is: what is the company's realistically available market?

To assist the company in this final stage of arriving at a market definition, the 'needs' being met by the current products, as highlighted by the current customers, were first listed. This revealed that the company's nylon carpet was bought because:

- it fell into a particular price range;
- it was quiet underfoot;
- it had a life expectancy of 15 years;
- it was available in pleasant colours and textures;
- the manufacturing plant was within a 60-mile radius.

In addition to the obvious, this list removed lino, cork and mosaic from the company's available market.

Finally, the company looked at the applicability of its current distribution and selling methods to the potentially available market, ruling out those sections of the market which required different selling and distribution approaches. This meant that it was unrealistic to include the domestic sector in the market definition.

Products and manufacturers which met all the criteria were then listed, along with their end-users. The company had now arrived at both a market definition and a current market size.

It is necessary to arrive at a meaningful balance between a wide market definition and a manageable market definition.

This example once again illustrates the need to arrive at a meaningful balance between a wide market definition and a manageable market definition. Too narrow a definition has the pitfall of restricting the range of new opportunities segmentation could open up for your business. On the other hand, too wide a definition has the potential of not only overwhelming the segmentation exercise, but also producing results which leads the company into areas it simply is not suited to serve.

The market definition sequence highlighted in the example of the nylon carpet manufacturer can be summarized as follows:

1. First, define the totally available market (TAM) by expressing it as 'a need that can be satisfied by *all* the alternative products or services'. For the carpet manufacturer this meant *all* floor coverings. To take another example, for the canner of dog food this would include *all* dog food. This would ensure that the canner had an overview of what was happening in the market as a whole, as some of the trends may be of great interest (including trends in buying meat from the butcher).

However, to segment the whole market when it includes alternatives your company could not hope to offer is not very helpful.

2. Now define the potentially available market (PAM) by taking into account what your company's products or services and their directly competitive products or services *could* be used for within the totally available market. For the carpet manufacturer this excluded industrial floor coverings but included, for example, the domestic sector, a sector they did not currently sell into but could serve with the products they had. For the canner, this would exclude meat from the butcher and dried dog food. For the button manufacturer it would exclude zips and Velcro. These exclusions, however, represent possible strategies for the future. The potentially available market is therefore expressed as 'the need that could be satisfied by products and services supplied by your company along with their competing products or services'. However, to segment a 'possible' market before segmenting your current market could result in your company missing growth opportunities which offered quick rewards and carried very little risk.
3. Finally, therefore, define the realistically available market (RAM), as this will become the market to be segmented. This refines the market further by taking into account the requirements of the company's customers and prospects and the current distribution channels used by the company, along with any realistic alternatives. This really focused the carpet manufacturer on to a particular fibre, texture and geographic selling area; would focus the dog food canner on to any similar requirements associated with their customers; and would focus the button manufacturer on to buttons. The realistically available market is therefore expressed as 'the need that is currently satisfied by the products and services supplied by your company along with their competing products or services'.

While it is tempting to think that the examples given above amount to 'rigging' the definition of market and that there is the danger of fooling ourselves, we must never lose sight of the purpose of market segmentation, which is to create competitive advantage for ourselves by creating greater value for customers.

Marketing insight

Thus, for the carpet manufacturer, or for a London orchestra that defines its market in terms of the need that is satisfied by the aggregation of all London classical orchestras rather than by all entertainment, as long as its market definition enables it to outperform its competitors and grow profitably,[4] this is the key. Obviously, however, the definition needs to be kept under review and revised as and when necessary.

[4] A reminder: In the not-for-profit sector, customer satisfaction is obviously a proxy for financial objectives such as 'profitability'.

Although great care is needed in making the decision to exclude products or services from the market you are segmenting, great care is also needed in making sure that the market definition is meaningful to your company.

Marketing insight

It is important, however, that you monitor the trends in the use of the products or services you have elected not to include within the scope of your segmentation project but which satisfy the same need. The purpose in doing this is to help you decide the extent to which you may need to consider moving into these products or services in the future in order to secure the company's desired position in this market and meet its corporate objectives.

What you must avoid is the trap that the Gestetner company and their duplicators fell into in the 1960s, IBM and the mainframes fell into in the 1990s, and Sony and its portable CD player fell into in the 2000s. All three companies ignored the trends in their markets towards the use of alternative products.

In the meantime, continue this project for the market you have specified.

Whatever definition you finally arrive at, ensure it can be directly related to the products or services in question. General 'motherhood' statements, such as defining the customer need as 'maximizing profit', tend to lose sight of their origins. Only a specialist area of financial services would be able to obtain meaningful benefits from a market defined as 'maximizing profit'.

Market research note

Whenever in doubt about customers and their needs, ask them! To help arrive at a market definition, it may be necessary to undertake some qualitative research either as one-to-one discussions, or with groups of customers. Understanding the alternative products and services as the customers see them, listening to how they discuss their needs along with their likes and frustrations with the alternatives on offer today can save hours of hypothetical discussions and lead you to a truly market-focused definition.

Markets and strategic business units (SBUs)

In addition to ensuring that the market definition is meaningful to your company, another issue you may need to address is associated with corporate structure.

In many companies, the market being segmented will fall within the responsibilities of one strategic business unit (SBU) and progressing with the project is therefore quite straightforward.

A strategic business unit will:

1. have common customers and competitors for most of its products;
2. be a competitor in an external market;
3. be a discrete, separate identifiable 'unit';
4. have a manager who has control over most of the areas critical to success.

As a general rule, therefore, a segmentation project can be conducted within the confines of a single business unit. If, however, some products or services managed by a single business unit meet the needs of totally different markets, there will have to be more than one segmentation project.

For some companies, the market being segmented does not sit so neatly within their current structure and straddles two or more divisions. This can occur when a business is structured along product lines and these products are seen to compete with each other in one, or more, of their markets. For example, in a market defined in terms of 'being able to secure a desired standard of living from a planned date of retirement', both pension plans and investment plans are used by customers to achieve this goal, yet these two lines are often found within two different business units.

The preferred solution is to segment the market as defined and therefore include the competing product lines. However, it may be that in the first instance it is more pragmatic to start with your current structure of strategic business units and segment that part of the market currently satisfied by your product line, not forgetting to monitor the trends in the use of the products or services you have excluded.

Company structure considerations may require you to initially exclude certain product lines from your 'market'.

Marketing insight

In companies consisting of a number of strategic business units, it is recommended that you start segmenting markets at the lowest level of disaggregation within the organization's current structure.

Later on, it should be possible to use the same process for higher and higher levels of aggregation to check whether it may be possible to merge any of your current business units. Indeed, it may even be possible, eventually, to reorganize the whole company around 'new' groupings of either customers or products. This is covered in Chapter 7 in the section titled, 'Addendum for those intending to test the validity of a current structure of strategic business units (SBUs)'.

Defining markets – conclusions

It should be fully appreciated by now that defining markets only in terms of your current products is very short-sighted. The broader scope of a 'market' definition as presented in this chapter will be a key input into developing a successful marketing strategy. Provided this has been taken on board, it is now obviously sensible to segment that part of the market appropriate to your business, which could, of course, be all of it for some companies, and the next chapters take you through a process for doing this.

To help draw together all the key points of this section, we will once again refer to the company manufacturing buttons, though the same principles apply to all types of companies.

Competing with buttons are zips and Velcro, all of which satisfy the customer need for 'garment fastenings' which constitutes the **market** definition.

Definition reminder: A market is the aggregation of all the products or services which customers regard as being capable of satisfying the same need.

The manufacturer of buttons being considered, however, has no current capability, or plans, to manufacture other product lines for the 'garment fastenings' market. This company would therefore focus its segmentation project on that part of the market only applicable to buttons. It would be important, however, for this company to monitor the trends in the use of the products it is competing with but has excluded from its project. This is because in time it may need to consider moving into these products in order to secure the company's desired position in this market and meet its corporate objectives. (These 'capabilities' may also affect the geographic area the company can realistically operate in.)

If, however, you were in a company providing the full range of garment fastening products but only had responsibility for the buttons business unit, the most practical focus for your segmentation project may, once again, be that part of the market only applicable to buttons. As for the button manufacturer, it would also be sensible for this business unit to monitor the trends in the use of the products it is competing with but managed by the other business units. (A segmentation project undertaken at the corporate level in this company would, of course, consider the whole market.)

It could, of course, be argued that a business has the opportunity of learning something useful by extending the boundaries of its segmentation project beyond those suggested above. For example, it may find that a fairly straightforward change to a current proposition makes it attractive to customers found in other parts of the market. Care should be taken in extending the scope this way as it could unnecessarily overwhelm the segmentation project. Focusing, at least in the first instance, on your current market has a better chance of identifying growth opportunities which offer quick rewards and carry very little risk.

Finally, to complete this section on defining markets, it is worth reflecting on the comments made by one of the co-founders of Revlon, Charles Revson, as he is credited with one of the more famous needs-based definitions of a market. When he drew the distinction between products and needs for his company, he captured it by describing the factory as being the place where the company made chemicals, 'but in the store', he sold 'hope'. Clearly, this is not an adequate market definition, but it does illustrate a needs-based approach to the process described in this chapter.

Sizing the specified market

Now that the market you are segmenting has a geographic scope and has been clearly defined, a volume or value figure is required in order to size it as it is today, with estimates for the future. In most cases the annual figure for the specified market would be used. Being able to size the market is particularly important for later stages in the process, especially when sizing segments. The size of a segment is used to determine whether or not a segment represents a viable business proposition and therefore worth the time and resources required for the development of a specific offer for that segment.

With market definitions that step outside established product categories, attributing a size to this newly defined market may well present a number of challenges. Sizing markets in countries where even established category figures simply are not available is clearly going to present some quite major challenges. As marketers, however, we are accountable to the business and to its shareholders for the financial impact of our decisions and our marketing expenditure. It is therefore essential that we find all the useful data sources available and utilize techniques that enable us to arrive at an approximate but intelligent figure for the market in which we want to spend the company's resources.

Finding all the useful data sources available and utilizing techniques to size markets is essential; an informed, intelligent approximation is acceptable.

Government and government agency publications often provide high-level statistical summaries of many industries, as do many trade and professional associations. Periodic research by commercial agencies and consultancies is also often published as books of tables and is either generally available to all or restricted to those companies who contributed to a syndicated study. Data for these reports is obtained by traditional survey methods, by electronic point of sale (EPoS) data, by industry sales data, and so on. A potentially useful source of information about individual firms in the UK is the data held at Companies House, though only registered companies are included and data can be out of date and incomplete. Private agencies offer alternative sources of data, sometimes with added details on specific characteristics.

Census data and electoral roll data are the two main sources of information about individuals and can be bought from agencies that collect such data. 'Lifestyle' survey databases built from millions of questionnaires collected from the public over several years also provide useful insights for determining the size of a specific market. More detailed census data is not available at the individual level, but is available for just over 223,000 Output Areas (OAs) in the UK. Each output area has hundreds of geodemographic characteristics, which may be of relevance in calculating a market size.

For markets that have been established for a number of years which have rich and detailed data sources along with large sample sizes, sophisticated statistical techniques can be used to infer market size. However, for markets falling outside established definitions, data will be comparatively scarce and extrapolations from surveys will often be the main source. Carefully designed analysis methods may need to be employed to resolve uncertainties introduced by small sample sizes and models based on limited data and plausible assumptions will have to be used to infer market size.

Where limited or simply no market data exists, assumptions about your own sales will have to be used for the initial approximation of market size. Ad-hoc research will then have to be commissioned to provide more substantive figures, with statistical techniques and modelling used to project the sample into a 'market' figure.

Marketing insight

If research is your chosen method of determining market size, defer commissioning the research until later in the project. It is best left until you are ready to determine the size of each segment in the specified market. Although it is stating the obvious, the sum total of all the segments will equate to the size of the specified market, so leaving the research until this point will 'kill two birds with one stone', making better use of your marketing spend.

Companies occasionally indicate a preference to quantify a market in terms of profitability. As profitability is often a reflection of the efficiency or inefficiency of individual companies, it is not an appropriate measure of market size. The ability to generate profit, however, is a consideration when looking at how to prioritize and select segments (see Chapter 9).

Process check

Defining the scope of a segmentation project is a critical first step and requires a great deal of considered thought.

We have discussed the issues to be kept in mind when deciding on the geographic scope of a segmentation project. This highlighted the need for the area to be within your geographic reach as a business and, if this area goes beyond a single country, the criteria that should be considered when determining which countries can be included in a single project.

We then moved on to the most interesting part of the discussion, namely how to define the 'market' being segmented. Where a 'market' begins and ends is defined by the competitive set as perceived by the customers in that market and is described in terms of the need that they are looking to satisfy. Specific products or product categories, therefore, do not necessarily define the scope of a market as far as customers are concerned. We have identified how the 'need' may be influenced by the circumstance or the mind-set in which the customer is operating or even by the specific end-use or application they have in mind for the product. We have also discussed the importance of striking a meaningful balance between a definition that is too narrow and one that is too wide and how to refine the definition to ensure it is meaningful in terms of the capabilities of your organization. This then lead us to consider the impact of corporate structures on the practical scope of a project, a consideration that is often required when a market straddles more than one strategic business unit. The opportunity to address internal structures that are out of line with markets occurs later.

In the discussion about market definitions we looked at the difference between consumers and customers and concluded that whenever a final user (the consumer) has the purchase made for them by an intermediary (the customer), marketers need to know about both if they are to develop the best 'package' to meet their needs. The starting point, however, is the final user, but because there is not a general consensus on the distinction between customers and consumers, this book subsumes both under the title of 'customer'.

Finally, the market to be segmented has to be sized and where figures are not readily available it is essential that we use whatever means we can in order to arrive at an intelligent approximation. This may need to wait until research is commissioned for the project as a whole.

Case study – Agrofertilizer Supplies

As briefly mentioned in Chapter 1, a case study is used to illustrate each step in the process for developing segments (Steps 1 to 5). The case study is based on a real company which began operating in the 1920s and picks up on the story as it stood in 1988. For reasons of commercial confidentiality, however, as well as to assist in demonstrating the process in practice, the case study has been modified. Due to these changes the company in the case study is renamed 'Agrofertilizer Supplies'.

Full details about the company featured in this case study, which includes the important contribution made by segmentation to a business plan that proved to be a critical turning point in the company's fortunes, can be found at www.marketsegmentation.co.uk.

To summarize briefly the background to the case: Agrofertilizer Supplies is an independent business within a large, international chemical company, though its

(*Continued*)

sales of fertilizers are predominantly in the UK. Within the larger group there exists a company which produces seeds for the agricultural sector and an agrochemical company, both of which also operate as independent businesses. Unfortunately, Agrofertilizer Supplies are losing market share and making financial losses in a line of business which is becoming increasingly competitive, a situation not helped by a steady fall in the level of overall demand. Cost-cutting measures have helped stem the losses but more needs to be done. The board are now looking to the marketing group for some answers.

To provide a basis for these answers, a small team within the marketing group has been charged with developing a detailed understanding of the UK market in order to determine where the most profitable opportunities exist for Agrofertilizer Supplies. Supporting the team is a group drawn from across the business including finance, distribution, sales and manufacturing.

A segmentation project is about to start and the team recognize that the first step is to clearly define the scope of the project.

The geographical scope is quite straightforward, simply because the company is highly dependent on sales of their product in the UK. However, defining the 'market' in terms of the customer need requires a little more thought.

The first issue is to be clear on who the customer is, and therefore whose needs are being defined. To all intents and purposes the final users of the product are farmers and they usually buy their fertilizers through agricultural merchants. The 'customer' for the project is therefore the farmer, though at a later stage it will be essential for the team to understand the needs of the agricultural merchants. A potential complication that was quickly resolved came out of the fact that on some farms the individual who spread the fertilizer was an employee of the farmer which could be taken as meaning that these individuals were the focus for the project. However, they only spread what the farmer specifies, so the final user for definition purposes is clearly the farmer.

Fertilizers represent one of the components required for growing commercial crops,[5] the others (under the control of the farmer) being seeds and, in most cases, agrochemicals. The question to be addressed, therefore, is whether the market should be defined in terms of 'commercial crop growing' or focused around 'commercial crop nutrients'.

The arguments put forward in favour of 'commercial crop growing' could be summarized as follows:

- the three products have similar distribution channels;
- the three products are complementary to each other;

(*Continued*)

[5]'Crops' refers to both arable crops and the production of grass for feeding livestock.

- dealing with one sales representative would appeal to farmers;
- it would offer greater cross-selling opportunities.

On the other hand, the arguments put forward in favour of focusing the definition around 'commercial crop nutrients' included:

- they have a distinct contribution to the growing of commercial crops;
- there is a practical limitation on the technical knowledge of the sales force;
- the realistic timescale for putting together a combined offer was too long;
- farmers appeared to regard the three products as distinct product lines.

Two particular observations became pivotal to the final decision:

1. The final users, the farmers, did consider fertilizers to be a distinct group of products and, in fact, 'compartmentalized' the products required for growing crops into their three distinct categories. The three product lines were, therefore, not seen as alternatives.
2. The only market Agrofertilizers could serve in the foreseeable future was that of commercial crop nutrients. The technology and skills required to produce and sell seeds and/or agrochemicals was outside the scope of the company.

The market to be segmented, therefore, was the 'commercial crop nutrients' market. This does not mean to say that as time moves on this definition will continue to be the right one. It was just the most pragmatic definition at the time of the project.

Within this market, however, were customers who Agrofertilizer Supplies could never hope to serve, namely the farmers who only ever applied organic nutrients to their crops. The realistically available market to the company and, therefore, the market to be segmented excluded these farmers from the project

Finally, the team had to size the market they were about to segment. Fortunately this was pretty straightforward as there were both government statistics and their own trade association's statistics. The annual total UK tonnage came to 3750 kilotonnes which was forecast to decline during their planning horizon.

To conclude this stage of the process for Agrofertilizer Supplies, it is worth noting that although the output from farms continues along a further distribution and value added chain to the point where it is consumed as food, there was no evidence at the time of the project that these customers had an interest in the choice of fertilizer used by the farmer. There were certainly final consumers looking for organically grown food, but beyond this distinction there was no further interest.

This case study is continued in the following chapters.

Further examples

Two examples are included here, with further examples appearing in Exercise 4.2. The first example is of a company developing a realistic definition for its market and the second is of a company that discovers it is in two markets, whereas it had thought it was only in one.

Example 4.1

The first example is of a publishing company specializing in producing magazines for a selection of interests based around the home, such as gardening, cooking, do-it-yourself, and so on. Its sole method of selling and distributing its product is through direct marketing, with customers making regular payments direct to the company for their subscription to these magazines.

The company defined its market along the lines of, 'the customer need is to have access to information in their specific area(s) of interest as and when they require it'. Clearly, however, this need can be met by more than magazines and the list of competing products included books, videos, CDs, DVDs, podcasts, websites and stored television programmes ('stored' to make them accessible 'as and when' required). In order to arrive at a definition of a market they could realistically compete in and, therefore, the market they should be segmenting, they drew up a hierarchy of operational requirements along the following lines:

1. customers who accept direct marketing (the company's only operational model);
2. customers who will commit to a number of issues (having to separately sell each individual issue by direct marketing was uneconomic);
3. customers who take printed magazines.

For their segmentation project, they principally focused on customers who fell into the specified market and, therefore, fitted the company's operational requirements as this was the market realistically available to them at that time. However, when they commissioned research to help them in their project, they included questions about alternative formats as they wanted to track the trends towards their use. The company believed that they may well have to consider other formats in the future if they were to achieve their long-term corporate objectives. After all, they were not a printing company.

Example 4.2

The second example is of a credit insurance company that believed that the only market they were in was that of providing customers with debt protection, though for the customer it was seen as protecting their sales revenue. However, when they began to talk to their customers they found that a number of them were using the product as 'virtual capital' to improve their cash flow management. What these customers were doing was using the guarantee of debt payment provided by the credit insurance company as an asset which they could then use to increase their borrowings, a market in which invoice discounting and factoring were competing.

The company discovered that it was, in fact, operating in two markets, both of which they had to segment. What is also worth noting is that, whereas their original market was fairly static, this 'new' market was growing at around 20% per annum and was 25 times larger than their original market. They also discovered that they had an extremely competitive product for this 'new' market, something their customers in this market had already worked out.

Exercises

Often there is confusion regarding what constitutes a market. Unless such confusion is dispelled from the outset, the whole marketing edifice will be built on sand. However, as so often is the case, what on the surface appears to be a relatively simple task can prove to be extremely testing, especially when it challenges current assumptions and corporate structure.

Exercise 4.1

This exercise vastly simplifies the problem some companies face when addressing 'market' definition.

Alpha Ltd has five major products, A, B, C, D and E, which are sold to five different customer groups, as represented in Figure 4.5. Virtually all sales are achieved in the darker shaded areas.

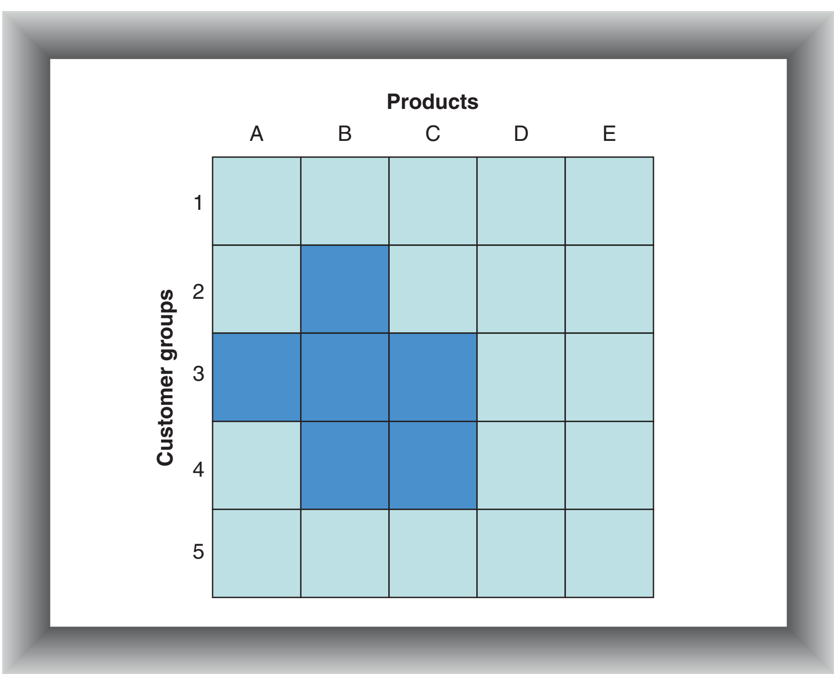

Figure 4.5
Market definition for Exercise 4.1

Is this company's market:

(a) The darker shaded areas?

(b) The intersection of products A, B and C and customer groups 2, 3 and 4?

(c) Products A, B and C for all customer groups?

(d) Customer groups 2, 3 and 4 for all products?

(e) The entire matrix?

Possible interpretations for Exercise 4.1 are as follows:

1. It would be possible to define our market as the darker shaded area ((a) in the exercise), in other words, the product/customer group area currently served. The problem with this is that it might tend to close our eyes to other potential opportunities for profitable growth and expansion, especially if there is a danger that our current customer groups may become mature.
2. It is also possible to define our market as the intersection of products A, B and C and customer groups 2, 3 and 4 ((b) in the exercise). The problem with this is that while we now have a broader vision, there may be developments in product areas D and E and customer groups 1 and 5 that we should be aware of.
3. To a large extent, this problem would be overcome by defining our market as products A, B and C for *all* customer groups ((c) in the exercise). The problem here is that customer groups 1 and 5 may not require products A, B and C, so perhaps we need to consider product development (products D and E).
4. It is certainly possible to consider our market as all products for customer groups 2, 3 and 4 ((d) in the exercise). The potential problem here is that we still do not have any interest in customer groups 1 and 5.
5. Finally, it is clearly possible to call the whole matrix our market ((e) in the exercise), with customer groups 1 to 5 on the vertical axis and each of products A to E on the horizontal axis. The problem with this is that we would almost certainly have too many distinct product and customer groups and this could lead to a costly dissipation of effort.

In addition, any combinations of (a) to (e) above could be used as long as there is a sensible rationale to justify the choice.

The answer to the conundrum is possibly found in the definition of 'market': 'A market is the aggregation of all the products or services which customers regard as being capable of satisfying the same need.' The first part of the clue therefore comes from the five customer groups and whether or not they see any of the five products as competing with each other in terms of the need that they are seen to be satisfying.

Once this has been understood we would then look at the company's realistic capabilities in order to determine what, if any, modifications to these conclusions would be required in order to exclude those areas the company was simply not suited to serve. This would be a matter of management judgement.

Exercise 4.2

Here, we present some possible market definitions along with a few comments.

Which of the following are 'market' definitions?

1. The pensions market: No; simply on the grounds that it is describing a product, a product designed to satisfy a need and there are other products that can also satisfy this need. Try to describe what it is most customers are attempting to achieve when considering whether or not to invest in a pension.
2. The conveyance of individuals over long distances: Understanding a customer need in these terms would have probably enabled the train companies of Europe to have emerged as the successful European airlines of today, but they preferred to see themselves as train operators. Many of today's airline companies see themselves as 'airlines', but how many passengers would switch to a teleporter if, and when, it ever came into being? Beam me up, Scotty! Yes or No?
3. The ball bearings market: Another product description. If you were to ask customers what they were looking for and attempted to capture it by completing the sentence, 'The customer need is to...' the sentence could well be completed by the phrase, '...support rotation'. Ball bearings are therefore competing against other products and technologies that also support rotation, such as magnetic levitation. Rather than thinking about improving their ball bearings, the manufacturers would be better thinking about how to improve methods of supporting rotation because it is this particular functionality that customers are seeking to achieve from their purchase.
4. To verbally communicate remotely and in real time with anyone I choose: Yes or No? It may benefit from adding, 'whenever I choose'.
5. Portable sources of energy for powering equipment: Yes or No? It could be improved by refining it as there are clear differences between a consumer market and an industrial market, not only in the energy capacity being sought but also in the appropriate distribution channels.
6. The luxury chocolate market: Yes or No? Probably better thought of as the 'treat' market for some purchasing motivations, which is attractively insensitive to price.
7. The market for central heating: Yes or No? What the customer is really looking for is a means of maintaining an ambient temperature of their choosing.

8. To convey documents from 'A' to 'B' with certainty and speed: Yes or No? A company that excelled in meeting this particular need eventually became a verb linked to the market, namely FedEx (Federal Express).
9. The air freight market: Yes or No? This is too product focused. What the customer really cares about is having their goods delivered to where they want within their time-frame constraints.
10. To have access to a variety of experiences out of the ordinary: Suggested as the market definition for theme parks, before the imagination starts to run away with itself!

Exercise 4.3

This exercise turns to your own company. Often, the way a market was selected in the first instance can provide clues regarding how it can be defined. Consider one of your current markets and explain:

1. How it came to be chosen.
2. How you would define it, so that it is clearly distinct from any other market, and capture this by completing the sentence appearing below.

The customer *need* is to...

And add to the definition a list of the products or services it covers.

Exercise 4.4

This is for companies with a range of products or services looking for a series of steps to follow which will help define the market(s) they should be segmenting. This is the exercise referred to in the main text.

1. Allocate your company's products into their competitive sets, preferably as viewed by the customer. Please note that it is possible to have the same product appearing in more than one competitive set if it can be put to more than one use. For example, pensions can be used to provide retirement income or to finance a loan for a house purchase. An airline seat can be used for business travel or for leisure travel. A beach holiday can be used by sun worshippers or by parents with young children looking for kids' activities (or should that be 'distractions'?). A corporate charge card can be used for business expenses or to obtain a short-term injection of cash.
2. Add to each competitive set all the appropriate products supplied by competitors along with any additional products the customers are known to consider and, in some cases, use as alternatives. Once again, a single product can appear in more than one list.

3. For each resulting competitive set, describe the use the customer puts the products to; in other words, the *need* customers are seeking to satisfy. Avoid using any of the product names in this description. If necessary, split product groups if this is the only way you are able to arrive at a meaningful description of their use.

4. Merge those competitive sets which appear to be put to the same use and therefore meet the same or similar customer need. For each concluding list, refine the words describing the use the competing products are put to, such that the description conveys the need they are meeting. These can now be viewed as 'needs sets' and are possible 'market' definitions.

5. For each 'market', assess the total value (or volume) of business the competing products represent for the geographic area being looked at. In deciding on the geographic area, take into account any known geographic limits customers impose on the location of suppliers they will consider. For example, suppliers of office equipment may need to be within a certain drive time.

6. Try the following reality check which is designed to ensure that segmenting the market you have now specified will produce segments that are worth investing your company's resources in.

   As markets tend to divide into between five and 10 segments, divide the value (or volume) figure for each 'market' by five:

   a. If the resulting figure represents sufficient value (or volume) to justify a distinct marketing mix, your market definitions are probably correct. However, if the resulting figure can be divided by five again and still justify a distinct marketing mix, the 'market' definition is probably too wide and requires more focus.

   b. If the resulting figure is too small to justify a distinct marketing mix, redivide the 'market' figure by four (to allow for some segments being small and others being an acceptable size) and if this figure is still too small your 'market' definition is possibly too narrow and may benefit from being merged with another.

   Ensure that any revised definition makes sense in terms of a 'needs set' which customers would recognize and in which they make transactions.

Reference

McDonald, M. and Wilson, H. (2011) 'Setting marketing objectives and strategies'. In *Marketing Plans: How to Prepare Them, How to Use Them, 7th Edn*, pp. 205–260. Chichester: John Wiley & Sons Ltd.

5 Portraying how a market works and identifying decision-makers

Summary

This chapter takes a detailed look at the way a market works in order to identify where decisions are made about competing products and services. It is these decision-makers who then proceed to the next stage of the segmentation project as it is their requirements you must understand in order to develop successful marketing propositions. *Successful segmentation* is based on a detailed understanding of decision-makers and their needs.

This book refers to those whose needs you must understand (if you are to develop successful marketing propositions) under the title of 'decision-maker'. You may find it more appropriate in your market to refer to them as 'specifiers'.

In some cases, the diversity of the decision-makers is such that it is necessary to divide them between more than one project. This is to ensure that the segmentation process is both manageable and arrives at meaningful conclusions.

The parameters for this, the second step in the segmentation process, as illustrated in Figure 5.1, are those established in the previous chapter when you determined the scope of your segmentation project.

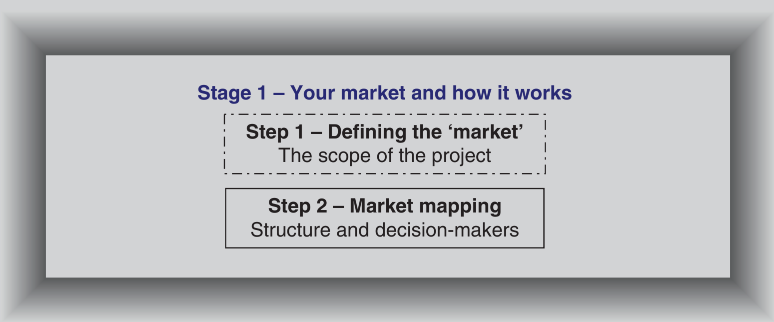

Figure 5.1 The segmentation process – Step 2

In many markets, especially business-to-consumer markets, drawing a 'market map' and identifying decision-makers has been quite a simple exercise. However, even in these

(*Continued*)

markets, the emergence of alternative routes to market has made market mapping an essential exercise, an exercise that should be revisited and updated on a regular basis.

Although in structurally very simple markets you may feel it is possible to skip this step of the segmentation process, it is strongly recommended that you at least review the 'fast track' for this step in Chapter 3 and give it most careful thought before deciding that market mapping is not relevant. *In our experience, market mapping is relevant to all organizations.*

This chapter aims to provide you with a practical guide to market mapping so that your first market map(s) can be constructed using information already held by your company. This information can come from departments such as sales, customer services, distribution, accounts, and so on. Past market surveys and industry statistics can also be useful sources of information, assuming you have any. Verification, if required, can be included in any follow-up work you commission for your segmentation project as a whole. Examples of market maps appear towards the end of the chapter.

In addition to segmenting those you target with your products and services, it is sometimes necessary to follow this up with a segmentation project for intermediaries, such as retailers, so that you have a detailed understanding of how to win 'shelf space'. This is to ensure that once you have got your products aligned to segments, the segments can then access these products through the channels they prefer to use.

This chapter is organized as follows:

- Presenting the stages ('junctions') along the distribution and value added chain as a map
- Showing the 'routes' that connect final users with suppliers
- Approaching the map from the suppliers' perspective, instead of the final users' perspective
- Where to end the map for a company that is not a supplier
- Ensuring your map includes any 'hidden' final users
- Covering the different stages a purchase has to go through within organizations
- Capturing the role of influencers in a market, including the role of consultants
- Attaching quantities to the market map
- Expanding the detail of a junction to highlight any differences found there ('junction types')
- Market maps in the tabular form

(*Continued*)

- Identifying where decisions are made in the market ('market leverage points')
- Accommodating 'shared' and 'cumulative' decision-making on the map
- Selecting the junction to be segmented
- Guidelines for including more than one junction in a single project
- Whether to include or exclude customers who are not decision-makers
- Taking the opportunity to test views on how the market splits into segments ('preliminary segments')
- A review of this step in the segmentation process
- Market map for the case study and further examples
- Exercises further to help you compile your market map

'Market mapping' as defined and developed by the authors has become an increasingly important part of the toolkit for marketers. In addition to providing an informative picture of the distribution and value added chain that exists between final users and suppliers, it can also be used to present your own company's performance on these routes to market and to illustrate where your sales and marketing resources are allocated. This provides a useful check when evaluating your sales and marketing strategies, especially when looking at predicted changes to the market's structure and when comparing yourself with your key competitors on where resources are committed.

This book refers to those who produce the products or services supplied to a market as 'suppliers'.

Chapter 11, which looks at market mapping in more detail and how to capture the above refinements, follows the conclusion of the segmentation process. This is also a useful stage at which to plot your chosen segments onto the market map. Chapter 12 then takes a look at future market mapping and predicting channel transformation.

Constructing your market map

A '**market map**' defines the distribution and value added chain between final users and suppliers of the products or services included within the scope of your segmentation project as determined in the previous step. This should take into account the various buying mechanisms found in the market, including the part played by 'influencers'. Before you draw the map, however, it is suggested that you read the whole of this chapter.

Definition: A market map defines the distribution and value added chain between final users and suppliers, which takes into account the various buying mechanisms found in a market, including the part played by 'influencers'.

This is a key step in the market segmentation process and you should spend as much time as necessary to ensure you correctly identify the individuals or groups to be taken into the next stage of the segmentation project.

Marketing insight

Although an organization may be serving different markets, it is possible that the products or services in these markets go through the same distribution and value added chain to similar end users. In such cases a template can be drawn for the market maps and used across the organization.

A company in the financial services sector, for example, may be able to do this.

The series of figures which follow progressively incorporate various points made in the text about market maps. Although the diagrams in these figures are a useful first stage in constructing market maps, you may find that the diagrammatic approach to market mapping is not to your liking. The alternative is to construct your market map in a tabular form. This chapter contains guidelines designed to assist you in constructing your market map this way. It is recommended, however, that you first read all of this section, using diagrams as a means of observing how the various steps in market mapping help develop a detailed picture of the market. Then, if you wish, you can change to the tabular form and construct your market map this way.

Finally, you may find that for particularly critical and/or complex parts of your map it often helps if the detail for these areas is captured in a separate diagram or table away from the composite map in order to emphasize their importance and/or portray them more clearly.

Marketing insight

If the products or services in the market you are segmenting have little, if any, perceived value to the final users and this has been recognized in the definition of this market (as discussed in the previous chapter), your market map need only cover the distribution and value added chain between the final individuals who attribute value to these products or services and the suppliers.

We will, however, refer to them as ‘final users’ in the text.

Ensure, however, that you are not overlooking an opportunity to improve your sales and profitability. If in any doubt, include the ultimate final users in the market map.

Getting started

It is useful to start your market map by plotting the various stages that occur along the distribution and value added chain between the final users and all the suppliers of products or services competing with each other in the market being covered by your project. At the same time, indicate the particular routes to market the products are sourced through, as not all of them will necessarily involve all of these stages. An example of this starting point for market mapping is shown in Figure 5.2.

These stages (represented by the cubes in Figure 5.2) are referred to as 'junctions', with each junction on a market map positioned hierarchically, according to how close it is to the final user. The first junction along the market map would, therefore, be the final user.

It is not essential to draw the map starting from the final user. You may prefer to draw the map starting with the supplier, progressing towards the final user, followed by adding the particular routes to market the products pass through. *Neither is it essential to draw the map down the page*. You may prefer to draw the map across the page starting with either the final user or the supplier as in Figure 5.3. Do whatever you feel is most comfortable for you.

As we progressively add junctions to the market map and attach the details we cover in this chapter, we will continue with the format in Figure 5.2. When we move to the next stages of market mapping later on in the book we will adopt the format in Figure 5.3. We find it is easier to attach the next levels of detail when the market map is in the horizontal format.

Be sure to draw a market map for all of the market falling within the scope of your project rather than just the part you currently deal with. This is to ensure that you understand the market dynamics properly.

A reminder: We use the word 'product' to avoid unnecessary references to 'services', 'not-for-profit services', 'capital goods' and 'retail'. The text is equally relevant to these.

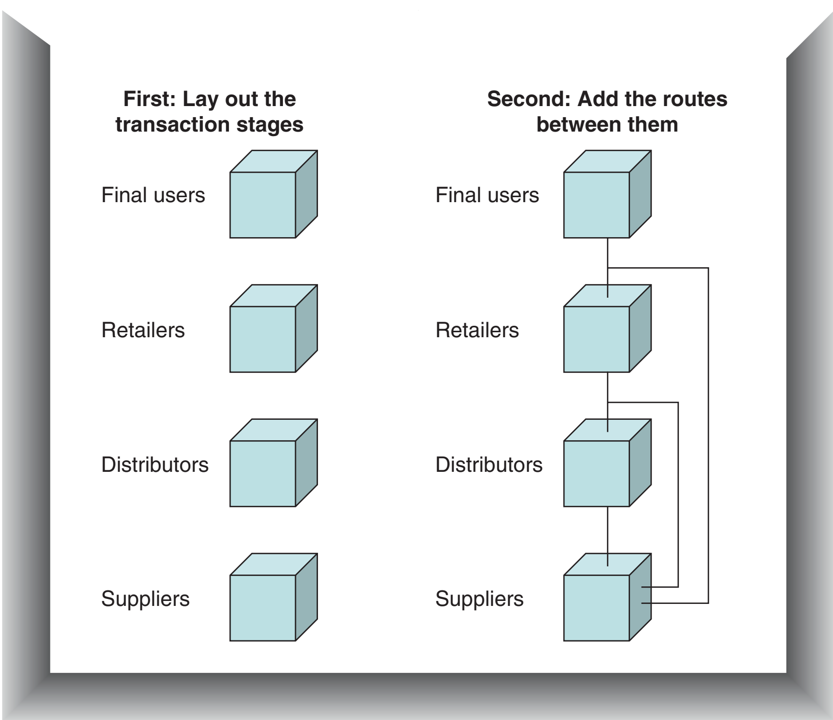

Figure 5.2
Starting a market map and adding the routes between the transaction stages
Note: This market map consists of four stages, one each for final users, retailers, distributors and suppliers. This map illustrates that products are also acquired by the final users direct from the suppliers, as well as from retailers. Some retailers also by-pass distributors and acquire their stocks direct from the suppliers.

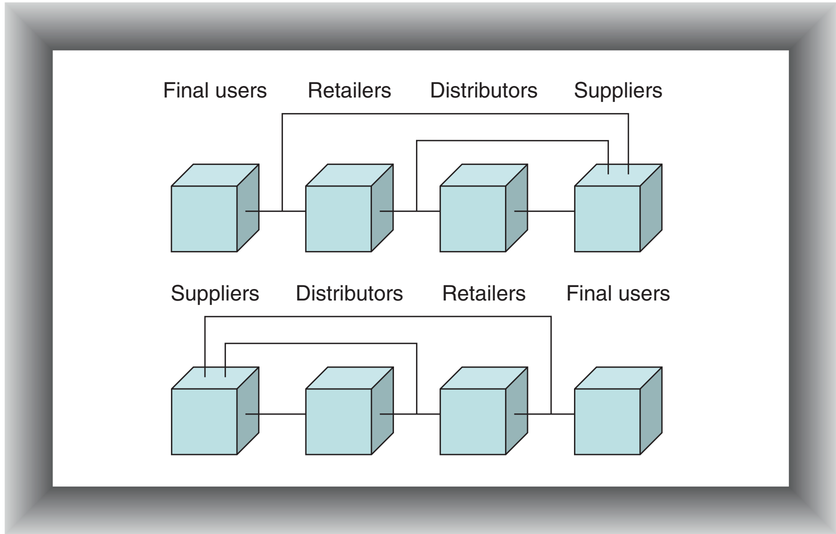

Figure 5.3
Starting a market map – alternative layouts

Marketing insight

If you have elected to draw your map starting with the final users, think of it as tracking all the various 'stages' that occur from when the intention to acquire a product is initiated through to the product's place of origin, in other words, to the supplier.

If you are drawing your map starting with the suppliers, think of it as tracking all the various 'stages' a product has to pass through before it arrives at its final destination, in other words, with the final user.

In either case, not all the stages necessarily consist of a transaction or an actual transfer of the product itself. This is a point we cover later.

For those of you segmenting markets in which your company is not at the extreme of the map you should give it careful thought before deciding to exclude the stages between you and the suppliers. For example, if you were a distributor in the market depicted in Figure 5.2, it would be important to capture the fact that some product was sourced direct from the suppliers. Capturing this fact would be particularly important if this route to market was growing at your expense, as you would need to understand why it was taking place and what strategic changes were required to secure the future of your business. In some sectors, ignoring, or at best taking little notice of the impact of, the internet on sourcing products and services direct from suppliers has cost some companies dearly. The travel and financial services sectors are prime examples and it has also occurred in many areas of manufacturing as well as in other sectors.

It is very important that your market map extends all the way through to the final user, even though you may not actually conduct transactions with them directly.

Market maps sometimes overlook the final user when one of the following occurs:

1. a contractor or agency is engaged to carry out the work on behalf of the final user; or
2. the product is purchased on behalf of the final user.

Taking the first of the above two possibilities: in some markets, the direct customer/purchaser will not always be the final user, even though they may even appear to consume the product, as is illustrated in the following set of circumstances.

Marketing insight

A company (or household) may commission a third party contractor to carry out some redecoration, or an advertising agency to develop and conduct a promotional campaign, or a financial adviser to produce and implement a financial programme.

For all of us, the doctor we visit when seeking treatment is, in many respects, a contractor when it comes to prescribing medicine.

Although the contractor or agency is strictly the direct buyer, they are not the final user. The distinction is important because, to win the commission, the contractor would usually have needed to understand the requirements of their customer and, in carrying out the commission, would have carried out those requirements on behalf of their customer. To miss out the final user from the market map would, therefore, have ignored an array of different needs which the supplier would benefit from being aware of (and have included in their product offer) if the supplier were to ensure their company name appeared on the contractor's 'preferred supplier list'. The inclusion of a contractor on a market map is illustrated in Figure 5.4.

Second, ensuring your market map continues right the way through to the final user is also appropriate in those situations where final users have their products purchased for them, for example, by their parents or by their company's purchasing department. Here we would be looking to capture the decision-making and/or order-placing hierarchy that exists between the final user and whoever places the order; which is particularly important to understand for any company's sales and marketing programme. This may simply require a small change to the market map already presented in Figure 5.4, such as replacing 'Contractors' with 'Parents'. In other markets, however, especially in business-to-business markets, this will require further junctions to be added to the market map as illustrated in Figure 5.5.

A further addition to the market map in Figure 5.5, particularly in business-to-business markets, could be the inclusion of a distinct junction for the purchasing procedures that are known to take place between, say, a department's intention to buy and placing the order.

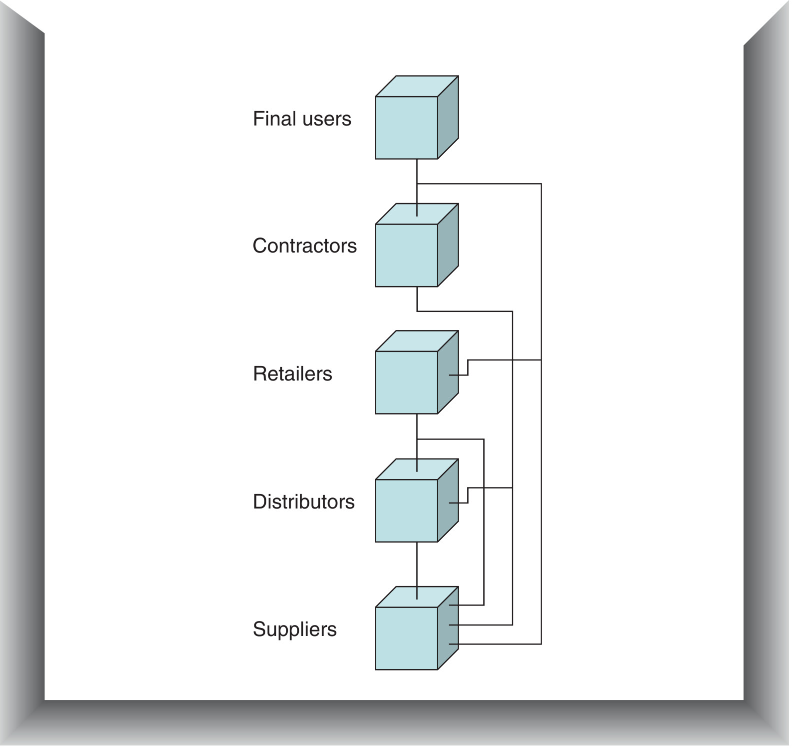

Figure 5.4
Market map
with contractor

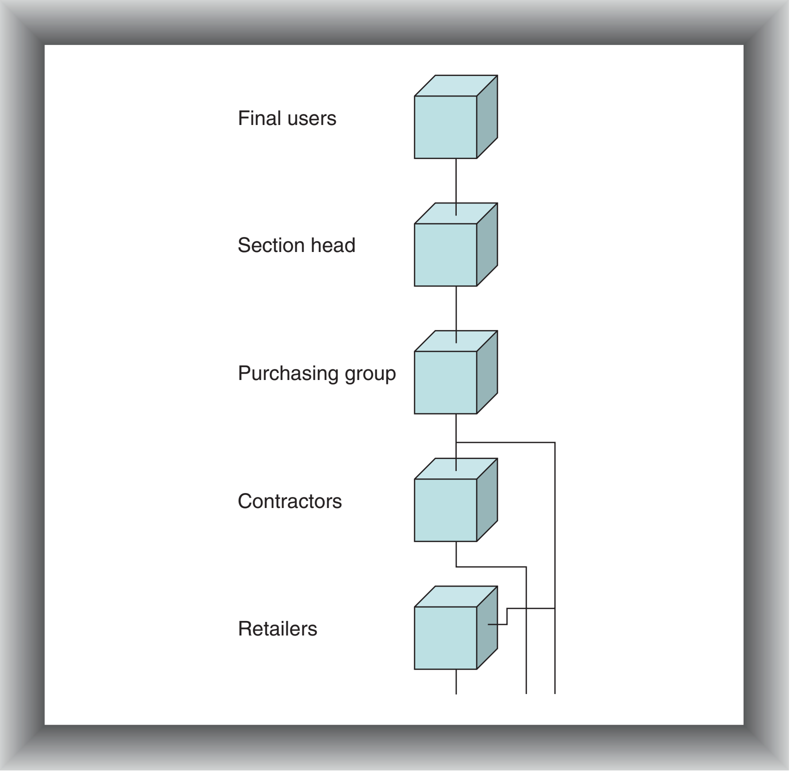

Figure 5.5
Market map with final
users 'hidden' from the
suppliers

For example, once the marketing group have agreed with IT on the new technology they want to install in their call centre, it may first need to be approved by a capital sanctions committee and then by the board before it is passed to purchasing. Although purchasing procedures are likely to differ between companies, capture it in a single junction at this stage of constructing your market map. An opportunity to expand the detail occurs later on when we add junction types.

Marketing insight

In many markets the final user is often represented by the last individual in the chain who has to dig into their pocket, or budget, to pay everyone else in the chain. There are, inevitably, some exceptions, such as, for example, food and clothes for children, most office staff, workers on the shop floor, nurses and radiographers, and so on.

As the figures have illustrated, most market maps will have at least three principal components:

1. Final users (often referred to as 'consumers')
2. The channel (distribution channel, often referred to as 'customers')
3. Suppliers (originators of goods and services, namely the manufacturing and service industries)

A discussion about the difference between 'consumers' and 'customers' appeared in Chapter 4.

For many markets, however, it is also essential that their maps include a fourth component, namely the stage(s) where influence and/or advice occurs (not necessarily a transaction) about which products to use:

4. Influence and advice (sources of 'information')

Ensure your market map includes the stages where influence and/or advice occurs about which products to use.

For example, an individual looking at investment opportunities may seek the advice of an independent financial adviser, though they may choose to transact the investment themselves rather than through their financial adviser. Alternatively, they may turn to specialist financial publications, specialist reports in the general media, or visit websites set up to provide investment information and even the opportunity to exchange views through their chat room. Similar sources of information are available on all sorts of products, some of which, such as the website TrustedReviews.com from IPC Media Ltd and the *Which?* publications from Which? Ltd (formerly the Consumers' Association) in the UK, can have a powerful influence on an individual's choice of product. Customer reviews found on many retailers' websites can also be extremely informative and persuasive.

In business-to-business markets, publications and reports produced by industry associations, professional bodies and others are available to companies looking for information to help them decide between competing products and services. An alternative to reading through the reports, of course, is for the company to engage the consultancy services of an independent expert, adding yet another, but important, layer to the market map.

Independent influencers need not necessarily be consultants. They can be final users who have already made their decision and to whom others turn for advice.

Marketing insight

For some products, such as those that are technically sophisticated and/or represent a substantial outlay for the business concerned, it can be crucial in any sales strategy to ensure the product is procured by what are sometimes referred to as 'luminary' or 'reference' sites. These are businesses and institutions, and sometimes particular individuals who work there, whose decisions are known to be respected among their peer group. The influence generated by these sites on the choice of product made by others can be quite substantial. Even the trial of a product by one of these organizations, a product either new to the market or from a supplier not used by them before, can be sufficient for others to also trial it. Such sites should therefore appear on the market map.

There are also many business-to-consumer markets in which the choice of product by some final users is influenced by the choice of product made by other final users, individuals whom they turn to for information and recommendations. They, too, should appear on the market map.

When referring to 'influencers' it is important to note that we are *not* referring to the power, or otherwise, of advertising or any other type of promotion. We are referring more to the influence of what are perceived as authoritative and independent sources of information that are *deliberately* sought out by some customers as part of their buying process. The important point here is that in many instances we are seeing an 'influencer' not directly featuring in any transaction. These influencers should appear on the market map, as shown in Figure 5.6, just as if they were a transaction stage.

Overlooking the role of independent influencers in a market can result in lost sales opportunities.

In the final decade of the last century a company supplying expensive capital goods put together a detailed sales and marketing programme targeted at key decision-makers in the top corporations. Each corporation was allocated to a specific sales person and every decision-maker was to be carefully tracked down and relentlessly pursued in the quest for ever-increasing sales.

What the strategy overlooked, however, was that nearly 40% of their market was in fact not determined by the corporations themselves, but by independent consultants who not only evaluated the company's requirements, but also produced the specification and, to all intents and purposes, controlled the tender list. Although the final decision was generally made by the corporation, it was more often than not a done deal by that stage, with one supplier clearly in the lead.

Rather than limit their sales to 60% of the market, the company in question added consultants to its market map and amended its sales and marketing strategy. By including this other 40% of the market the company had increased its sales opportunities by two-thirds.

For most market maps, the decision about which junction a particular activity should be placed in will be very clear. However, there will be instances where the decision is not immediately apparent. For example, a farmer's cooperative may simply replace a retail outlet or a

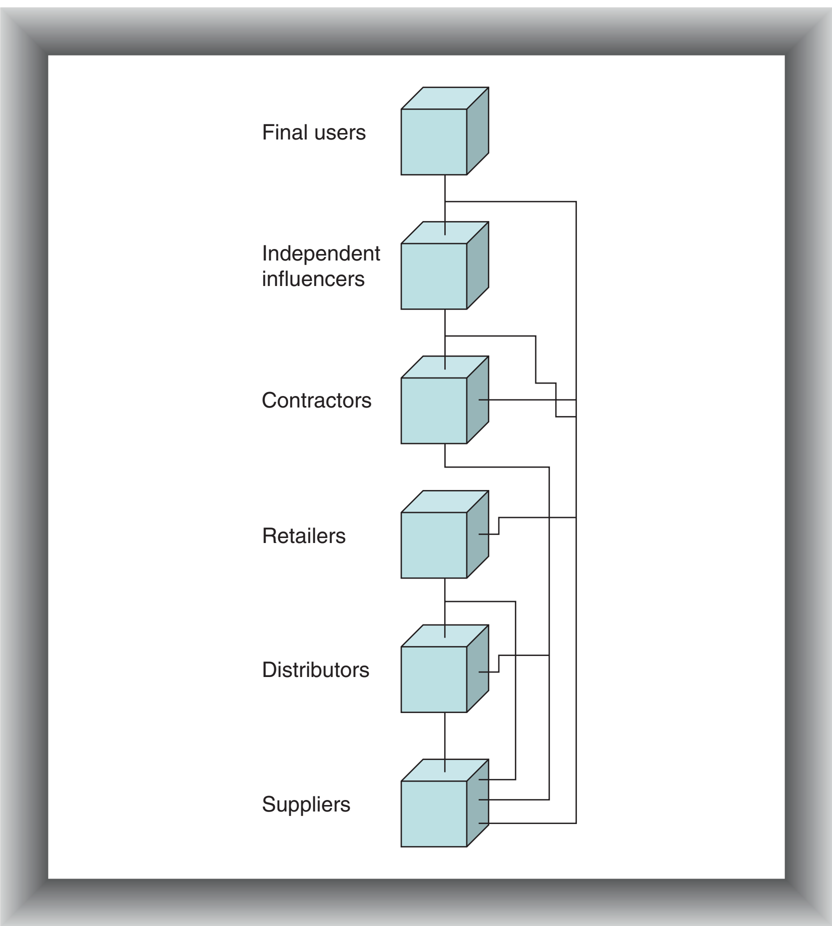

Figure 5.6
Market map with influencers

wholesaler, in which case it could just as easily be placed in the same junction as the retailer or wholesaler, as appropriate. Alternatively, a cooperative may source its products from either a wholesaler, or direct from the manufacturer, in which case it is clearer to position the cooperative on the market map at a stage which is nearest to the final user. Following the same guidelines, a consultant who advises the farmers on which specific product to buy would clearly be placed in a junction one stage below the farmers and ahead of any retailers or wholesalers.

When companies perform two roles in a market, these two roles should appear as two junctions on the market map.

A confusion that sometimes occurs in market mapping is when a single entity performs two roles in a market. For example, numerous supermarkets and small high-street bakers are not just retailers of bread produced by large bakeries; they also bake bread on their own premises. Are they therefore a retailer or a supplier of bread, or should there be an additional junction on the map to cover both roles? This dual role is best tackled by retaining the junctions of 'supplier' and 'retailer' and then noting at the supplier junction that this consists of supermarkets and small high-street bakers as well as large bakeries, a detail that can be added now or at the stage in market mapping when we specifically look at these details. We have, of course, already come across customers with two roles in a market when we were discussing final users as 'influencers'. In these circumstances, it should be noted at the 'influencer' junction that, along with other types of influencer, final users are also found at this junction.

Marketing insight

Referring, again, to the farmer's cooperative example, a cooperative could have its own consultants to provide technical advice to farmers as well as distribute goods and services to the farmers. This is a clear example of a single entity performing two roles. However, even if *every* consultant in this market worked for one of the distributors, it would still be important to recognize these different roles as two distinct junctions on your market map.

Not everyone wants to use a consultant.

Finally, it may even be appropriate in your market map to identify the field sales force as a separate junction, particularly if business is conducted either through a field sales team or direct without reference to field sales, such as by telephone sales or the internet. This situation is captured in Figure 5.7.

In implementing these directions and those which follow, you may find that you have to redraw or amend your market map a number of times. All you are doing at this stage is progressively creating a preliminary form of macro market segmentation. Later on, you will proceed to do more detailed segmentation.

A worksheet for market mapping appears in the Exercises section of this chapter.

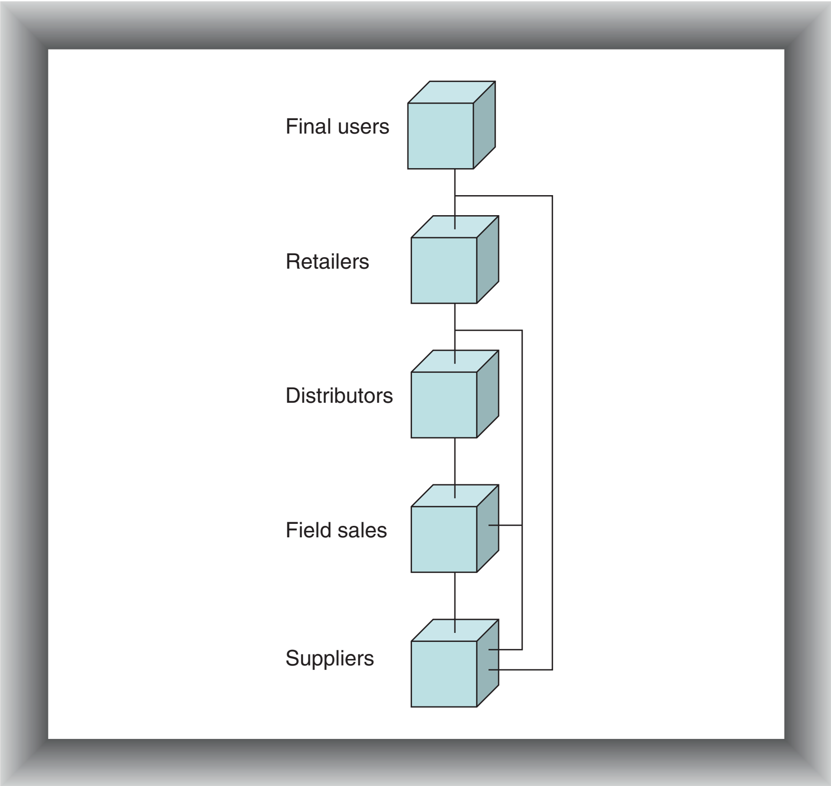

Figure 5.7
Market map with field sales identified separately
Note: In this market map, field sales are not contacted by any of the final users and only by some of the retailers. All the distributors have their business conducted through field sales.

Market research note

It is clearly useful to verify the routes to market and the role of influencers along with the decision-making and purchasing procedures in any market research you commission for your segmentation project.

Initial quantification of the market map

With quantification playing an important part later on in the process, mark at each junction and along each route the volumes or values dealt with by each of them. The figure used to size the specified market in Chapter 4 is the base for this allocation, which in most cases will be an annual figure. Where figures for this detailed breakdown of the specified market are not available, make the most informed estimates you can in order to scale the role of each junction and the different routes between them. You may find it easier to start with percentages and then, when satisfied with the allocation, convert the percentages to figures. This is illustrated in Figures 5.8 and 5.9.

The number of units 'consumed' by the final users usually equates to the number of units entering the market (any surplus being 'stock'). Please take some time to follow the routes through the map in Figure 5.8, and in

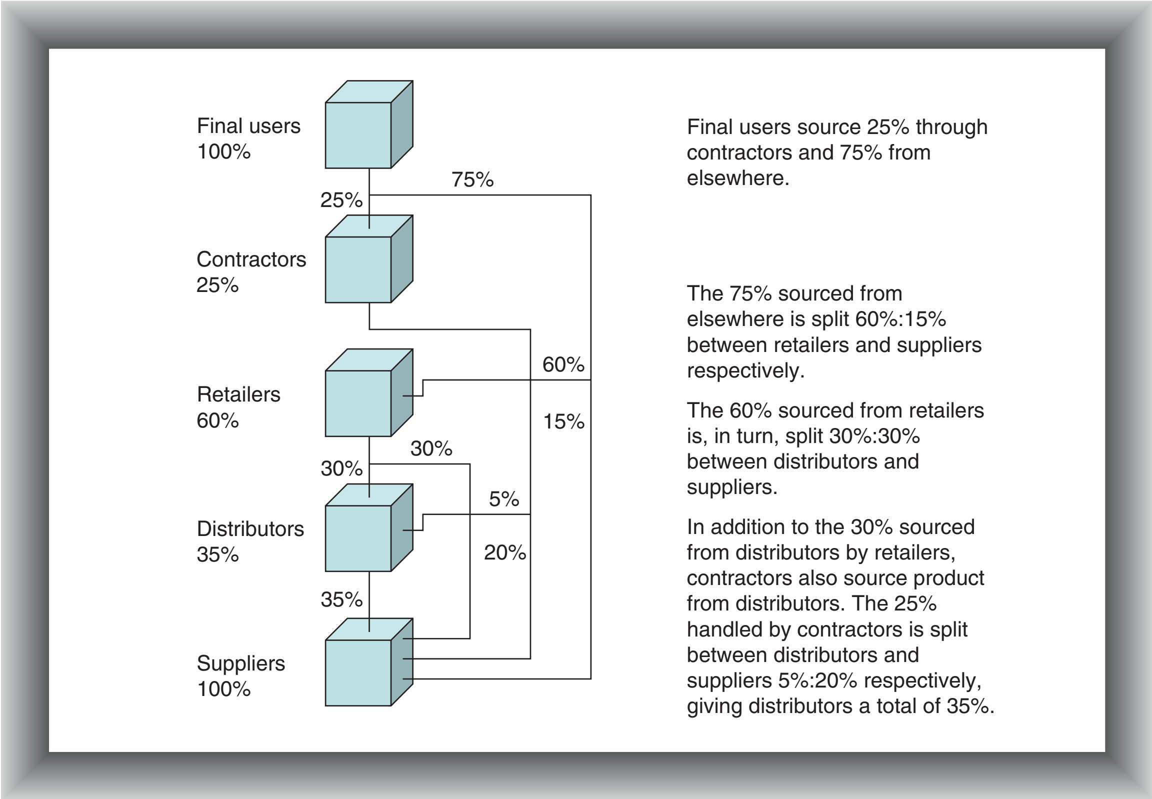

Figure 5.8 Initial quantification of a market map – percentages

Note: As the explanatory notes in the figure indicate, each percentage appearing on the map is based on the market total. So, for example, the 60% of product sourced by the final users from retailers is 60% of the market total. The balance of the 75% sourced by final users other than through contractors, i.e. 15%, which, in the above example, is sourced direct from the suppliers, is the figure that appears on the market map (though you may have arrived at this figure by determining that the split of the 75% between retailers and suppliers is 80:20).

Figure 5.9 and you will observe that, like the work of an accountant, it all 'balances'. The tabular form of marketing mapping clearly illustrates this point and Table 5.2 found later in this chapter presents Figure 5.9 in this format.

If 'influencers' feature on your market map and some of them are also final users, it is only the quantity they advise others on that is included at the 'influencer' junction.

Market research note

One of the objectives of any quantitative research commissioned for your segmentation project should be to provide you with useful statistics about the market to replace or at least better inform the estimates you make.

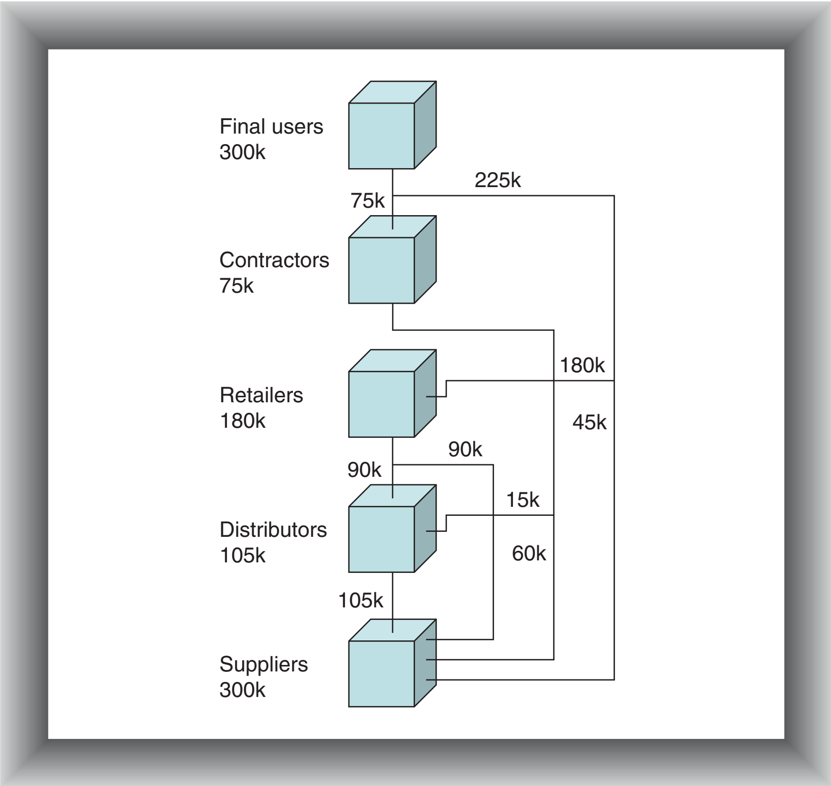

Figure 5.9
Initial quantification of a market map – figures
Note: The quantities are thousands (k) of units. The total number of units in this market is 300,000 (300k).

Adding junction types

This next stage for your market map is to expand the detail it contains, as the 'top line' picture developed so far is possibly hiding some important differences between customers. These differences could provide useful information for your segmentation project.

Note at each junction on your market map, if applicable, all the different types of companies/customers that are found there, as illustrated in Figure 5.10. If you have included a junction for 'Purchase procedures', your list for this junction would consist of the different procedures that are found at this junction, such as 'Financial director and Purchasing', 'Main board and Purchasing', and so on.

If you already have a segmentation structure for any of these junctions, based either on previous segmentation work or on natural divisions that have been observed in the market, and you are using this process to test its validity, you can use this structure to define the respective junction types. This will be useful when we are looking at preliminary segments a little later in this chapter. The market mapping routine you have followed so far could, of course, be challenging the traditional structures you have been applying to this market. In such instances, you may prefer to replace what now appears to be the out-of-date list with the new list.

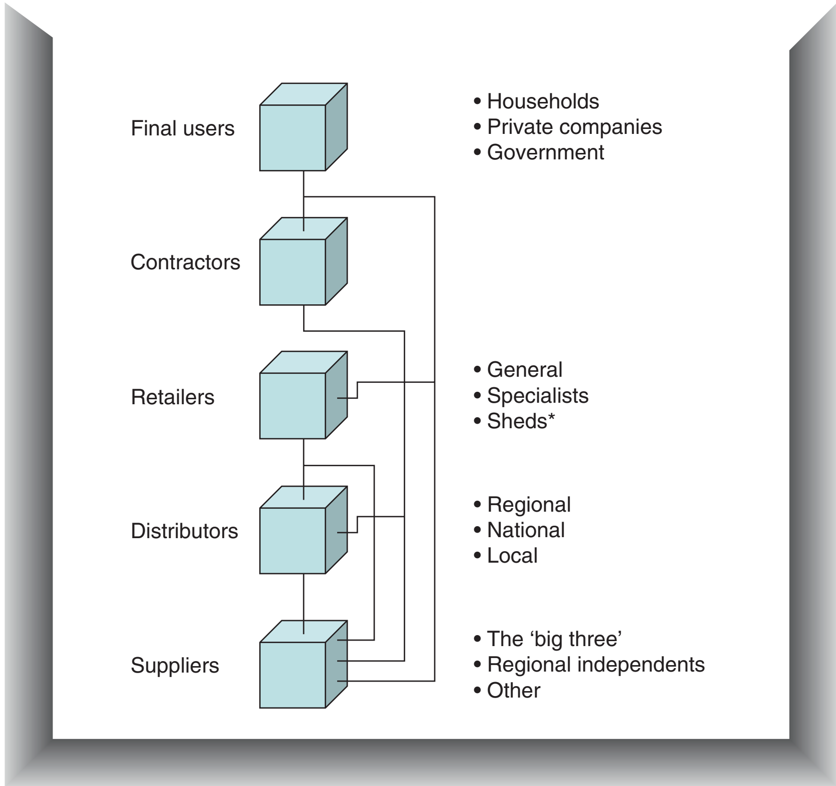

Figure 5.10
Market map listing the different junction types
Note: *'Sheds' is the name sometimes used to refer to hardware superstores.

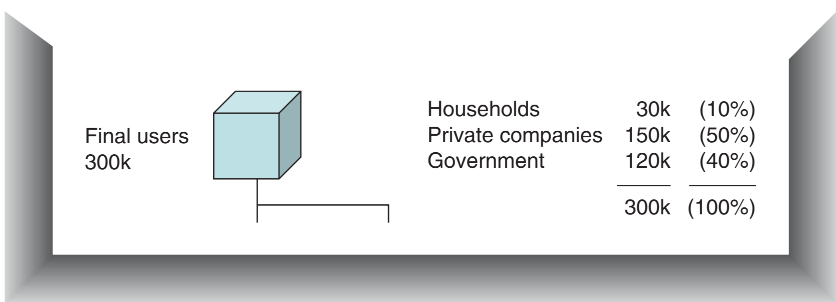

Figure 5.11
Quantities split between junction types

What may now become apparent is that the 'top line' picture of the market hides the fact that some customer types do not use all the routes to market shown at their junction. For example, it may be the case that 'Households' never use 'Contractors' in this particular market. Redrawing the market map to show this detail is looked at in a later chapter. It is not required at this stage of the process.

A refinement which is useful at this point is to split the volume or value dealt with by each junction between the junction types. Figure 5.11 illustrates how to record this for the 'Final user' types appearing in Figure 5.10.

Make the most informed estimates you can for these figures if they are not known and note this as a requirement for any follow-up work.

If easier, you can limit this level of detail to the groups you take through to the next stage of your segmentation project. This is discussed a little later in this chapter.

Market maps in the tabular form

If you would prefer to present your market map in the tabular form, Table 5.1 presents the market map in Figure 5.4 using this format. To arrive at the layout appearing in Table 5.1:

1. First, list the junctions down the left-hand side starting from the final user, and then repeat the list across the top.
2. Now indicate which junctions the final users source their products through and repeat this for each junction.

As already stated, it is not essential to start from the final user. You can start with the suppliers if you find this easier.

To quantify the market map in Table 5.1 you simply have to replace each '✓' with the amount of product sourced through that junction by each of its respective customers. Table 5.2 presents the same information contained in Figure 5.9 in this format.

Different junction types can be listed under their respective columns along with the volume or value figures dealt with by each of them by the addition of an extra row for 'Junction types' at the bottom of the table.

Table 5.1 Market map with contractor presented in tabular form

		Sourced through			
	A Final users	B Contractors	C Retailers	D Distributors	E Suppliers
A Final users		✓	✓	–	✓
B Contractors			–	✓	✓
C Retailers				✓	✓
D Distributors					✓
E Suppliers					

Note: For ease of reference each junction is identified by a letter from the alphabet.

Table 5.2 Initial quantification of a market map in tabular form

Market size: 300k	A Final users	*Sourced through* B Contractors	C Retailers	D Distributors	E Suppliers
A Final users	300k	75k	180k	–	45k
B Contractors		75k	–	15k	60k
C Retailers			180k	90k	90k
D Distributors				105k	105k
E Suppliers					300k

Note: Using 'Retailers' (junction 'C') as an example and reading across the table (left to right); 180k units are sourced through retailers by final users and the retailers, in turn, source 90k of this 180k through distributors (junction 'D') and the remaining 90k through suppliers (junction 'E').

Market leverage points

A reminder: Because there is not a general consensus on the distinction between customers and consumers, this book subsumes both under the title of 'customer'.

Now, *highlight* those junctions where decisions are made about which of the competing products or services will be purchased. These are known as 'market leverage points'. It is not necessary for *all* the customers at a junction to make this decision for the junction to become a leverage point.

Locating where leverage occurs in a market identifies the customer group(s) who will proceed to the next stage of your segmentation project. It is therefore a critical output of market mapping and should be worked through carefully.

The easiest junction at which to start this stage of market mapping is at the final users' junction. This applies to all market maps whether or not you started your map from the final users. The approach to use is as follows:

1. First, note what proportion of competing products in the specified market the final users decide will be purchased.

   If this is 100% you can move straight on to the next section. If this is not 100%;

2. Take the junction that the final users turn to next and note what proportion of the specified market they decide on. If the cumulative total is still not 100%, repeat this exercise for each subsequent junction until you have accounted for 100% of the market.

Make the most informed estimate you can; approximate percentages are acceptable and note that this needs to be verified in any follow-up work.

You can track this through using your market map as illustrated in Figure 5.12 (based on Figure 5.9).

In Figure 5.12 we have a market in which 30% of annual sales are decided at junctions other than the final user junction. Rather than make the decision themselves between the competing products and services, some final users are turning to their first point of contact and letting them make the decision on their behalf. In the example given, this is a role filled by contractors and retailers, though in other markets it could well be parents, consultants, section heads, the purchasing group, and so on.

Once again, if 'influencers' feature on your market map and some of them are also final users, it is only the quantity they decide on on behalf of others that is included at the 'influencer' junction. The quantity they decide on for their own use is included in the 'final user' figures.

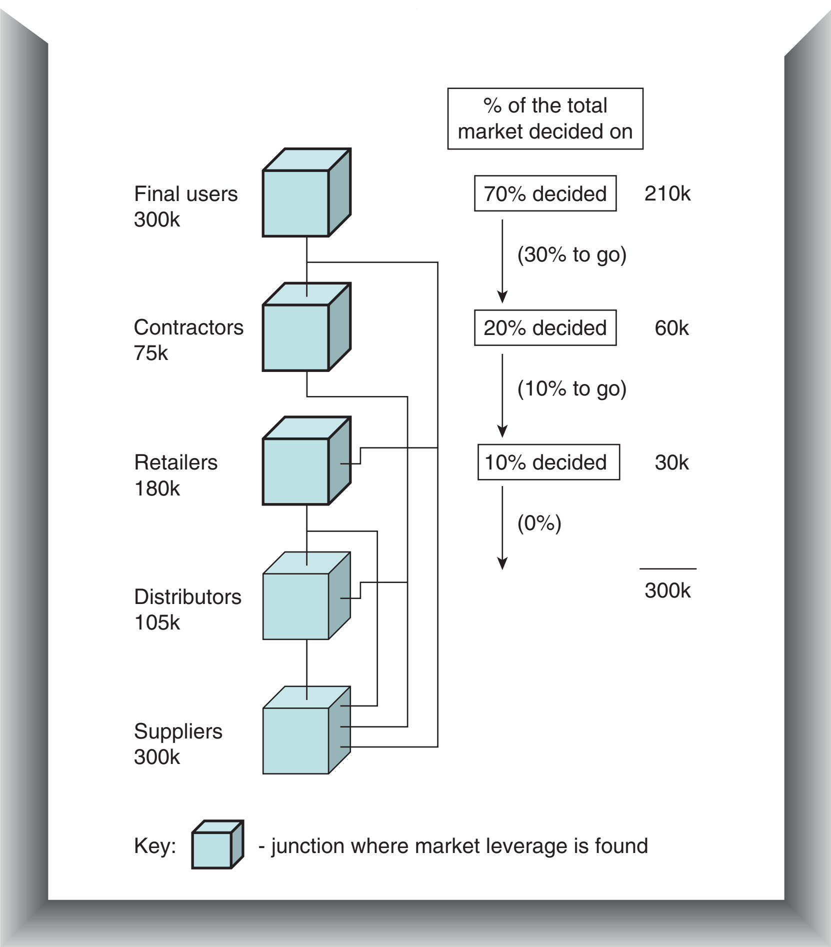

Figure 5.12
Market leverage points on a market map
Note: If you are using the tabular format for your market map, the leverage information can be added to the 'grid squares' in Table 5.2 containing the unit totals for each junction. Alternatively, either insert an extra column for 'Market leverage' next to the list of junctions and use this for recording the leverage, or add a further row at the bottom of the table and note the leverage information in their respective columns.

Marketing insight

In addition to showing the amounts decided at each junction you may also wish to note the amounts influenced by various junctions. Your market map would then illustrate the full role of each junction in the market. This is not, however, a requirement at this stage of the process and you may prefer to leave this refinement until the more detailed look at market mapping in Chapter 11.

'Shared' decision-making

Figure 5.12 assumes that each junction operates independently when it comes to decision-making. This enables us to make a straight allocation of decision-making between the junctions so that the total adds up to 100%. But this is not always the case.

Take the example presented earlier in this chapter which talked about a marketing group looking to install new technology in their call centre. There will clearly be instances where drawing up the specification and deciding on which supplier is to be given the contract will be shared between marketing and IT. It may well include others, such as the purchasing group. When this occurs, a straight allocation of decision-making on a market map that has 'marketing' and 'IT' as separate junctions will not work, but showing them separately is important for understanding how the market operates.

To cover this situation, simply note at the 'marketing' junction the amount they share with IT. This could be along the lines suggested in Figure 5.13.

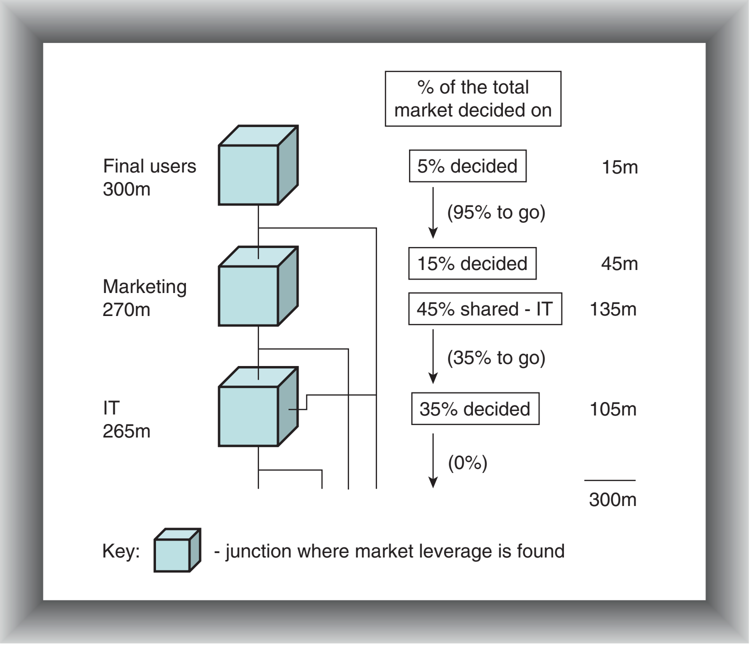

Figure 5.13 Shared market leverage points on a market map
Note: The quantities are monetary and in millions (m).

The above situation will also be seen in business-to-consumer markets. For example, when looking for a new car, the final user, the driver, will certainly have their own requirements but they may also feel obliged to take into account the requirements of others in their household before deciding which car to buy.

However, before you conclude that a decision is shared, apply the 'one phone call test'. This assumes you have sufficient funds only for one final phone call in order to swing the sale in your favour. You therefore have to make this call to the most important decision-maker (or influencer). Who would you call? If making this choice is not too difficult, it suggests that the decision really belongs to one junction.

Before concluding that decision-making is shared, apply the 'one phone call test'.

Marketing insight

A customer seeking advice before making a purchase does not mean they are sharing their decision with the source of the advice. The information they collect is usually evaluated against their own requirements. All that has happened is that their choice is now better informed.

For example, a parent deciding that a mobile phone is in fact a 'must-have' item could well turn to the younger members of their family for help and advice in deciding which model and network they should choose. They then evaluate this information and make their own decision.

'Cumulative' decision-making

By 'cumulative' decision-making we are referring to markets which consist of one or more junctions which act as 'gateways' through which you and all your competitors have to pass before making a successful sale. A company that fails at a gateway junction does not make a sale. In terms of decision-making, therefore, allocating 100% between the junctions does not correctly portray how this market works.

Pharmaceutical companies clearly come across this situation when looking to launch a new drug. They need approval for the drug by the licensing authority before it can be sold. In terms of decision-making, 100% rests with the licensing authority and, once approved, a further 100% will be distributed between the different junctions in the market being served. This can easily be captured on a single market map by simply dividing it into two parts.

'Cumulative' decision-making is also illustrated by the following example.

In order to win an oil exploration licence each company submitting a tender has to go through a series of stages for approval. Failure at any stage either requires the tender

(*Continued*)

document (and supporting presentation) to be reworked or it simply knocks the company out of the contest. Each stage, however, requires a totally different proposal which has to meet its own decision-making criteria (which often requires detailed insights into the individuals making the assessment).

Each stage, or junction, can be mapped out, just as we have done in this chapter, except that when it comes to decision-making, each stage is given 100%.

A strategy for each stage is then developed based on the requirements of the invitation to tender and the individuals who will be assessing the proposals.

Selecting the junction to be segmented

In most markets, segmentation should first take place at the final users' junction, if this is sufficiently important.

For most markets it is recommended that segmentation should first take place at the final users' junction, provided it is a junction where there are decision-makers and that the quantity decided on at that leverage point justifies it. Once the segmentation process has been completed for this particular junction, the process can then be repeated for each successive junction where decisions are made and the quantity they decide on justifies a separate project. It is often the case that these subsequent projects benefit from having the segmentation process completed for earlier junctions if they are sufficiently important.

Not all markets, however, are suited to this guideline, as illustrated in Figure 5.14.

Basing a segmentation project on the final users in the business-to-consumer example in Figure 5.14 would clearly make sense as they account for 70% of the quantity decided on in that particular market. However, segmenting the final users in the business-to-business example in Figure 5.14 would appear to make no sense at all. To have such a low percentage of final users with leverage could be either because they have little choice in the matter, or because the products or services in question are of little interest to them, which may apply, for example, to the supplier of telephone services.

Although it is usually easier to progress your segmentation project a single junction at a time, it is possible in business-to-business projects in particular to include a number of junctions in one project if they are all from the same category of organization on the market map.

The next guideline would be to start at the junction nearest to the final users where significant leverage occurs. In the business-to-business example this could be the 'Section heads', though starting with the 'Approval group' would appear to make more sense as they account for the highest proportion of the decisions. Although it is usually easier to progress your segmentation project a single junction at a time, a quite different possibility exists in the business-to-business example in Figure 5.14: a single project which includes the 'Section heads' and 'Approval groups', along with the 'Buying department' and 'Final users' should be both manageable and productive. This is because in

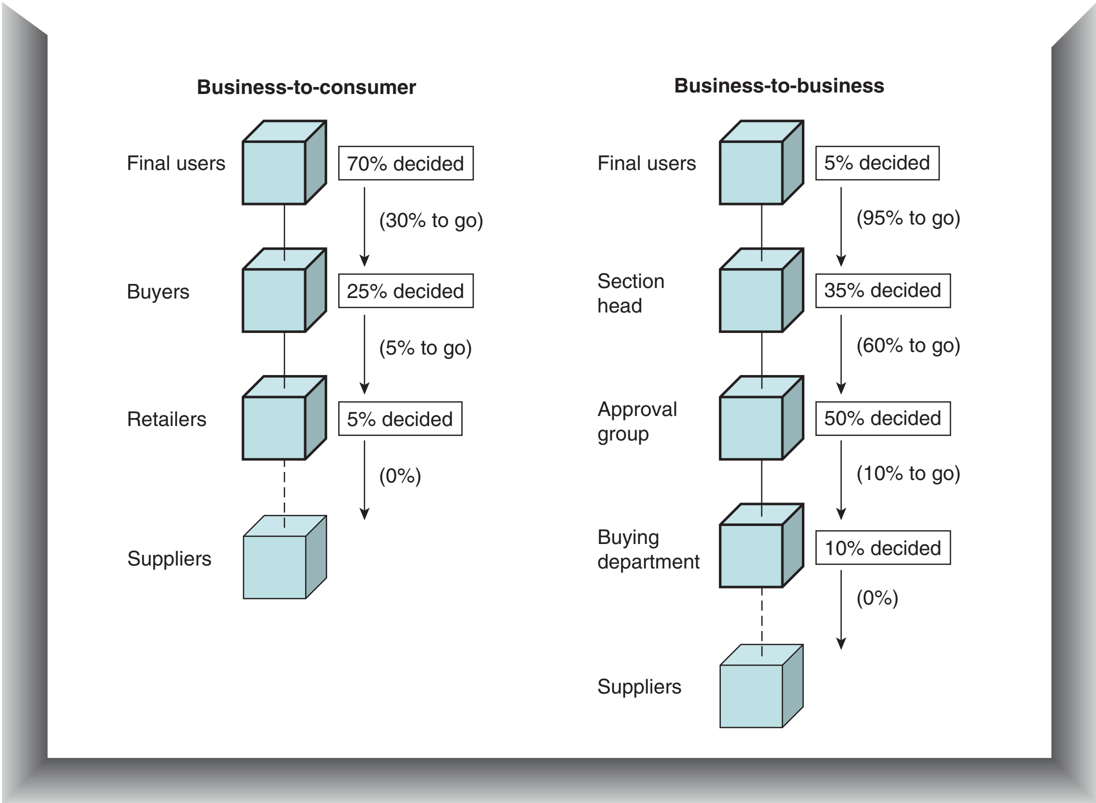

Figure 5.14 Selecting the junction to be segmented

business-to-business markets in particular, including in one project all the different leverage points located in the same category of organization on the market map (as described in the next paragraph) often works well. Try it and see.

If you elect to work with more than one junction at a time, it is advisable that they are found within one of the following categories:

1. those who are involved in the final consumption of a product or service; or
2. those who are involved in the distribution chain; or
3. those who are involved in taking a product or service and adding to it in some way before selling it on.

So it is clear, for the first and third categories, this would include those who actually undertook the activity described, along with those who stood in for them and 'represented' them in the marketplace. In many cases, they will also be located in the same type of establishment (such as a household or manufacturer). As an example, this would enable all the decision-makers in the business-to-business market featured in Figure 5.14 to be included in one project.

If more than one junction is to be included in the project, ensure they perform a similar role in the market.

What each of the above categories intends to do with a product is clearly quite different, and this will be reflected in their requirements. Therefore, to include junctions from more than one category in a single project is likely to make the project unmanageable and, in turn, unproductive.

In those markets where there is shared decision-making, as illustrated in Figure 5.13, it usually helps if you work through the segmentation project for each of the junctions who share this responsibility at the same time.

To include or exclude non-leverage groups

An important question we need to address before moving on to the next stage of your segmentation project is whether or not to include those who do not make the decision at the junction you are segmenting. Our guideline is as follows.

Marketing insight

When the junction you are segmenting consists of some who make the decision and others who do not, and it is a junction where it would be to your advantage to have them make the decision themselves, include *all* of them in your segmentation project *if it is by choice* that the decision is left to others. Better targeted offers may persuade them to make the decision themselves.

If, on the other hand, those who do not make the decision have no other choice in the matter (which could well be the case in the business-to-business example in Figure 5.14), they can be excluded from your segmentation project.

For both the companies below, a better understanding of customer requirements, including the requirements of customers previously regarded as having no interest in selecting between alternative offers, identified extra revenue opportunities and higher margins with these non-leverage groups. In both cases the customer groups in question could make the decision if they wanted to.

A market research project, commissioned by a manufacturing company to help them with their segmentation project, identified that 11% of the market went to final users who simply bought whatever their local retailer stocked. This same research project, however, also identified that if a manufacturer were to put together a product range specifically targeted at this group (a group previously ignored by all the manufacturers), the group would specify this product range, thereby shifting the leverage away from powerful retail buyers.

Another manufacturing company, whose products were installed in domestic, industrial and commercial premises by trade professionals, conducted an analysis of the total UK market for their product line. This analysis illustrated that around half the total volume went to customers who, they believed, were not leverage points. Key in this group were the domestic users who were heavily dependent on a very diverse group of installers who, in turn, were heavily dependent on the purchasing policies of powerful distributors. In looking for opportunities to develop demand pull for their product, this company researched both the non-leveraging domestic and non-leveraging installer groups. The findings of the research identified new opportunities with some, though not all, the customers in these two groups. This led to some important strategic changes for the company, and to have ignored these two non-leveraging groups in their project would have clearly been very short sighted.

The company in the following example, however, excluded the non-leveraging groups from their segmentation project. This was because the decision had been taken away from them and they had no choice in the matter.

A manufacturer of expensive medical equipment found that in many hospitals the decision on what equipment was to be bought had moved away from the final users and their departmental heads to the senior management. In fact, these departments, who historically had controlled the decision for virtually all equipment purchases and with whom the manufacturer had developed a competitive edge, were now responsible for little over half of what was bought.

A key component of their segmentation project, therefore, was to understand where the decision-making had moved to and on what criteria these decisions were based. Anyone who did not have decision-making authority was excluded from the project.

The findings had major implications for their sales strategies and required the addition of support packages, such as financing, which they had never considered in the past and had little experience with. What the company found particularly difficult with these 'new' leverage groups was that they could no longer depend on the technical leadership of their equipment to win the contract. It did, however, explain why they were losing market share to a manufacturer whose equipment they rated as inferior, but which had a financing division.

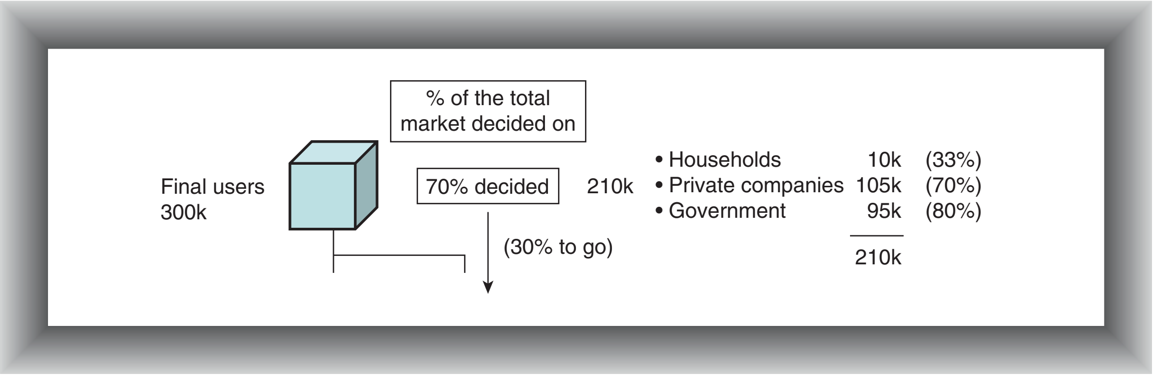

Figure 5.15 Quantities decided on split between junction types
Note: A useful preparatory step is to split the volume or value quantity dealt with by the junction between the junction types (as in Figure 5.11).

If it is appropriate that only those with leverage go through to the next stage of your segmentation project, a further refinement you could add to your market map is to split the quantity leveraged between the junction types at each junction to be segmented. Figure 5.15 illustrates how to record this for the 'Final users' appearing in Figure 5.10, with the percentages in parenthesis by each junction type indicating what they each decide on. These percentages are applied to the quantities listed in Figure 5.11.

Informed estimates for these figures may, of course, be required. They can be verified in any follow-up work.

Market research note

The market map provides important guidelines for any market research commissioned to improve your understanding of the market your business is in. It identifies the different target groups to be included in the sample frame for both the qualitative and quantitative stages of the research.

Testing current views about segments: preliminary segments

While constructing your market map, you may have chosen the option of basing junction types on a segmentation structure you already have or have developed while progressing through this step in the process. It is clearly useful if the validity of current views, whether or not they have been captured on the market map, can be tested in some way, and, in so doing, be tracked through the segmentation process. This can be achieved by introducing these views into the project as 'preliminary segments'. Clearly, only the views applicable to that part of the market you plan to take into the next step are appropriate at this point. Preliminary segments are optional, but before deciding whether or not they are relevant to your project, we suggest you first read through this section.

'Preliminary segments' are optional.

We should emphasize that structuring your project around these groups and taking them through the segmentation process is quite acceptable. The rigour of the process ensures it will not prejudice the outcome in any way. The process you are following will break these preliminary segments down into a number of smaller decision-making groups and then look across *all* of them for similarities in their requirements, regardless of which preliminary segment they came from. *Preliminary segments simply form a base from which to work.*

If you decide to introduce preliminary segments into the project, it is recommended that you keep the number low, preferably five or fewer and certainly no more than 10. This is particularly important when working through the segmentation process using information already held by your company.

Preliminary segments could consist of any of the following:

- A current segmentation structure
- Junctions (if more than one junction is included in a project)
- Junction types
- Leverage and non-leverage groups (if both are to be included)
- Standard approaches to dividing customers in your industry, for example, using demographics for individuals and firmographics for companies (discussed in the next chapter)
- Extent of experience in the market, separating out, for example, first-time buyers and experienced buyers

Preliminary segments based on different end-uses (applications) for the product can be particularly helpful.

A particularly useful option for preliminary segments is to differentiate between customers according to the particular end-use, or application, they have for the product or service, assuming this possibility exists within the confines of the market definition for your project.[1] It is highly likely that these different applications will have an important input into how the market splits into segments. For example, take your own company and the cleaning services you require; the requirements for the general office areas, customer areas and the manufacturing plant (particularly if the manufacturing process involves precision instruments) could very well be different. It would clearly help the company segmenting a market that covered all of these end-uses to regard each application as a distinct preliminary segment.

In business-to-business markets, different applications can often be associated with different industries or with different departments. Likewise, the different rooms in a house can be considered as being different 'departments' when the products or services bought for these rooms are being bought with a different 'application' in mind, such as,

[1]A discussion about using distinct end-uses or applications as market boundaries appeared in 'Developing the market definition' in Chapter 4.

for example, items bought for the guest's bedroom and your own family's bedrooms.

A further option for preliminary segments, therefore, is:

- Different end-uses (applications) for the product

Finally; two distinct groups you may want to consider in your project are lapsed customers who appear to have completely opted out of the market and prospects who, on the face of it, appear to have the 'need' captured in the market definition but are not buying anything as yet. In both cases, a better understanding of their requirements and the development of appropriate offers could lead to new and profitable sales opportunities.

As your project will refer to the preliminary segments on a number of occasions, it is easier if each of them is identified by using a name that describes *who* it represents. This helps emphasize that segmentation is about customers and it will also contribute to the next step in the process where we take a more detailed look at describing who the decision-makers are.

Sizing preliminary segments

To help you in later steps in the process, attempt to allocate to each preliminary segment the quantity they account for. As before, come up with the most informed estimates you can make.

Process check

The primary purpose of market mapping in segmentation is to identify which customers should proceed to the next stage of the project. It is a key step and requires to be worked through carefully.

We have progressively built a market map by tracking the distribution and value added chain found between final users and suppliers, and shown the various routes that are taken through the map to link the two together. While doing this we highlighted the need to ensure that the map does not overlook any 'hidden' final users. We also highlighted the importance of including influencers and/or advisers on the map, even though they may not feature in any transaction.

We then moved on to quantifying the map based on the volume or value figure used to size the specified market in the previous chapter. We noted that deriving informed estimates would probably be required to complete the allocation of this figure to the various stages ('junctions') and routes along the map, particularly for a first look at market mapping. Any subsequent quantitative research should then be used to improve the accuracy of this allocation.

The details on the market map were then expanded to show the different types of companies/customers found at each junction on the map and these were also quantified.

We then highlighted where decisions were made about the competing products or services ('market leverage points') and illustrated their decision-making importance by showing how much of the market their decision accounted for, with further informed estimates being used when required. We also discussed how to accommodate 'shared' and 'cumulative' decision-making on the map.

This then led us to consider which of the decision-makers should be taken to the next stage of the segmentation project, the principal guideline being first to segment the final users before moving on to look at other decision-makers. For markets in which the final users only account for a small proportion of the decision-making, other options were discussed. We made the point that it is usually easier to progress a segmentation project a single junction at a time, but also identified the criteria to follow when electing to combine a number of junctions on the market map into a single project, commenting that it was an approach that often worked well in business-to-business markets. We followed this by considering the circumstances in which it is appropriate to include in the project those who leave the decision-making to someone else. New propositions based around the needs of these customers could persuade them to regain control of the decision, assuming their circumstances allow them to do this.

Finally, we presented the opportunity to introduce into the project and test any currently held views about how the market splits into segments ('preliminary segments'). These could be long-held views or new ideas that have been developed while building the market map. This is purely optional and will not prejudice the outcome in any way.

Case study

The segmentation team at Agrofertilizers have clearly defined the scope of their project and have been able to size the specified market using government statistics and their own trade association's statistics. It was now time to identify which group of customers should be the focus for their project. The preference within the company was to start with the agricultural merchants, as they were key in getting fertilizers to the farmers and the group on which they spent most of their sales and marketing resources. However, the team were not so sure that this was the best place to start, even though a detailed understanding of merchants and their requirements would certainly be helpful.

The market map put together by the team is summarized in Figure 5.16.

(*Continued*)

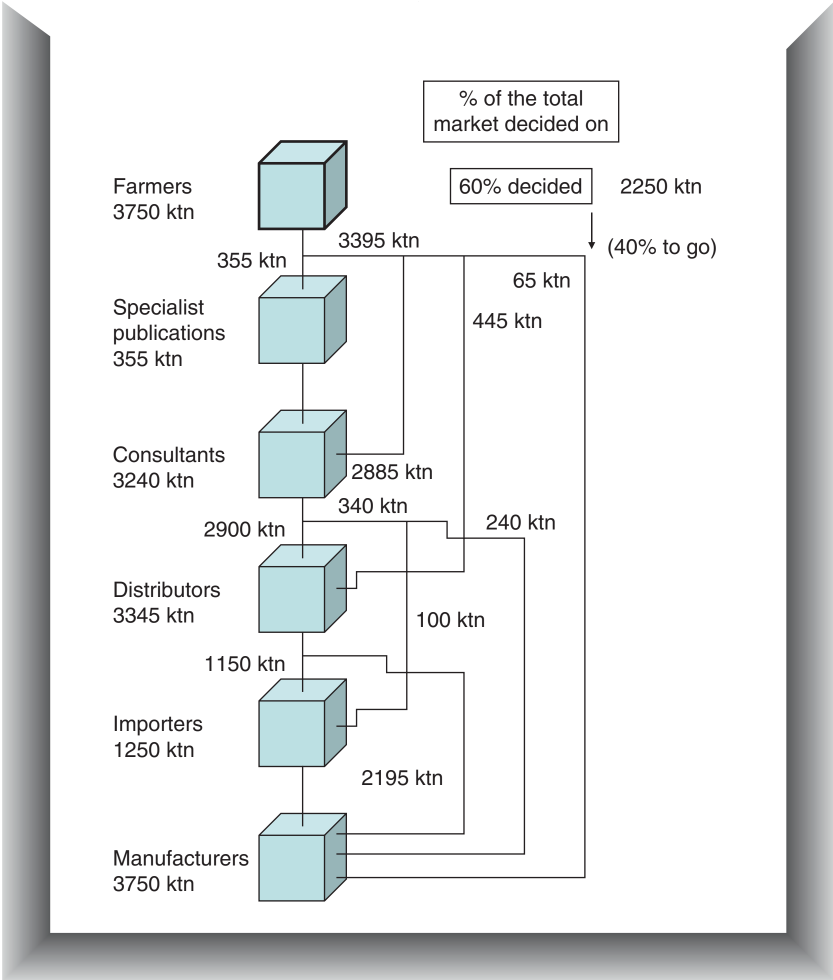

Figure 5.16 Market map for commercial crop nutrients

Note: Only the leverage figures for the final users are illustrated on this market map. There were three types of consultants operating in the market, independent consultants, a number working for distributors and a number working for the manufacturers (the largest of the three types). Only the independent consultants charged for their services at the time of the project, the others providing their services as part of their company's offer. This was why such a high proportion of the market went through consultants. Three types of distributors were also identified: national; independents; cooperatives and clubs (grouped as a single type). A more detailed map for this market appears as Figure 11.8 in Chapter 11. The quantities are kilotonnes (ktn) of fertilizers.

From the information available, the team concluded that around 60% of the specified market was decided by farmers, with a small percentage attributable to the specialist publications and the rest split between consultants and distributors. It was therefore agreed by the full segmentation team that their first segmentation project

(*Continued*)

had to focus on the farmers. It was also agreed that the project should include the farmers who currently did not make the decision for themselves. An understanding of why these farmers chose not to make their own decision was of great interest to the company as they were keen to explore if there were opportunities for moving the balance of power in the market firmly back into the hands of the farmers. It was shifting, uncomfortably, into the hands of powerful merchants. Besides, it had become very apparent to the team that the company did not really understand the buying priorities of farmers in the market for commercial crop nutrients. The company basically told farmers what was best for their crops and, as one of the sales team commented, 'we have never really "sold" anything to a *farmer*'.

Although not essential, the team considered it would be helpful if the farmers were identified as either 'arable' farmers, 'grassland' farmers (keeping dairy animals, beef and/or sheep) or as farmers running a 'mixed' enterprise. These were the three principal categories the company referred to when describing farmers and became the preliminary segments for the project. They sized these three preliminary segments as follows:

- arable – 950 ktn;
- grassland – 1450 ktn;
- mixed – 1350 ktn.

It is worth noting that in classifying a farmer, for example, as an 'arable' farmer, this did not always mean the farmer was exclusively growing arable crops. It also included farms which had, for example, grassland for beef cattle, but for whom that part of their overall business was less important than the arable crops. Conversely, some of the farmers classified as 'grassland' farmers could also be growing some arable crops but, once again, their focus would be on the grassland part of their business.

A summary of the project's status so far is illustrated in Figure 5.17.

Further examples

The following are a selection of market maps pulled together by various companies as part of their segmentation projects. The level of information they contain is varied. All have been edited for reasons of commercial confidentiality.

Example 5.1

The example in Figure 5.18 is for a market in which the need is met by a particular type of internal wall covering which, although principally targeted at the professional trade, is also bought by home owners who wish to do-it-themselves (DIY).

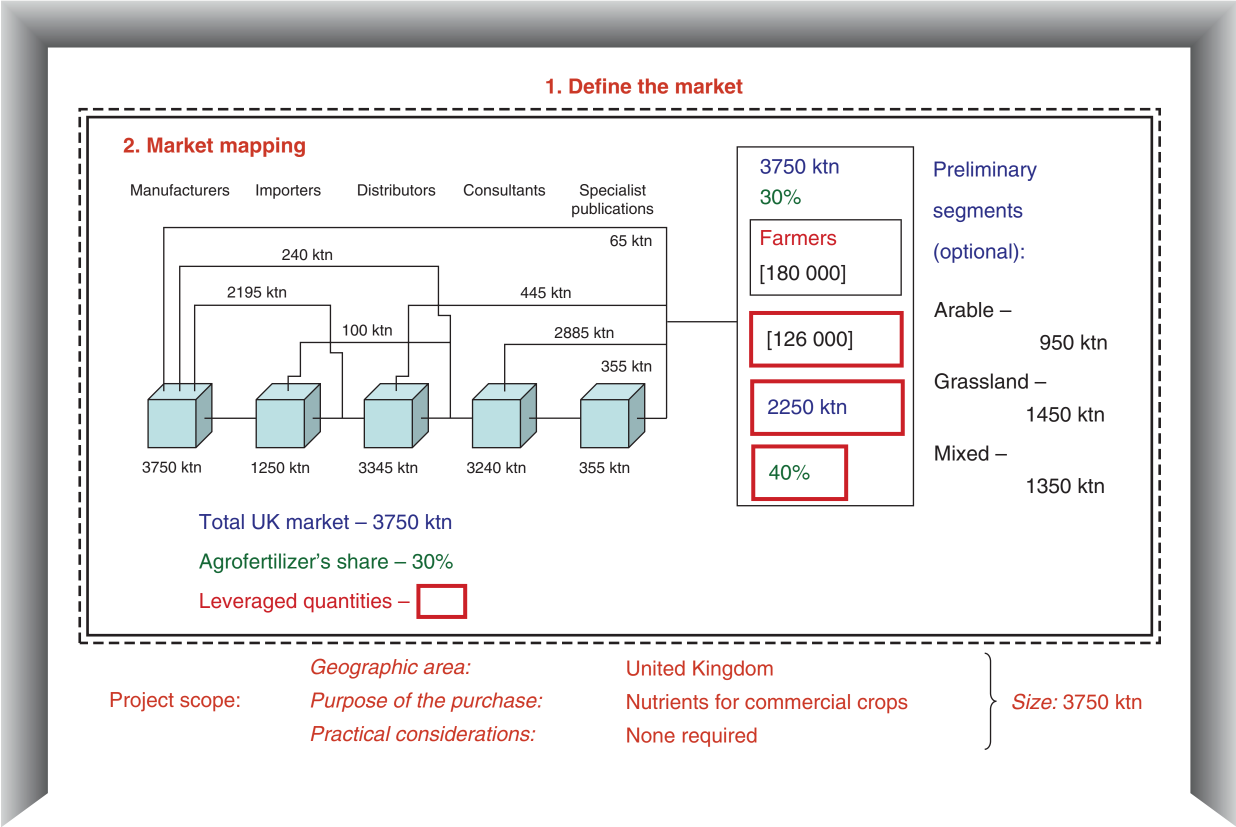

Figure 5.17 The segmentation process – Steps 1 and 2

Note: The market map is now in a horizontal format with the suppliers (manufacturers) on the left. The company's share of the market is included in this map, as is their estimated share of the quantity specified by the final users. A figure representing the number of farmers in the UK also appears ([180,000]), along with an estimate of the number who decide on which fertilizer will be bought. The inclusion of market share and the number of customers with leverage is covered in Chapter 11, 'Realizing the full potential of market mapping', and is not required at this stage.

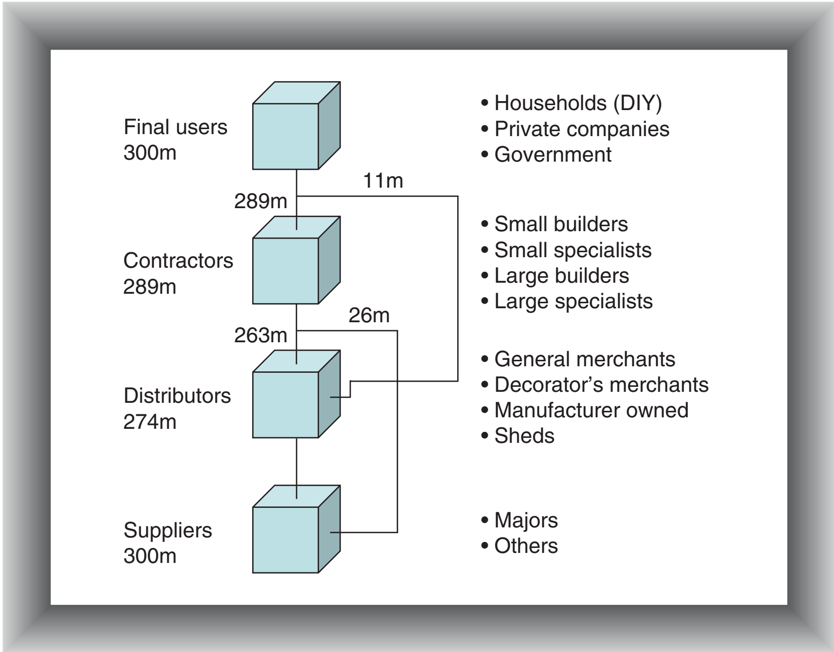

Figure 5.18 Market map example – internal wall covering

Note: The particular company undertaking the segmentation project for the market represented in this figure was, in fact, located in the distributors' junction. They were particularly interested in understanding the motivations behind final users dealing direct with the suppliers and the trends in this particular route to market. The quantities are monetary and in millions (m).

Example 5.2

The second example, Figure 5.19, is for a company publishing educational books and support materials in a particular field.

Example 5.3

Figure 5.20 is for a market in which the need is currently met through the use of very expensive, specialized technical equipment. This equipment is found both in large companies and in specialist, smaller companies.

Example 5.4

The final example is for a company manufacturing items that are installed both in commercial and domestic premises. This company preferred to use the tabular format and their first look at the map for their market appears in Table 5.3.

■ Exercises

Exercise 5.1

For this exercise, take a product or service that you use at work or at home and capture all the stages that occur from when your intention to

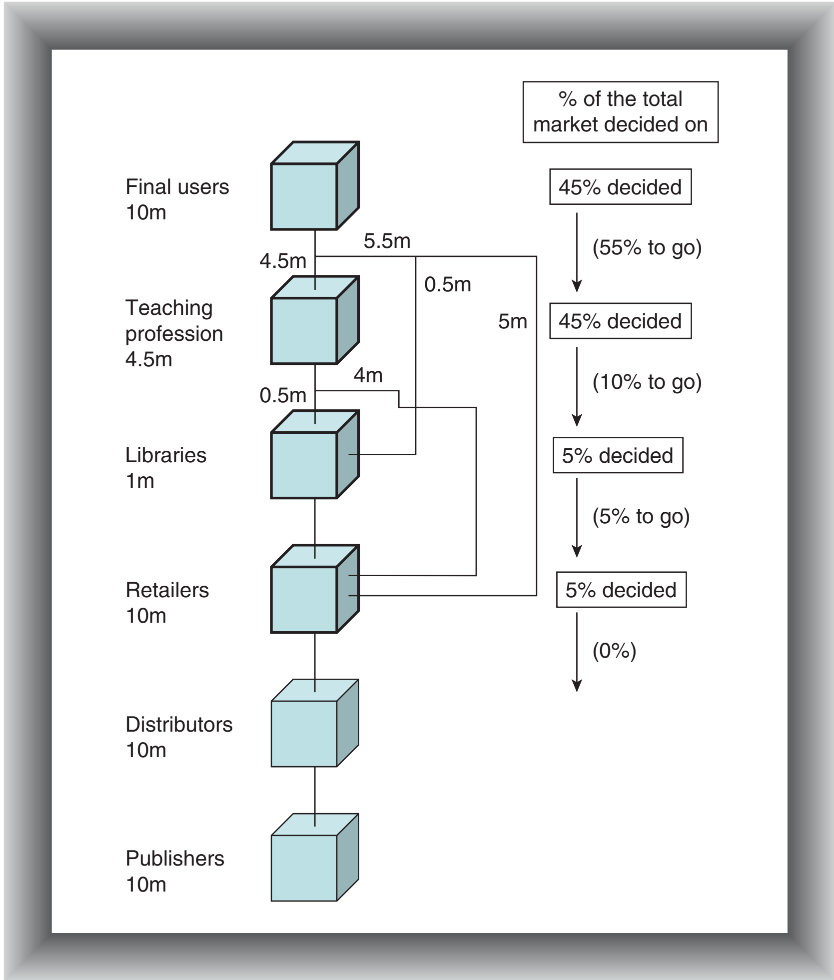

Figure 5.19 Market map example – acquiring knowledge (books and support materials)

Note: Although material would be borrowed from libraries and used by many individuals, the quantities relate to sales, are monetary and in millions (m). Five types of final users were identified for this market map, including working professionals, postgraduate and undergraduate students. With respect to the teaching profession there were three types and libraries were basically split between public libraries and those in academic institutions. At the retailers junction the project team identified eight junction types, including bookseller chains, specialist booksellers, library suppliers, book clubs and internet booksellers.

acquire the product is initiated through to the products place of origin, in other words, to the supplier, if you can take it that far. Start with a fairly straightforward acquisition and progress to a more complex one, such as an acquisition which involves seeking advice and/or obtaining the approval of others. A worksheet for this, and the following exercise, appears in Figure 5.21. Make as many copies as you need.

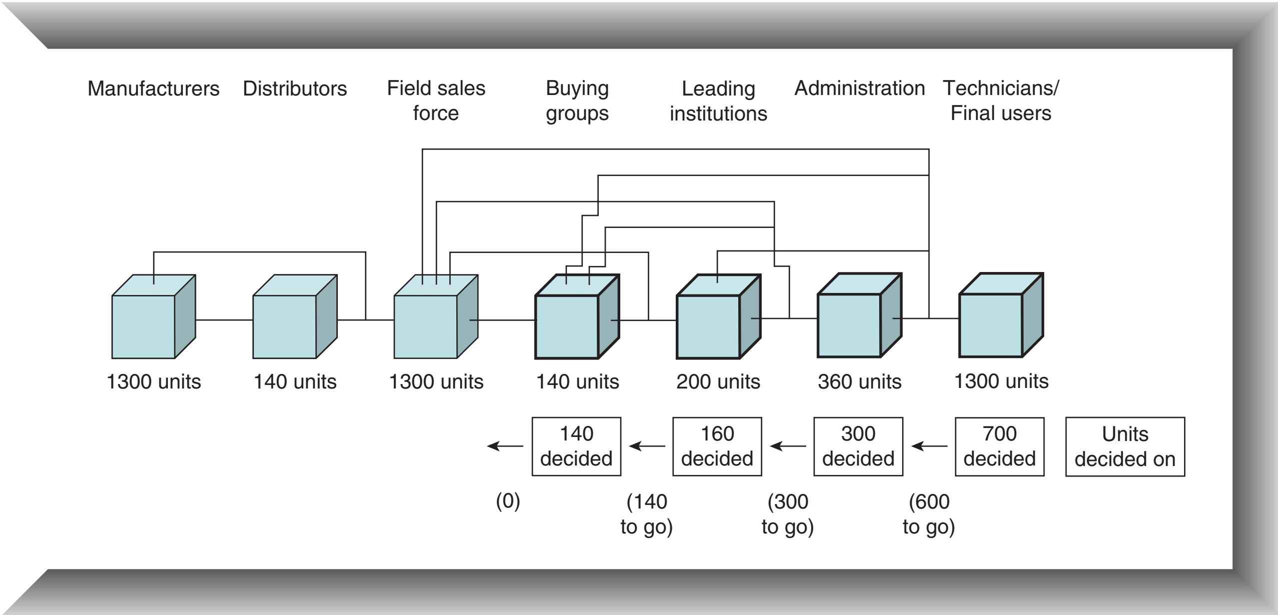

Figure 5.20 Market map example – specialized technical equipment

Note: In later stages of this project the technicians and final users were separated into two distinct junctions with the final users deciding on 460 units and the technicians on 240 units. To progress the development of segments, the company took each decision-making group in turn through the next three steps of the process. The quantities, expressed as units, are pieces of equipment bought.

Table 5.3 Market map example in tabular form – items installed in premises

Market size: 3275	A Final users	*Sourced through* B Consultants	C Installers	D Distributors	E Suppliers
A Final users	3275	330	2900	45	–
B Consultants		330	330	–	–
C Installers			3230	3230	–
D Distributors				3275	3275
E Suppliers					3275
Junction types	Residential Public Commercial	Consultants	In-house engineering National fitters Local independent Contractors	National Large independent Small independent Sheds	Domestic manufs. Importers
Leverage	64%	5%	30%	1%	–

Note: The market information accessible to this company was limited. The above table was produced by using well-informed estimates, linked into data that were available. As in many companies, the nearer this company came to the final users, the less they actually knew about them. The quantities are in thousands of units.

Once you have completed all the stages for your acquisition, consider what other customers in the same markets would do. Add any additional stages this uncovers to the market map and include the various routes that occur between the junctions.

Finally, highlight those junctions where decisions are made about which of the competing products or services will be purchased and indicate, as best as you can, the proportions decided on at the various leverage points.

Exercise 5.2

Now apply the above to the market for your project. You may need to conduct a few trial runs before drawing your final market map.

Once you have completed the map as best you can, consider discussing it with others in the company to see if they can add any further details to what you have drawn up.

How does this first look at the distribution of leverage compare with your company's allocation of its sales and marketing resources in the market?

How do you think this map may change in the next few years?

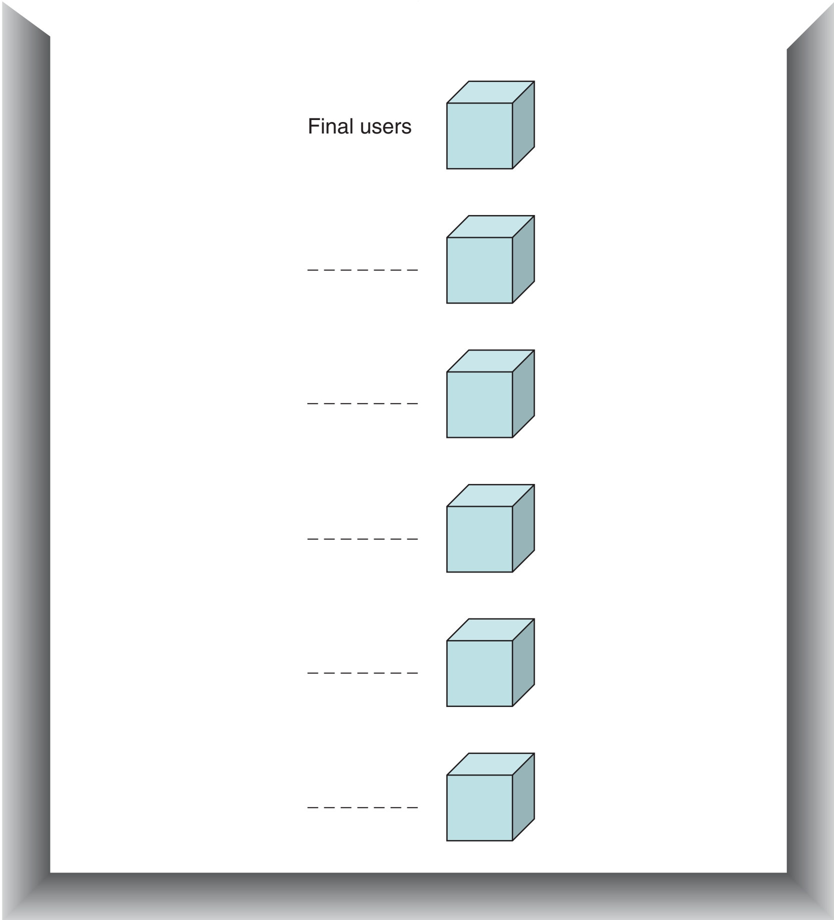

Figure 5.21
Worksheet – market map

Exercise 5.3

Here we discuss three purchase situations to help better understand market leverage.

1. A customer goes into a retailer to buy a specific brand of toothpaste. Unfortunately, the specific brand they are looking for is not in stock, but rather than look elsewhere, the customer buys an alternative brand that is on the shelf. The alternative brand is, of course, one selected by the retailer, so does this make the retailer the leverage point for this particular transaction?

   The customer still has leverage, despite what happened, because they intended to purchase one particular brand. Unfortunately, the strength of the brand is not sufficient enough to counter the inconvenience of looking in a number of retailers for it, so when it is not in stock, the customer buys whatever is available at the time. A better understanding of the customer's preferences may reveal opportunities to strengthen the brand. This situation may, of course, be remedied by improving the company's logistics and/or by having a better understanding of the retailers and their needs.

2. A customer goes into their local home appliances store to purchase a new washing machine. Their last washing machine was very good and they would like to buy another one of the same make. Although the store has this brand in stock, the sales representative suggests another model and enthusiastically explains the benefits of the alternative. The customer, however, is not convinced and buys the machine they went in to buy.

   Here the customer is clearly the leverage point.

   But another customer with exactly the same intention buys the machine recommended by the sales representative. Where does the leverage rest in this situation?

   With the information available, the customer should still be seen as having leverage. This is because they appear to have listened to advice and weighed it up themselves before making their choice. If they had simply gone into the shop and asked the sales representative to suggest what machine they should buy, and they bought it purely on the sales representative's recommendation, then the retailer would have leverage.

3. A buying group set up to act on behalf of a number of businesses is purchasing laptop computers. Some of the businesses have provided the buying group with the model and the brand they require while others have given a broad indication of the specification they require but, apart from that, have left it in the hands of the buying group. What is the leverage position here?

   For the businesses who have specified both the brand and the model, the leverage, quite clearly, rests with them. For the others, the fact that they have at least provided a broad specification means that the leverage is shared between the buying group and these particular businesses. If, on the other hand, these businesses had simply instructed the buying group to purchase laptop computers and left it at that, the leverage would rest with the buying group.

It is worth concluding this exercise by adding that it is usually advantageous first to segment the final users in a market, provided they are either:

1. sufficiently important with respect to decision-making; or
2. they could be encouraged to become an important group of decision-makers if only the right offers were made available.

6 Developing a representative sample of different decision-makers

Summary

For the vast majority of markets it simply is not feasible, or even necessary, to include all the decision-makers who are now the focus of your segmentation project. The concluding segments are therefore derived from a sample of decision-makers who, between them, represent the specified market as a whole.

For projects which include current decision-makers and potential decision-makers, this book now uses the term 'decision-maker' to refer to both.

This chapter provides the guidelines you require in order to develop a representative sample of different decision-makers when conducting a segmentation project using internal resources. In building your model of the specified market, this, the third step in the segmentation process, as illustrated in Figure 6.1, identifies the characteristics and properties of a purchase on which decisions are made along with the customer attributes that will be used to describe the decision-makers. It is the very heart of the

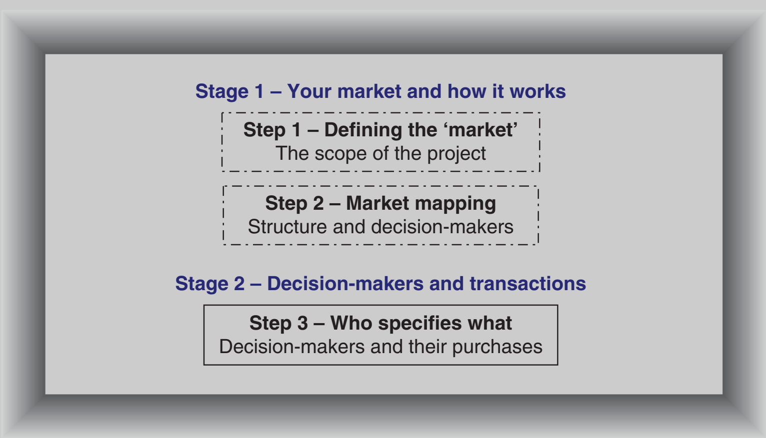

Figure 6.1 The segmentation process – Step 3
Note: 'What' refers to all aspects of a purchase and therefore includes 'where' products are bought, 'when' they are bought and 'how' they are bought in addition to what the actual product or service itself is, consists of, or is made from.

(*Continued*)

segmentation process and, as such, requires you to give it careful thought.

This step is the very heart of the segmentation process and requires careful thought.

The pivotal importance of this step in the segmentation process accounts for it being our longest chapter, though the procedure for completing the step occupies only around one-quarter of it. Reference sections for the key inputs are included for those who require them and account for a significant portion of the chapter.

Information for this step potentially can be found in a number of areas and may require you to talk with a cross-section of representatives from sales, marketing, customer services, customer enquiries and ordering, as well as from distribution. Revisiting appropriate past market surveys may also provide valuable input. It is important to remember, however, that you are looking at the entire market falling within the scope of your segmentation project, not just your own customers.

The principle behind this step is that by observing the purchase behaviour of decision-makers and understanding the key constituents of this behaviour, we have a platform for developing a detailed understanding of their motivations. It is, therefore, a critical link with the next step of the segmentation process, which looks at why decision-makers select the particular products and services they specify. This, in turn, becomes the basis on which the segments are formed.

An alternative approach to developing your own model of the market is to commission an external market research agency to take over your segmentation project at this point, and an agency which fully understands what *market* segmentation involves will deliver a good project. However, it is our experience that this is best deferred until your internal segmentation project has completed the phase of developing segments, after which you will be able to compile a better informed and much more productive brief. Justifying the expense of a market research project may also have to depend on the strategic implications which emerge from the findings of the internal segmentation project.

Defer any external market research until the internal segmentation project has completed the phase of developing segments.

The significance of this step in the segmentation process, and of the step that follows it, is clearly illustrated in the much simplified example of a completed segmentation project in the market for toothpaste, originally presented in Chapter 2 and, for ease of reference, repeated in Table 6.1.

The details captured for each segment in Table 6.1 include a series of attributes describing who they are, the key constituents of their purchase and the principal motivation underpinning their behaviour, all of which we carefully consider in the segmentation process. However, before arriving at these concluding segments, it will

(*Continued*)

Table 6.1 Segments in the market for toothpaste

		Segment name			
		Worrier	***Sociable***	***Sensory***	***Independent***
Profile	Demographic	C1 C2 25–40 Large families	B C1 C2 Teens Young smokers	C1 C2 D Children	A B 35–40 Male
	Psychographic	Conservative: hypochondriacs	High sociability: active	High self-involvement: hedonists	High autonomy: value oriented
What is bought, where, when and how	Product examples	Signal Mentadent P	Macleans Ultra brite	Colgate Aquafresh	Own label
	Product features	Large canisters Health properties	Large tubes Whitening properties	Medium tubes Flavouring	Small tubes
	Outlet	Supermarket	Supermarket	Supermarket	Independent
	Purchase frequency	Weekly	Monthly	Monthly	Quarterly
Why it is bought	Benefits sought	Stop decay	Attract attention	Taste	Functionality
Price paid		Medium	High	Medium	Low
Percentage of market		50%	30%	15%	5%
Potential for growth		Low	High	Medium	Nil

Note: 'C1', 'C2', and so on appearing in the demographic profiles of each segment represent socio-economic groups which were in use in the UK until 2001, now replaced in official statistics by eight analytic classes numbered from 1 through to 8.

have been essential for the project to have first developed a representative sample of decision-makers, to have understood their purchase behaviour and, in turn, their motivations, and to have recorded information about each of them that describes who they are. The principal reasons for their purchase would then have been used as the basis for consolidating the sample into meaningful segments. The step you are about to follow, along with the next two steps, progressively take you through this sequence.

A term we use for the first time in this chapter is ‘key discriminating features’ (KDFs). This refers to the characteristics and properties of a purchase which customers regard as decisive when making a distinction between alternative offers. A section is included in this chapter which fully explains this term.

This chapter is organized as follows:

- An introduction to ‘micro-segments’ and how they represent distinct groups of customers, along with an overview of their three components (key discriminating features (KDFs), profiling characteristics and size)
- A brief comment about the role of price at this stage of the project
- The procedure to follow when developing micro-segments
- Keeping control on the number of micro-segments
- A more detailed look at identifying the features that are used by decision-makers to differentiate between competing offers
- Guidelines to consider when selecting features for the micro-segments
- A brief review of the four categories from which the key discriminating features are selected (what, where, when and how)
- A more detailed look at using personal and, if appropriate, company characteristics to profile decision-makers
- A brief review of the four standard categories used in profiling (demographic, geographic, geodemographic and psychographic)
- Using outlets and channels, along with other interests and product usage as possible profiling categories
- Ensuring that the profiling attributes are practical
- A review of this step in the segmentation process
- A selection of micro-segments for the case study and further examples of the components of micro-segments
- Exercises further to help you develop micro-segments

The components of a 'micro-segment'

By the end of this chapter you will have developed a number of **'micro-segments'**, each of which will represent a distinct group of decision-makers in the market being segmented and form the sample for your project. The uniqueness of a micro-segment is that when determining which of the alternative offers is to be bought, the decision-makers it represents demonstrate a similar level of interest in a specific set of **features** they regard as key, with these features being the characteristics or properties of 'what' is bought, 'where' it is bought, 'when' it is bought and 'how' it is bought, as appropriate for the micro-segment. Recording the behaviour of customers this way provides the project with a vital link to understanding the real needs of customers. It is essential, therefore, that it is approached from the customer's perspective.

Definition: A micro-segment is a group of decision-makers who share a similar level of interest in a specific set of features.

Definition: A feature refers to a characteristic or property of a product or service, distribution channel, purchasing frequency and purchasing method.

The principle built into this segmentation process is that customers only seek out the features they regard as key because of the benefit(s) these features, either individually or in conjunction with other features, are seen to offer them. These features are referred to in this book as '**key discriminating features**' (KDFs). They are sometimes referred to as 'determiners' or 'differentiators'. Basic market entry requirements which all products or services must have in order to be considered by *any* customer in the market, sometimes referred to as 'market qualifiers' or 'hygiene factors', are therefore excluded.

Definition: Key discriminating features are the characteristics and properties of a purchase which customers regard as decisive when making a distinction between alternative offers.

The first component of a micro-segment is, therefore, the list of features that the individuals in that micro-segment regard as important to them when selecting which competing offer to buy, their key discriminating features.

Because micro-segments are based on actual decision-makers and not fictional individuals, it is possible to associate characteristics with each micro-segment that describe who is found in it and, when appropriate, the company they work in. These descriptions are generally made up of the demographic, geographic, geodemographic and/or psychographic profiles of customers. Their purpose is to help find some way of identifying who is likely to be found in each of the concluding segments so that we can communicate with them. For, clearly, however sophisticated we might be in isolating segments, unless we can find some way of describing them such that we can address them through our communication programme, difficulties will be encountered when implementing strategies targeted at specific segments. Profiling is tackled at this stage of the process, as opposed to the stage where we have our concluding segments, because this is the point at which we refer to individuals and it is therefore the more appropriate stage at which to record 'who' they are.

The second component of a micro-segment is, therefore, the profiling attributes of its decision-makers.

With quantification playing an important part later on in the process when we assess whether or not a segment is big enough to justify the expense of developing a specific offer for it, each micro-segment should include a volume, value or percentage figure to indicate what proportion of the total market the micro-segment accounts for. At this stage of the project this may, of course, have to be the best informed estimate you can make. The figures used for the market map are the base for this allocation.

The third and final component of a micro-segment is, therefore, its size.

In summary, each micro-segment consists of:

1. the features regarded as important by the decision-makers it represents;
2. characteristics that tell us who these decision-makers are;
3. an indication of its size.

Marketing insight

At this stage of the process we use the term 'micro-segment' because its size often means it is too small to qualify as a distinct segment and, therefore, insufficient to justify the cost of developing a specific offer for the decision-makers it represents. In addition, micro-segments are based on features but features do not define a segment. Segments are based on the needs customers are seeking to have satisfied by the features. This occurs later in the process and micro-segments reviewed in terms of their needs, with like-minded micro-segments merged to form segments.

Before developing micro-segments for the specified market you may prefer to consider in more detail what features should be used to define a micro-segment and have a more detailed discussion about customer profiling and its practical dimension. A section which looks at the features to be used in the project, 'key discriminating features (KDFs)', and a section on profiling, 'Profiling and ensuring it is practical', appear later in this chapter.

There is, however, one important topic we should briefly cover before you embark on this critical stage of your project, and that concerns 'price'.

Price

It is *not* appropriate at this stage of the process to associate customers with the degree of focus they may have on 'price', even though a number of customers in the market may simply buy the cheapest. Price is better covered in the next step of the process when it can be allocated an importance rating relative to the benefits being delivered by the features being bought. This topic, therefore, is discussed in more detail in the next chapter.

Marketing insight

In most markets, rarely more than around 10% of customers have 'price' as their overriding requirement and can be regarded as true price chasers. Customers who act this way willingly give up key discriminating features in order to obtain the cheapest price. This should not be confused with customers who look for the best price for their key discriminating features as these customers are 'value' chasers.

In those markets where it is claimed that 'price' accounts for a much higher percentage of decision-making, it is all too often the case that the supply side have not taken the time to understand customers and their needs. Customers are therefore left with little else other than to buy on price. The approach to segmentation described in this book provides the means for escaping this price trap. Any sceptics may like to note that the real company behind the case study being used to illustrate the process for developing segments is an example of an organization that escaped the 'price market' it believed it was in by following this approach. This company soon became the most profitable in its sector. (The case study for Agrofertilizer Supplies as it really was can be found at www.marketsegmentation.co.uk.)

It is, however, an appropriate opportunity to point out that if the market is one in which customers hold different views as to what the 'price' consists of, the features appearing in the micro-segments need to reflect this. Here we are specifically referring to a market in which some customers evaluate alternative products according to their lifetime cost and other customers evaluate alternative products based on the initial purchase price. The key discriminating features for customers who evaluate competing offers in terms of their lifetime costs would clearly need to include features that they consider are important elements of the lifetime cost equation.

> Some operators of heavy goods vehicles consider only the initial purchase price when assessing the relative value of different vehicles. Other operators consider running costs and residual value (second-hand value) along with the initial purchase price when making their comparisons.

A reminder: For projects which include current decision-makers and potential decision-makers, this book now uses the term 'decision-maker' to refer to both.

Developing micro-segments

In this section we look at how to develop a representative sample of all the decision-makers you have included in your segmentation project by utilizing data already available from within, or easily accessible to your

Definition reminder:
A micro-segment is a group of decision-makers who share a similar level of interest in a specific set of features.

company. This sample will consist of a number of **micro-segments**, each of which will be based on a distinct group of decision-makers in the specified market. In arriving at this model of the market, you may need to involve a cross-section of representatives from sales, marketing, customer services, customer enquiries, ordering and distribution. Revisiting appropriate past market surveys may also provide valuable input, so involving someone familiar with what these surveys contain can be especially useful. In addition, including representatives from selected intermediaries because of the contact they have with customers has proved useful to a number of projects.

To briefly recap, each micro-segment consists of:

1. a specific set of key discriminating features (KDFs) in which there is a similar level of interest shared by the decision-makers the micro-segment represents;
2. one or more profiling characteristics that identify who these decision-makers are;
3. a volume, value or percentage figure to indicate its size.

In developing micro-segments for your project, you will almost certainly end up with too many in number to consider each of them as a possible segment in their own right. You could well end up with around 20 or possibly around 30 micro-segments at the end of this step, though on extremely rare occasions the number has been higher. It is worth noting, however, that for most of the in-company segmentation projects the authors have been involved in, the number of micro-segments seen as necessary to represent the different decision-makers in a market has usually been less than 20.

Marketing insight

Reviewing the micro-segments after their features have been replaced by the needs they satisfy, which we look at later in the process, allows like-minded micro-segments to be brought together to form segments which, by its very nature, means that the number of concluding segments is more manageable.

There is no simple answer to the question about the number of micro-segments a market should have for this stage of the project. It is whatever number is required to represent the different decision-makers in the market you are segmenting.

As regards the number of micro-segments a market should have for this stage of the project, there is no simple answer. It is whatever number is required to represent the different decision-makers in the market you are segmenting.

Just in case your project looks as if it is developing an unmanageable number of micro-segments and you therefore need to scale it back, there is a section later in this chapter called 'Managing micro-segments – keeping control' which you can refer to.

Market research note

Each completed interview for a segmentation project can be equated with the general concept of a micro-segment in that they represent the different decision-makers in the specified market as a whole.

Getting micro-segments up and running

It is crucial to remind yourself and the segmentation team that:

- micro-segments are based on actual decision-makers and their transactions, not fictional individuals or hypothetical purchase criteria;
- they represent the whole of the market covered by your project, not just your own customers;
- their key discriminating features are for the specified market as a whole, not simply limited to the features you and your particular intermediaries offer; and
- their key discriminating features are what they see as important, not what you would prefer them to see as important.

Therefore, the approach to take when developing micro-segments is to put yourself in the shoes of a customer and evaluate the features from their perspective.

Marketing insight

Please note that in order to put on another person's shoes, you first have to remove your own!

The procedure to follow when developing micro-segments can be summarized as follows:

1. Divide all the selected decision-makers in the specified market into identifiable groups of customers you can visualize and talk about (preliminary segments are a good starting point here) as this equips you with useful points of reference for developing micro-segments, and size each of these groups.
2. Take one of these groups, familiarize yourself with the individuals it represents and develop it into a micro-segment by carefully listing what the customers in this group regard as their key discriminating features. Capture any meaningful differences within the group as separate micro-segments.
3. Now attempt to indicate the relative importance of the listed features to each other for the micro-segment. Capture any further meaningful differences as separate micro-segments.

4. Attach profiling characteristics to each micro-segment and indicate what proportion of its customers each characteristic applies to as they will not always apply to all of them.
5. Size each micro-segment, by referring back to the group it originated from and utilizing any market figures that may be available.

Repeat Steps 2 to 5 of this procedure for each group of customers until they have all been converted into micro-segments.

Finally, review and compare the finished micro-segments with each other, look for any features listed for later micro-segments that may be applicable to earlier micro-segments and add them in, and change the importance of appropriate features if this better reflects the differences between individual micro-segments. If you come across duplicate micro-segments, the duplicates can be merged once you are sure that their intended end-use is the same and you believe the benefits they are looking for are the same (which may require you to wait until the next step).

Marketing insight

An often incorrectly held belief is that one company's customers form a microcosm of the market as a whole and can therefore be regarded as forming a representative sample of the complete market. Slipping into this belief without some independent validation could well result in the company failing to identify new opportunities in their market.

However, even if you know that the micro-segments you develop will not truly represent the market as a whole, it is still worth progressing the project through this and the following two process steps (Steps 4 and 5). This will enable you to gain an appreciation of what is involved in the segmentation process as a whole and provide a better informed and much more productive brief for the more statistically sound study which should follow.

Taking each step of the above procedure in turn:

1. Divide all the selected decision-makers in the specified market into identifiable groups of customers

It usually helps when developing micro-segments to first divide the customers being segmented into recognizable groups of individuals that you and your team can visualize and talk about. Grouping customers this way equips you with useful points of reference for developing micro-segments, and working with such groups is far better than starting from an entity called 'the market'. If you have already divided the market being segmented into preliminary segments, these clearly form, or at least provide, the basis for identifiable groups of customers and you should develop micro-segments for each of them. You may want to consider breaking down the preliminary segments further if this better helps associate them with particular groups of customers.

Introducing preliminary segments into a project was discussed in the previous chapter (see 'Testing current views about segments: preliminary segments').

Marketing insight

If you are progressing a project for a market in which there are quite different applications but, as yet, have chosen not to run the project with these applications represented by different preliminary segments, it is recommended that you regard these different applications as distinct preliminary segments. Attempt to size each of them as this will help you later in the process.

A simple guideline to follow when selecting the criteria on which to base these groups is to use whatever enables you to visualize particular customers and see the key discriminating features from their perspective. To re-enforce the point that you are referring to individuals, we would suggest the criteria are based on either some standard profiling attribute such as size of company, size of family, age, type of company, type of family, geographic location, and so on, or on some other criteria that equally links it to a particular group of customers, such as differences in the volume used, which could simply be broken down into large, medium and small users. The criteria can be multi-tiered as in the example which follows shortly. What often determines the choice of criteria for these groups is whatever is believed to highlight differences between customers in terms of their key discriminating features. For example, a company looking to develop new opportunities in the market for executive cars may believe that there is a difference in requirements between male and female users and further differences according to whether they are single, married without children or married with children. This would enable the company to start their development of micro-segments from six easily identifiable groups of customers, as illustrated in Figure 6.2.

An alternative to using profiling attributes as a basis for these customer groups could be to use specific features, especially features that tend to dominate the choice of competing products. Use whichever you feel most comfortable with.

Finally, size each group of customers as best you can using a volume, value or percentage figure based on what you have given to the specified market as a whole or have given to the preliminary segment they originate from. This will help in sizing the final micro-segments later.

Marketing insight

If you are segmenting a market in which there are a limited number of customers (how you define 'limited' may depend on time and resource available to the project), you may wish to create a micro-segment for each individual customer and proceed through the next steps at this individual customer level.

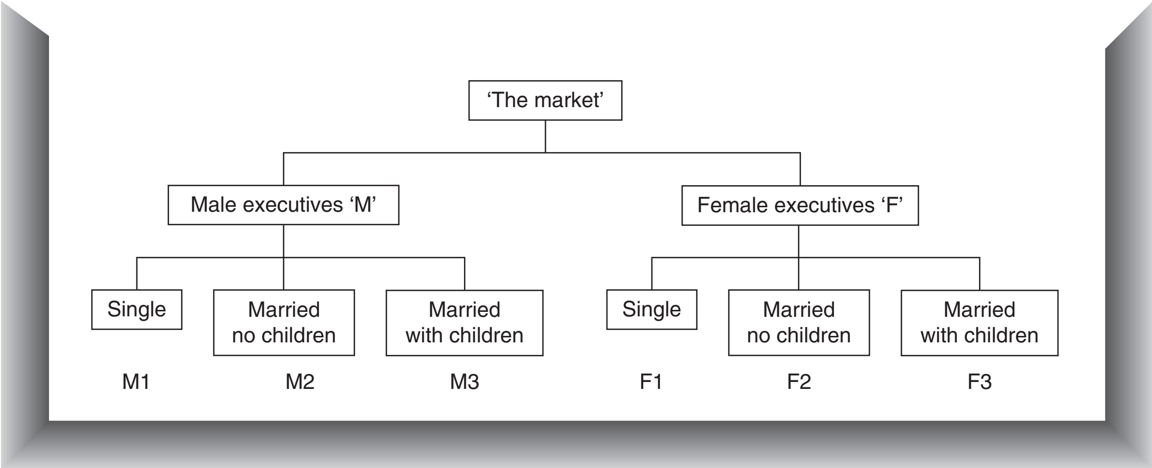

Figure 6.2 Customer groups for developing micro-segments

Note: If you would like a quick and easy way of identifying for each concluding segment the source of its customers, give each group of customers a 'label', as shown by the use of M1, M2, and so on. For projects with preliminary segments, each of these could be given a letter, with any further breakdown of a preliminary segment simply having a number added to the letter. In the figure, 'male' and 'female' are presented as if they were preliminary segments. The further addition of suitable descriptors to each group will help relate it to the customers it represents.

Definition:
A meaningful difference occurs when some of the customers within a group would not respond positively to an offer consisting of the key discriminating features listed for them.

Definition reminder:
A feature refers to a characteristic or property of a product or service, distribution channel, purchasing frequency and purchasing method.

In addition to knowing what individuals particularly look for, also knowing what they reject and what causes disappointment can help identify their key discriminating features.

2. Develop each group into a micro-segment by listing their key discriminating features

Select one of these groups and begin by putting yourself into their shoes and familiarizing yourself with the customers it represents. Discussing such topics as the type of life they lead (family, social, work), their personal situation and responsibilities, the issues that concern them (personal, family, business), their background and their aspirations for the future can all help bring a customer group to life. This discussion may also highlight characteristics that can be used later as part of their profile.

Now, develop this group into a micro-segment by carefully listing the features that the customers in this group particularly look for and use to discriminate between competing propositions in the market (their key discriminating features), with any **meaningful differences** within the group captured as separate micro-segments. Include, as appropriate, the **features** associated with distribution channels ('where'), purchase timing ('when') and purchase methods ('how'), as well as the features of the product or service itself ('what'), ensuring you cover the core components, supporting services and intangibles (further details appear in the section on key discriminating features found later in this chapter). In addition to knowing what they look for, also knowing what they reject and what causes disappointment can help in compiling the relevant list of features.

Marketing insight

You may find it helpful to brainstorm *all* the potential key discriminating features from across the specified market before developing your micro-segments. In the majority of in-company workshops, moving straight to developing micro-segments and identifying these features through this route is the preferred approach of the participants. However, you must adopt the approach you feel most comfortable in following.

It is clearly important to be pragmatic when listing the features for a micro-segment. So, for example, if it is known that customers rely on what their supplier stocks, exclude those features which customers are clearly indicating they have no interest in, such as manufacturer's brand. Also avoid overcomplicating the list of features for each micro-segment. Most customers make their choices based on a small, manageable number of features (often no more than four or five).

Marketing insight

It is all too easy to make this step in the process unnecessarily complicated. The reality is that most customers make their purchase decisions on a limited number of fairly straightforward criteria.

A worksheet for this part of the process appears in the Exercises section of this chapter. Table 6.2 illustrates a suggested layout for recording micro-segments and their key discriminating features. Further details about the structure of this table can be found in the section on key discriminating features. Additional examples of features selected from a range of markets appear throughout this chapter.

Marketing insight

To ensure the segmentation team retain a focus on features, the following summary may help you:

- Feature: what it is, consists of, or is made from;
- Advantage: what it does;
- Benefit: what the customer gets that they explicitly need.

For example, 'LZR Pulse®' is a water repellent swimwear fabric (feature) which reduces drag resistance in water (advantage), which means that the swimmer attains a faster performance (benefit).

Further information on features, advantages and benefits can be found in the section on key discriminating features in this chapter (see the first guideline) and in Chapter 7 where a detailed discussion about benefits can also be found.

If in your discussions about features you also highlight the benefit, make a note of the benefit as it is required for the next step in the process.

Table 6.2 Recording micro-segments and their KDFs

Feature category	*Group*	*Specification*	*Micro-segments*				
			A1	*A2*	*B*	*C1*	*C2*
'What'	Finish	Dark hardwoods	✓				
		Light hardwoods		✓			
		Pine			✓	✓	
		To paint/stain					✓
	Country of origin	Scandinavia	✓		✓		
		UK					✓
	Format	DIY kits				✓	
		Made up	✓	✓	✓		
'Where'	Retailer	Department store	✓	✓			
		Direct mail				✓	
		Sheds					✓

Note: Rather than using a tick mark (✓) to indicate which features are the KDFs for each micro-segment you could use a star (★). As you will see in the above, A2 and C1 have no KDF related to the country of origin, B has no KDF related to retailers and C2 has no KDF related to the format. 'Sheds' is the name sometimes used to refer to hardware superstores.

Two additional points to consider when listing features:

- avoid vague descriptions such as 'brand', 'quality' and 'service', list the specific attributes that are important to the customer;
- if you have micro-segments with a large number of features (say, eight or more) consider applying the '80/20 rule' and focus on the features accounting for 80% of the decision.

Both these points are discussed in more detail in the section on key discriminating features (see guidelines 5 and 8).

Marketing insight

In those markets where competing products or services are used for different end-uses and these different applications have not been considered in the definition of the market or for identifying different preliminary segments, they should now be considered as features. It is highly likely that these different applications will have an important input into your segmentation project.

Whenever more than one micro-segment emerges from a single group of customers, attach an identifier (and descriptor) to each of them along the lines you have adopted for your project (as per Figure 6.2).

For this step, and those that follow, consider splitting the participants into a number of teams, with each team adopting the standpoint of a particular customer group.

For this step, and those that follow, consider splitting the participants into a number of teams, with each team adopting the standpoint of a particular customer group.

Marketing insight

Using a spreadsheet on a PC is particularly helpful for this part of the process.

Marketing insight

This is probably a good point at which to take a 30 minute break and reflect on the micro-segments you have developed and the key discriminating features listed for them as you will shortly be adding further details to these micro-segments. It is worth spending a little time being sure that: they are based on actual decision-makers and their transactions; they represent the whole of the market covered by your project; their key discriminating features are for the specified market as a whole; their key discriminating features are what the decision-makers see as important.

3. Indicate the relative importance of the key discriminating features for each micro-segment

Once you have agreed the key discriminating features for a particular micro-segment, a useful enhancement is to indicate their relative importance to each other for that micro-segment, thereby indicating the level of interest they have in this specific set of features. If this highlights any further meaningful differences, capture these as separate micro-segments. The simplest way of indicating the relative importance of the listed features is with the number of tick marks or stars given to each of them, increasing this number where appropriate.[1] This is illustrated in Table 6.3.

[1] An alternative approach is to indicate the relative importance numerically, rating each feature out of '10' or by apportioning a total sum of 100 between them. Applying this finer granularity can be left to the next step in the segmentation process (Chapter 7) where it is discussed in more detail.

Table 6.3 Indicating the relative importance of KDFs to micro-segments

Feature category	*Group*	*Specification*	*Micro-segments*				
			A1	*A2*	*B*	*C1*	*C2*
'What'	Finish	Dark hardwoods	★★★				
		Light hardwoods		★★			
		Pine			★★	★	
		To paint/stain					★★★
	Country of origin	Scandinavia	★★		★		
		UK					★
	Format	DIY kits				★	
		Made up	★★★	★★★	★★★		
'Where'	Retailer	Department store	★	★			
		Direct mail				★★★	
		Sheds					★★

Note: The most important KDFs are identified by three stars (★★★) in this table. Using more is best left until you review and compare the finished micro-segments with each other, at which point you may feel that you have not adequately indicated the differences between them and need to increase, or decrease, the importance of certain KDFs for individual micro-segments to redress this. Having too many stars in front of your eyes should be avoided!

Marketing insight

Once a micro-segment is associated with a specific set of features along with their level of interest in these features, it meets the definition of a 'micro-segment'.

If you do not feel able to indicate the relative importance of features for micro-segments, simply leave them as they were, each with a single tick mark or star (as in Table 6.2), thereby implying that they have the same level of interest in their specific set of features. This does not prevent you from progressing to the next stage of the segmentation process, though these indications of importance are useful to this stage.

4. Attach profiling characteristics to each micro-segment

For each completed micro-segment, add some details about who it represents using applicable profiling characteristics, ensuring that the characteristics you choose can be used in your sales and marketing activity to identify customers. In addition, include their outlet and channel preferences, regardless of whether or not they are key discriminating features, as this information may provide the vital link between a specific proposition and its target segment, as well as help you complete your market map and develop your distribution plan (this is also covered in the section on profiling found later in this chapter when we look at additional categories).

Because specific profiling characteristics and distribution alternatives may not be applicable to every customer in a micro-segment, for example, they may not all be in the same age range, in the same type of company or use the same retail outlet, use a scale to indicate the proportion of customers associated with each of the alternatives. Once again, use your best judgement. If you are not sure about the proportions, just indicate each profiling characteristic, outlet and channel that is applicable. You can once again use tick marks or stars for this, but it makes it clearer if it is the opposite symbol to that used to indicate the importance of features, as illustrated in Table 6.4. Further details about the structure of this table can be found in the section on profiling. The worksheet for developing micro-segments (Table 6.13) in the Exercises section of this chapter also covers profiling.

Marketing insight

Try to ensure that each micro-segment has profiling characteristics selected from all the profiling groups you are using. This will prove useful later during the analysis of segments when you are looking for the personal attributes that can be used to identify the customers in each of them.

It sometimes helps when profiling a micro-segment to consider the characteristics you would associate with the preliminary segment it came from (assuming this is how it originated), as some, if not all of these characteristics could have been inherited by the micro-segment. It also helps to consider if any of the features could be associated with any particular profiling characteristics. For example, customers who use certain retailers may be associated with particular socio-economic groups, a certain type of IT support package may be associated with customers from smaller companies, and individuals who select marketing books designed to help practitioners put marketing into practice may be associated with particular types of jobs.

Do not be concerned if you are associating a micro-segment with a number of specific characteristics from a single profiling group, such as two or three age bands as seen in Table 6.4. What we are looking for here is a full profile of each micro-segment so that your project has the best opportunity of finding the specific characteristics that can be associated with each concluding segment.

Table 6.4 Adding profiling characteristics to micro-segments

Feature category	***Group***	***Specification***	***Micro-segments***				
			A1	***A2***	***B***	***C1***	***C2***
'What'	Finish	Dark hardwoods	★★★				
		Light hardwoods		★★			
		Pine			★★	★	
		To paint/stain					★★★
. . . and so on		. . . and so on					
Profiling category	***Group***	***Specification***					
Demographic	Age	Up to 30		✓	✓	✓✓	✓✓
		31 to 50	✓	✓	✓✓	✓	✓
		51 and over	✓✓	✓			
	Socio-economic group	1.1 and 1.2	✓				
		2 and 3	✓✓	✓✓	✓	✓	
		4 and 5		✓	✓✓	✓	✓
		6 to 8				✓	✓✓
	Family stage	Single		✓	✓	✓	✓
		Married no kids	✓✓✓	✓✓	✓		
		Married and kids			✓	✓✓	✓✓
Acquisition routes	Outlet	Department store	✓✓✓	✓✓✓	✓		
		Specialist			✓✓	✓	
		Shed					✓✓✓
		Catalogue co.				✓✓	
	Channel	Face-to-face	✓✓✓	✓✓	✓		✓✓✓
		Direct – tel. & mail		✓	✓✓	✓✓	
		Direct – internet				✓	

Note: The distribution of a micro-segment between the alternative characteristics in each profiling group has to be looked at separately. Three tick marks (✓✓✓) are used in this table to indicate characteristics applicable to all the customers represented by a micro-segment.

It is also possible to use other interests and product usage as part of the profiling if they are known, or suspected to correlate with different needs. However, care needs to be taken when including these in the customer attributes and it is suggested that readers refer to the section on profiling, specifically 'Profiling – additional categories', for guidelines.

5. Size the micro-segment

It is important for later stages of the process to have a volume, value or percentage figure attached to each micro-segment, especially as these figures will be used to determine the size of each concluding segment. You may, of course, already be in a position where you can size each micro-segment, but if this is not the case, the following may assist you.

The most obvious starting point for sizing micro-segments is the group of customers they originated from and to apportion to each micro-segment the amount they would account for in their group.

At the simplest level, this apportioning could be achieved by dividing the total given to the group equally between its micro-segments. You may, however, believe you can be a little more sophisticated than this, either because you feel sure that certain micro-segments are larger than others, with the apportionment based on the most informed estimate you can make, or there is information to hand that may help determine these figures.

When there are no sources of information available to help you, assume that the micro-segments developed for an original customer group are equal in size.

There may be, for example, some profiling differences between the micro-segments, such as age or size of company, that enable you to determine the ratio of one micro-segment to another based on published national statistics. You may even be fortunate enough to be segmenting a market for which there are annual figures about the different products sold into that market or about the sales made through different outlets or through channels. If this is the case, you could check your micro-segment totals for these products, assuming they have appeared as key discriminating features, or their totals for the different outlets and channels. Depending on how close the figures match up, you may feel that some adjustments are or are not required.

Referring to Table 6.4 and using this as an example; if this market was valued at 2000 units and there was published information available that illustrated how this was divided between the four types of distribution outlet, you could work out from the micro-segment profiles, along with their proposed size, the total amounts you were suggesting came through these outlets. Micro-segment B, for example, is showing one-third of its purchases coming through department stores and two-thirds coming through specialists, so if your suggested size of this segment was 300 units you could allocate this total between these two outlets using the ratio 1:2. By applying this reasoning to all the micro-segments you would be able to work out what your totals were for the four outlets. You could then compare your totals to the published totals, and if you needed to make any changes, you would now at least have a feel for the scale of the adjustments to be made. Pinpoint accuracy, however, is not required and informed approximations are acceptable.

In carrying out the above, you may find that the original figures you gave to your customer groups, and, if applicable, the preliminary segments before them, should be changed. Clearly this would only be a problem if these figures had been developed from reliable data to start with as opposed to your best estimate at the time.

Market research note

It is crucial that research conducted for the quantitative stage of segmentation is structured so that the concluding segments can be sized.

Now repeat Steps 2 to 5 for each group of customers.

Marketing insight

It helps if you occasionally remind the team as they work through the micro-segments that:

- micro-segments are based on actual decision-makers and their transactions, not fictional individuals or hypothetical purchases;
- they represent the whole of the market covered by your project, not just your own customers;
- their key discriminating features are for the specified market as a whole, not simply limited to the features you and your particular intermediaries offer; and
- their key discriminating features are what they see as important, not what you would prefer them to see as important.

Overlooking the principle contained in the first bullet point and losing sight of the real world resulted in a components manufacturer initially generating just under 150 micro-segments in their segmentation project, but when challenged to match these micro-segments to transactions known to take place in their market, the number of micro-segments dropped substantially (by just over 80%) to a much more manageable number.

What had happened was that micro-segments were being generated to cover *possible* combinations of features rather than being based on customers and the *actual* feature combinations that occurred.

Once all the customer groups have been converted into micro-segments, you can review each micro-segment against the complete list of key discriminating features and make any necessary changes to the features that have been listed for it. As you have progressively been developing micro-segments it is possible that new features have been identified that may be applicable to micro-segments developed earlier.

Finally, review and compare the finished micro-segments with each other to ensure that you have adequately indicated the differences between them in terms of the importance of their various key discriminating features. Where required, increase or decrease the importance of appropriate features for individual micro-segments to redress any 'imbalances' and better reflect the differences between them. It is suggested, however, that no more than five stars (or tick marks) are used to highlight the most important features, as this will ensure that the final picture remains visually comprehensible.

If you come across duplicate micro-segments, the duplicates can be merged only if you feel confident that:

- the micro-segments have the same intended end-use for their purchase; and
- they are looking for the same benefits from their key discriminating features.

Checking the second requirement, however, may need to wait until the next step in the process. It is not unknown for different customers to have varying views about the benefits delivered by a particular feature, and a possible indicator of this is if the individuals in the duplicate micro-segments are quite different from each other in terms of who they are. Therefore, whenever the individuals they represent are quite different from each other, it is safer to retain the duplicate micro-segments at this stage.

When duplicate micro-segments are merged, this clearly requires their profiling characteristics and sizes to be combined; in addition, it is useful to give the 'new' micro-segment an identification label that reflects what has occurred. The simplest way of doing this is to give it the labels of its predecessors. These labels, as pointed out earlier, provide a quick and easy way of identifying for each concluding segment the source of its customers.

Managing micro-segments – keeping control

The principal controlling mechanism for companies segmenting their market using data available from within, or easily accessible to the company and to the segmentation project team, is to check that their micro-segments match with reality.

A further series of checks can be based on the features that are listed for the micro-segments:

- Do any micro-segments contain features which are basic entry requirements?

  This is discussed in the section on key discriminating features found later in this chapter (see guideline 3). Remove these features and then check if this now means there are micro-segments that duplicate one another. Duplicate micro-segments can be merged if they meet the requirements given at the end of the previous section.

- Are you sure the features reflect how customers categorize them and buy them?

  This is the fourth of the guidelines for key discriminating features. By revising micro-segments to better reflect the way customers consider the features and talk about them you may find that duplicate micro-segments appear which can be removed.

- Have you merged correlated features?

  Micro-segments that differ by features that are in fact correlated should be revised and the duplication check carried out (guideline 7).

- Do any micro-segments contain features that are only marginal in their importance?

  Although only a simple grading structure has been suggested for indicating the relative importance of features to a micro-segment, it may be that by applying a little more sophistication to this grading you can identify features that are really only playing a very small role in the purchase decision and can be removed. You could also consider applying the 80/20 rule (guideline 8) to all your micro-segments. Once again, if this now produces duplicate micro-segments, the duplicates can be removed as per the guidelines at the end of the previous section.

If, after following the above, you still find the number of micro-segments rather daunting, the following may finally bring them under control.

- Combine micro-segments that are known to be unattractive to your company.

  This removes such micro-segments from the detailed analysis which follows this chapter but does not remove them completely from the process, because to do so would distort the picture of the market being looked at. How you define 'unattractive' is a topic we indirectly address later in this book when we consider how to prioritize and select segments for Steps 6 and 7 of the segmentation process. Great care should be taken when removing micro-segments from the detailed analysis this way. Micro-segments may be unattractive today, but could well form the attractive segments of tomorrow. For example:

- some micro-segments may be currently unattractive because no company has put together the right offer to stimulate demand from this particular group and/or generate the required margins from it;
- some micro-segments may be unattractive today because they only account for a very small volume or value of business, but this may be because they are at an early stage of their development.

Individually, micro-segments may represent only a small quantity in the market, but their requirements may be the same as those of other micro-segments. Later stages of the process would see these micro-segments combined and, as a segment, they may then represent a significant quantity of the market. This possibility, therefore, should be kept in mind before removing micro-segments from the detailed analysis based on their size.

If it is necessary to reduce the number of micro-segments as described here in order to progress to the next step in the process, the resulting group of micro-segments can always be revisited later, an option you may have to consider when looking for opportunities to achieve the company's revenue targets.

You should now have around 20, or possibly around 30, micro-segments, each of which represent a distinct group of decision-makers in the market and which form the sample for the next stage of your project. If, however, this is not the case and the number is substantially higher, it could be worth reviewing your market definition, as it may, in fact, be too wide.

Finally, if despite all of these checks you are still having to consider a large number of micro-segments, it may help in progressing the project if, when entering the final stage of the next step which indicates the importance of the needs-based buying criteria for each micro-segment, you initially take around 30 of them through this particular sequence and then through the subsequent step (Step 5), 'Forming segments'. Once this initial batch has been through Step 5, repeat this sequence for further batches of micro-segments, not forgetting to consider each new batch taken into Step 5 alongside the market segments already established in that step.

Key discriminating features (KDFs)

Definition reminder: Key discriminating features are the characteristics and properties of a purchase which customers regard as decisive when making a distinction between alternative offers.

The features that are of interest to a segmentation project are those which the decision-makers focus on and regard as important when they are determining which of the competing products will be bought, their **'key discriminating features'** (KDFs), sometimes referred to as 'determiners' or 'differentiators'. Clearly, it is essential that these features are looked at from the customer's perspective, not your own, even if this means that they include features you would prefer not to be there.

At this point, you may find it useful to refer back to Table 6.3 that appeared earlier in this chapter so that you can see the format for recording micro-segments and their key discriminating features.

As a first step towards identifying the key discriminating features you may find it a helpful exercise to draw up a list of *all* the features available across the full range of products or services competing with each other in the market being segmented, whether or not you supply all of them, along with *all* the distribution channels used, purchase timings and available purchasing methods. Features can then be selected for the various micro-segments by reference to this list, with all the features appearing in the micro-segments becoming the key discriminating features.

Marketing insight

If you elect to draw up a list of all the features available before developing your micro-segments you may find it easier to build the list by referring to each of your preliminary segments in turn, using them as points of reference, assuming you have introduced them into your project. Alternatively, draw up your list by referring to the specified market as a whole. Do whatever you feel most comfortable with.

Building this list using a spreadsheet on a PC is particularly useful. It can also be used later when developing micro-segments.

In many markets, however, beginning with a list of features results in quite an extensive catalogue and although such lists provide a convenient reference, it is possible that only a small selection of these features are influential as far as the customers are concerned. If this looks as if it will be the case for your project, you may prefer to move straight to developing your micro-segments and, in doing so, progressively compile a list of features which, by the way they have been identified, will be the key discriminating features. This tends to be the preferred approach.

Whatever approach you choose to take, a useful structure for organizing this information is to consider 'what', 'where', 'when' and 'how' as four separate 'categories'. Within each of these categories it should then be possible to organize all the various specifications that are available into groups of alternatives. For example, within the 'what' category, 'colour' would be a feature group, while each of the colours available would be the alternative specifications in this group, in other words, the alternative features in that group.

Table 6.5 Recording information on what, where, when and how

Category	*Group*	*Specification*
What	Speed	High; Medium; Low
	Loading	Top; Front
	Colour	Subtle; Loud; Neutral
	Service	Under 4 hours; 4–8 hours; Next day; Within 2 days
Where	Outlet	Superstore; Department store; Specialist shop; Catalogue company
	Channel	Face-to-face; Direct (mail); Direct (phone); Direct (Web)
	Buying club	Trade body; Affinity group; Local club
When	Frequency	Daily; Weekly; Monthly; Yearly
	Season	Spring; Summer; Winter; Autumn; All year
How	Credit	24 months; 12 months; 6 months; None

Information about the features would therefore be organized along the following lines:

Category: such as ‘what’, ‘where’, and so on.

Group: such as ‘package type’, ‘colour’, ‘brand’, and so on.

Specification: such as ’multi-pack’, ’red’, ‘high tech’, and so on.

An example of this structure appears in Table 6.5.

Key discriminating feature guidelines

To help ensure that the features you select for the micro-segments provide the required link to the next step in the process there are some important guidelines to consider. These guidelines, each of which is discussed after this summary, are as follows. The numbers can be used to locate whichever guidelines are of particular interest to you.

1. Refer to the features, rather than their advantages or benefits.
2. Ensure the level of detail is appropriate for the market.
3. Exclude features that are basic market entry requirements.
4. Ensure the features reflect how customers categorize them and buy them.
5. Avoid hiding essential details behind vague feature descriptions.
6. Unbundle the components of a product or service.
7. Merge correlated features.
8. Focus on the influential features that drive the decision.

Market research note

In any market research subsequently commissioned to assist the segmentation project, an understanding of which features are the basic entry requirements, how customers refer to features, what lies behind generic descriptions, the importance of different features, the correlations that exist between features and how customers simplify complex offers are all important inputs to the project.

It is also important to collect the key discriminating features for each completed interview as it is useful to understand their relationship to the needs customers are looking to satisfy.

1. Features, advantages and benefits
It is important when considering 'features' that you avoid covering a number of different products or services with what is really a description of either the advantage or the benefit being provided. For example, 'next day delivery' is a description of what is obtained by buying first-class postage or certain types of courier services. The features recorded in this example should be 'first-class postage' and 'next day courier service'.

Marketing insight

To assist in the distinction between a 'feature', an 'advantage' and a 'benefit' the following summary which appeared earlier in this chapter is repeated here to help you:

- Feature: what it is, consists of, or is made from;
- Advantage: what it does;
- Benefit: what the customer gets that they explicitly need.

For example, 'Teflon®' is a surface coating for kitchen utensils (feature) which is non-stick (advantage), which means that less time is required for washing up (benefit).

The relationship between features, advantages and benefits is covered in Chapter 7. A detailed discussion about benefits can also be found in that chapter.

Features tend to crop up in conversation more often than the benefits as they are usually easier to talk about. It is possible, however, that in your discussions about features you may also highlight the benefit. If this happens, note down the benefit as it is required for the next step in the process.

2. Ensure the level of detail equates to the degree of refinement in the market definition

A finely defined market would refer to the specific features of individual products, while a more widely defined market would refer to products or even product groups, possibly using generic descriptions. The following example helps explain this point.

> When looking at which mode of transport is used for travelling between major cities it would be unnecessary, for example, to refer to the types and makes of car available as this level of detail adds nothing to understanding customer requirements. Referring to the alternative modes of transport available and their general characteristics would be more appropriate for this level of aggregation, as would frequency, journey time and en-route facilities.
>
> However, if looking at family cars, referring to the types and makes of car available would be essential.

3. Exclude features that are basic market entry requirements

In many markets there are certain features that all products or services must have in order to be considered by *any* customer. These 'market qualifiers' or 'hygiene factors', as they are sometimes referred to, are those features which the users expect to have as a matter of course, so much so that even if improvements are made to these features they are unlikely to generate any major gains in market share because they do not generate any major gains in customer satisfaction. However, once one company introduces improvements to these features, the entry level requirement moves up to this higher level. A good example can be found in the market for PCs, where the constant improvement in processor speeds simply moves the market up a further notch in terms of the customer's standard level of expectation.

Over time, features that were once used by customers to decide between alternative offers become the norm and begin to be regarded as basic entry requirements. It is important, therefore, that you periodically review your list of 'determining' features (the key discriminating features) with a cross-section of customers in the market.

> Examples of features that have become basic entry requirements: radio/CD players pre-installed in cars; online banking services; colour screens on mobile phones; built-in CD and DVD RW drives in desktop PCs; plaque reducing properties of toothpaste; flat panel televisions; 'family size' packs and multi-packs of various product lines such as savoury snacks and confectionary items; pre-shrunk clothes (apart from certain brands of jeans); loyalty programmes with airlines, hotel chains and credit cards; help desks, and so on.

Two important considerations should be kept in mind, however, before concluding that a particular feature is a basic market entry requirement:

1. Although all the products in a particular market may be required to contain a specific feature, possibly through legislation, it is only if *all* the customers in that market *require* the product to have this feature that it can be classified as a basic entry requirement. For example, all aerosol propellants are required to be ozone friendly and while some customers are quite passionate about this, others are quite indifferent. From the customers' point of view, therefore, ozone-friendly propellants are not a basic market entry requirement and this property should be highlighted for some segments, possibly along with other environmentally-friendly attributes.
2. If you are in a market in which customers can select from a range of features and, in effect, 'design' their own product, be careful as to what you classify as 'basic entry items'. For example, in the market for car insurance in the UK the basic product consists of third party liability, fire and theft, which is a legal requirement. Every car insurance policy, therefore, contains this basic cover, which would seem to qualify it as a basic entry requirement. For some customers, however, this basic cover is all they buy, which means that it must remain as a key discriminating feature.

Marketing insight

A feature that all products must have is only a basic market entry requirement if customers do not differentiate between alternative offers by reference to this feature.

4. Ensure the feature groups and the features reflect how customers categorize them and buy them

In many markets the range and variety of features available are often far too numerous for the customers to cope with. To put order into the 'chaos', customers either disregard many of the features and focus on just a few (often five or fewer) or simplify the options into more manageable sets, as in the following examples.

There may be a range of supporting services available for a product which cover all sorts of options, but customers simply refer to them as 'basic' and 'premium' services.

In a general drinks market, customers may want to retain the distinction between carbonated and still drinks but simplify the range of flavours available into more manageable groups such as 'fruity' or 'tangy'.

Rather than considering all the different 'bells and whistles' available with a particular product, customers who are interested in these additional features may simply refer to them as 'add-ons', or group them into various types of add-ons.

The breakdown of retail outlets into specialist stores, department stores, and so on may be irrelevant if customers simply see them as 'local' stores and make no other distinction between them.

This type of information can be established by listening to the way customers talk about the different features available. Capturing the features this way is, therefore, perfectly valid (even if the 'bells and whistles' cross over different feature groups) though understanding what is covered by the 'basics' or 'add-ons', for example, will be important when specifying the constituents of the offer.

Marketing insight

Companies know what they, and often what their competitors, offer in great detail. In many markets, however, customers tend to discriminate between offers in much simpler terms. It is essential, therefore, that you ensure that the features used in the micro-segments reflect the views held by the market. Otherwise you will unnecessarily complicate this and subsequent steps.

5. Avoid hiding essential detail behind vague feature descriptions

The three most frequent examples of this are 'brand', 'quality' and 'service' which are all meaningless on their own and could be hiding a range of specifications. Buying a 'good' brand for some customers could be associated with buying well-researched products, while for others it could be associated with a company's technical support staff. 'Quality' for some customers could refer to a material that is extremely durable, while for others it could mean the colour does not fade over time. 'Service' could refer to a returns policy or promptness in answering the phone. It is important that your features consist of these more specific descriptions.

Marketing insight

As a guideline: a description of a feature is meaningless if it does not describe what a company would need to do in order to offer it. Think of a feature in terms of how you would describe it on a product specification brief.

6. Unbundle the components of a product or service

In addition to covering the features that customers can choose to have included in the product or service such as, for example, the various features of a desktop PC or washing machine or the different features associated with a life insurance policy, it is important to ensure that features *already* included as part of the offer are not overlooked. For example, buying a new personal computer often includes a technical support service as part of the 'package'. Buying a car in the UK often includes an extended warranty, whereas in some other countries it only covers the owner for the first year.

7. Merge correlated features

It may be the case that features in one group may be highly correlated with features in another group and therefore having them appear as separate features adds nothing to this stage of the project. For example, 'home delivery' may appear as a feature in a group called 'type of delivery', and 'direct mail' appear as a feature in the 'channel' group. Now, if it was the case that for the market being segmented the only goods ever delivered to the home were those ordered by direct mail, rather than having them listed separately they could be combined, such as 'direct mail and home delivery', and placed in one or other of their original groups. In this example, the way the features are now being described suggests that it would appear sensible to place them in the 'channel' group.

It should be pointed out, however, that even if it was the case that *all* goods ordered by direct mail had home delivery, if customers visiting traditional retailers could also have home delivery, then the features would have to include all the options. The 'channel' group would therefore include 'direct mail and home delivery' along with 'direct mail' on its own, and 'home delivery' would still appear in the 'type of delivery' group.

8. Focus on the influential features

Although the principle behind key discriminating features is that they are all influential, there are occasions when the number of features appearing in the list is too numerous to handle. In these situations it is essential that you review the list and home in on those that have the greatest influence on the decision. Applying the '80/20 rule' to the list of features can help you here, with only the features that account for, say, 80% of the decision being those that are taken into the next stage of the project.

Use the '80/20 rule' to help identify the most influential features.

Table 6.6 illustrates how to apply the '80/20 rule' (a simplified example in that the features are not too numerous). This table has been arrived at by first arranging the features in a descending order of importance and then allocating 100 points between them in a way which represents their relative importance to each other from the micro-segment's perspective. It is as if a value of £100 is placed on the features as a whole and then distributed between each of them to indicate their individual value. The cumulative score has then been calculated by progressively adding up the individual scores.

Table 6.6 Identifying influential features

Features	*Individual score*	*Cumulative score*
'Where' – local branch to home	35	35
'What' – based in home country	25	60
'Where' – found in all towns/cities	15	75
'What' – informal service	10	85
'When' – open on Saturdays	7	92
'What' – fixed fee account	5	97
'What' – foreign currency service	3	100

Note: Pinpoint accuracy in the distribution of the total sum between the features is not essential. What is required is a clear distinction between those features that really count in the decision and those which are less important.

Marketing insight

When compiling a table similar to Table 6.6 it is often easier first to score the most influential feature out of 100 and then score the other features relative to this score. Once completed, you add up all the individual scores, divide each individual score by this total and multiply the answer by 100. So, if the total comes to 230, divide each individual score by this figure and multiply by 100. A worked example for the Agrofertilizer Supplies case study can be found in Table 6.9.

Trying to ensure the figures add up to 100 at the outset often requires the figures to be reworked a number of times.

Although it is referred to as the '80/20 rule', the scores rarely provide you with a clear 80% cut-off point. In Table 6.6 there are cumulative scores of 75% and 85%, but not 80%, so in this example we would first use the 85% cut-off point and include 'informal service' in the list of features. If the resulting list of features was still too onerous, we could then decide to use the 75% cut-off point and exclude 'informal service' from this list.

Sorting through the features this way can be conducted at the 'feature category', 'feature group' as well as at the individual 'feature level', and either by preliminary segment, customer group, by individual micro-segment or even across the specified market as a whole. Adopt whatever appears to be the most appropriate. Table 6.9 in the case study applies it to feature groups for a preliminary segment. Clearly it is helpful if there is some information to hand which enables you to do this from the market's perspective.

What, where, when and how

This is a useful point at which to briefly review the four categories that make up the key discriminating features.

What is bought

Here we are primarily referring to the specific features of all the products and services covered by the **market** definition. In addition, it is important not to overlook any product or service 'add-ons' provided by any intermediaries on your market map, such as maintenance contracts, delivery services, installation, and so on. These may be out of your control, but that does not mean they can be excluded from considering how a market splits into segments. It is also appropriate to include in 'what is bought' the role of 'influencers' as defined in Step 2 of the segmentation process (Chapter 5), along with technical advisers and consultants.

Definition reminder: A market is the aggregation of all the products or services which customers regard as being capable of satisfying the same need.

When referring to a **product** or **service** we are including the total experience of the customer when dealing with the organization which means that both the tangible and intangible aspects have to be covered. This is captured in Figure 6.3.

Definition: A product (or service) is the total experience of the customer when dealing with an organization.

Marketing insight

The two outer circles in Figure 6.3 are sometimes referred to as 'product surround' and can account for as much as 80% of the added value and impact of a product. Often, these only account for about 20% of costs, whereas the reverse is often true of the 'core' product.

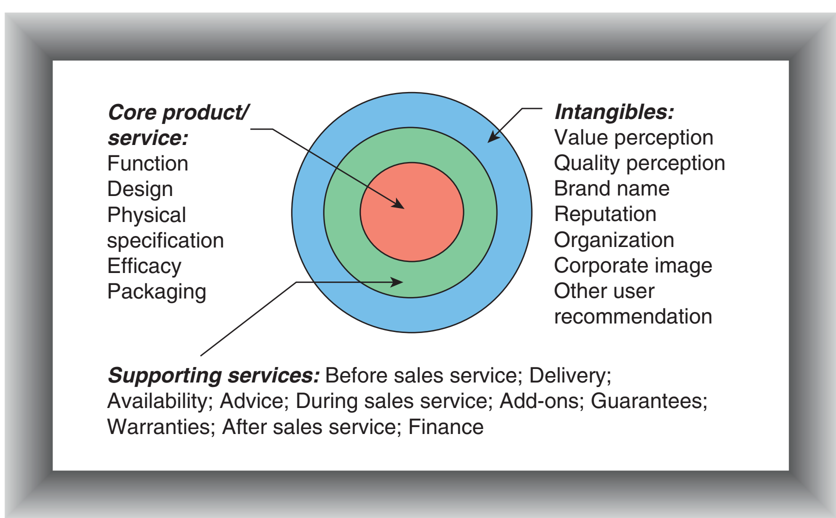

Figure 6.3 What is a product?
Note: A number of items in Figure 6.3, such as 'quality', 'service', 'image', and so on, require to be explained in your list of features. For further details, please refer to 'Key discriminating feature guidelines' number 5, 'Avoid hiding essential detail behind vague feature descriptions'.

Where it is bought

In addition to covering all the different types of outlet from which the competing products are purchased, 'where' also includes all the different channels used to place orders along with all the different channels used to deliver the orders. Please note that this only refers to the sourcing of the products and services covered by the market definition and does not include the details of how independent influencers, advisers and consultants are sourced.

Depending on the detail contained in your market map in Step 2, this information may already be available on the market map.

Although the outlets and channels used by customers are often owned and run by companies other than your own, they are an integral part of the purchase as far as the customer is concerned. Being able to obtain the product from particular outlets or through particular channels could be crucially important for some customers and may, therefore, be the key to differentiating them from other customers in your concluding segments.

> For example, publishers of books can only reach some segments by having their books available at supermarkets and through other outlets that are similarly 'distant' from traditional bookshops. This is because some customers have an aversion to going into traditional bookshops as they feel uncomfortable in that type of environment.
>
> If you want to reach the serious sports enthusiasts you find that some of them will only buy their equipment from professional sports outlets.
>
> Today, of course, there are segments that are dedicated to shopping over the Web, especially for items that they do not feel the need to preview beforehand. Whereas in the past they may have used mail order or placed an order by phone, they now have a new route to market which, with its real-time capabilities and sense of putting the customer in control, has attracted new users to direct marketing.

The list of where it is bought could include: direct telephone, mail order, internet, distributor, department store, national chain, regional chain, local independent retailer, tied retailer, supermarket, wholesaler, specialist supplier, street stall, through a buying group, through a buying club, door-to-door, local/high street/out-of-town shop, and so on.

Marketing insight

Even if the outlets and channels do not qualify as key discriminating features, it is important to record which of them are used by the customers in each micro-segment. This information will be included as part of the profile for each micro-segment (discussed later in this chapter) as it may provide the vital link between a specific proposition and its target segment. It is also used in the second part of market mapping (which follows the completion of the segmentation process).

When it is bought

The preferred timing of purchases by customers should not be overlooked, as they may once again be crucial for some segments.

> For example, some grocery shoppers prefer to make fortnightly shopping trips at weekends, others weekly shopping trips at weekends and some prefer daily shopping trips especially for fresh fruit, vegetables and meat; when it comes to going to the gym (which equates to a 'purchase' time), some prefer early morning, some on completing the school run, others at lunch time, and so on.

The purchase timings found in markets could include: daily, weekly, monthly, seasonally, biannually, every two years, morning, afternoon, evening, at 50,000 miles, occasionally, as needs, on impulse, only in emergencies, degrees of urgency, infrequently, rarely, special events, only during sales, at the bottom of the market, and so on.

How it is bought

Finally it may be necessary to consider the different methods of purchase customers prefer to use.

Examples which may help include: credit card, charge card, debit card, cash, direct debit, standing order, credit terms, outright purchase, lease-hire, lease-purchase, negotiated price, sealed bid, and so on.

Although many of these methods of purchase will be available across the market and therefore unlikely to act as differentiators, the ability, or otherwise, to include financing as part of the offer in some markets can still win, or lose, a sale.

> In segmentation projects for some capital goods, the provision of financing packages has been a crucially important factor in deciding between alternative suppliers for segments consisting of chief executive officers or chief financial officers. In such

situations, having your own in-company financing facility or close liaison with a financing institution has been a critical factor for a successful bid.

Profiling and ensuring it is practical

Each micro-segment needs to contain a description of who is found within it in terms of their personal and, if appropriate, their company's characteristics. This detail is required because, once you have combined like-minded micro-segments to form market segments based on their needs, you will be looking for the personal attributes that can be used to identify clearly which customers are to be found in each of the concluding segments. This is important for the successful targeting of your segment-specific offers.

Marketing insight

It is not always possible to find a single profile, or manageable number of profiles, that can be used to identify *all* the customers found in a particular segment. What you are looking for is a profile, or small number of profiles that fit a meaningful majority of the customers found in each segment. It is worth pointing out, however, that with the increasing sophistication of multidimensional profiling packages, many of which are capable of being run on desktop PCs, this is becoming less of a problem.

At this point, you may find it useful to refer back to Table 6.4 that appeared earlier in this chapter so that you can see the format for recording the profiling attributes of micro-segments.

Finding the means by which you can reach the customers found in each needs-based segment is not always an easy task, and at this stage of the project, particularly if it is the first time you have approached segmentation along the lines presented in this book, you are unlikely to know what characteristic(s) can be used to distinguish one segment from another. Tackling this issue at an early stage in the project, and using a number of different profiling attributes, is, therefore, of critical importance to the success of the project. What you have to bear in mind, of course, is that it is of no concern to the customers whether or not you are able to identify which segment they belong to by reference to their personal characteristics. You can be sure that they will not change their buying criteria simply to make this aspect of segmentation easy for you and it will make no difference to the way the *market* splits into segments. Simply ask yourself, have you ever changed your buying criteria to help a supplier segment their market?

Customers do not change their buying criteria in order to slot themselves into segments for your administrative convenience.

Marketing insight

Although we are at an early stage of considering how to reach segments, it is appropriate to point out that even if the association between a segment and the profile of its members proves to be difficult, it does not spell the end of your needs-based segmentation project. One or more of the following may apply to the market and/or your company:

- The strength of the individual segment propositions will self-select their target customers.
- The outlets and/or channels used by the segments are different, thereby forming the link between propositions and their customers.
- A short series of questions (often referred to as the 'golden questions') can be used when in direct contact with customers, and how they answer these questions will identify the segment they are from.
- Your sales staff are able to allocate customers into their segments based on prior knowledge or after a sales call.

If at all necessary, you may simply have to be pragmatic with your conclusions and modify the ideal segment model into one that can be effectively implemented.

A major computer manufacturer discovered that the market really segmented according to the application for which the computer was used, such as accounting, stock control, marketing, and so on. Unfortunately, the company had no data on this and all its records were by company name and hence industry segment. Remedying this involved changing its order taking procedure to track at the time of purchase what use was envisaged by the customer. This extra data had to be gathered through whatever channel was used to place the order, be that through distributors, direct sales force, telesales or the internet.

Add a number of profiling characteristics to each micro-segment as this improves the success of identifying customers by their segment and, therefore, targeting them with their specific offer.

The characteristics used to profile customers represented by each micro-segment can be based on a single type of descriptor, such as age or company size, or from a range of descriptors. We would strongly recommend, however, that you use a range of profiling descriptors for your micro-segments. How many will depend on the number you can handle and what is accessible to you, either from your own records or from third parties who specialize in holding information on their own databases about customers in the market being covered by your project. This is unless, of course, you already know which profiling characteristics can be used to identify the segment individual customers belong to. For most projects, however, it is not known in advance which profiling characteristics distinguish between segments as this only becomes apparent once the segments have been formed. What you have to bear in mind is a situation where, say, by simply adding the type of car owned by customers to their age and income profiles you would be able to distinguish between segments, but all you collected were age and income profiles which, unfortunately, overlapped various segments.

Whatever number of profiling descriptors you select for your project, each should be governed by its practical use in enabling you to identify the members of each concluding segment. They should be thought through carefully, related to observations in the marketplace and tested for their validity whenever possible.

Market research note

In any market research carried out as a requirement for segmentation, questions should be included which collect profiling information about each respondent. This will be used later in the segmentation process. Until you are at the stage where you know which characteristics can be used to distinguish between segments, the choice of profiling information you collect will have to be a matter of judgement.

Profiling – standard categories

The standard categories of profiling information collected about customers tend to be **demographic** (sometimes referred to as 'firmographic' in business-to-business markets), **geographic**, geodemographic (which, as the name implies, is a combination of the previous two categories) and **psychographic**. Each of these can be broken down into a series of different profiling groups within which are found the individual profiling specifications. This gives us a data structure along the following lines, which is exactly the same structure suggested for the key discriminating features.

Definition reminder: Demographics are measurable descriptions of customers.

Definition reminder: Geographics are identifiable locations of customers.

Definition reminder: Psychographics are a customer's inner feelings and predisposition to behave in certain ways.

Category: such as 'demographic', 'geographic', and so on.

Group: such as 'age', 'industry', 'region', 'country', and so on.

Specification: such as 'under 18', 'services', 'Canada', and so on.

The 'specifications' provide the profiling detail used for the micro-segments.

The use of profiling appeared in the example presented earlier in this chapter of a completed segmentation project for the users of toothpaste. Here, the typical profile of customers to be found in each of the concluding segments was clearly identified. The profiling section of this example is repeated in Table 6.7.

What Table 6.7 also illustrates is that for this market, as in many markets, it is characteristics from a range of profiling groups that help identify the segments rather than the characteristics of a single profiling group.

The growing variety and sophistication of profiling possibilities available in many of the developed economies is making a major contribution to the success of targeted propositions, with some suppliers of profiling services stating that they can now tell the difference between two people in the same household. A selection of standard approaches to profiling in both business and consumer market segmentation appears in the Examples section of this chapter. It is, however, their practical application in isolating specific segments and enabling you to reach them that determines whether or not they have any value to you. A simple example illustrates this point.

> In the UK, if you have a segment which consists of individuals from the professions and senior management, it is known that they tend to be light television viewers; consequently, if this is a target segment, it does not make sense to advertise your product or service heavily on television. However, they can be effectively reached by means of certain newspapers and magazines, where they comprise the principal readership.
>
> Here we are seeing a useful correlation between readership and viewing patterns and the socio-economic groups which consist of the professions and senior management, and this can be most useful in helping us to communicate cost effectively with our target market by means of advertising.

Using consumer demographics, banks and insurance companies have realized that at different stages in the family life cycle, their customers have different needs, so this has become another most useful way of describing some of their segments. As a result, these financial institutions have been particularly adept at developing products especially for certain age categories. In this respect, because of the gradually reducing relevance of socio-economic classifications as a predictor of behaviour, there is an emerging concept of ‘contexts’, such as ‘wellness’, ‘awareness’, ‘Euroness’, ’traditionalism’, ‘expectism’ and ‘home-centredness’, each one related to life stages such as ’singles’, ‘nesters’, ’developers’ and ‘elders’. Thus, Laura Ashley would clearly be in the ’traditionalism’ context, while Body Shop would probably be in the ‘wellness’ context.

Table 6.7 Customer profiles for segments in the market for toothpaste

		Segment name			
		Worrier	***Sociable***	***Sensory***	***Independent***
Profile	Demographic	C1 C2 25–40 Large families	B C1 C2 Teens Young smokers	C1 C2 D Children	A B 35–40 Male
	Psychographic	Conservative: hypochondriacs	High sociability: active	High self-involvement: hedonists	High autonomy: value oriented

Note: 'C1', 'C2', and so on appearing in the demographic profiles of each segment represent **socio-economic** groups which were in use in the UK until 2001, now replaced in official statistics by eight analytic classes numbered from 1 through to 8. A summary of the 2001 classification system appears as Table 6.11 in the Examples section of this chapter. Although not listed in the example here, geographic and geodemographic details could be added if they further helped identify customers by their segments.

Definition reminder: Socio-economic classifications group individuals according to their level of income and/or occupation (or that of the head of household).

For the geodemographic category, ACORN (A Classification of Residential Neighbourhoods from CACI Ltd), for example, which classifies all households in Great Britain at postcode level into 56 different types based on key demographic variables, census information and lifestyle data, is particularly useful for the retailing business because, when used in conjunction with market research, it can accurately predict consumption patterns in specific geographic locations.

Psychographic profiling differences are particularly useful in the creative execution of advertising and other promotional campaigns, especially in mass markets, thereby homing the offer into their target segment. In the market for toothpaste, for example, advertisements that play on people's concerns about the health of their teeth, especially the health of their children's teeth, have supported a number of brands targeted at the 'Worrier' segment in Table 6.7. However, brands targeted at the 'Sociable' segment often feature young people socializing and instantly being attracted to each other simply because they use a specific toothpaste that gives them the smile that gets them noticed!

Definition: Standard Industrial Classification (SIC) systems are lists of business categories for which most governments keep production statistics.

Briefly turning to business-to-business markets, **Standard Industrial Classification** (SIC) systems, number of employees, job titles, turnover and production processes have been found to be useful demographic descriptors. Unfortunately in business-to-business marketing the development of tools for sophisticated targeting of business customers has lagged behind the developments that have taken place in the consumer markets. This opportunity gap, however, has not been overlooked and geodemographic profiling packages have become available along with some psychographic lists and classification systems combining demographics with behavioural characteristics, such as Mosaic Commercial from Experian Ltd in the UK. Summaries of both the UK/European and North American SIC systems appear in the Examples section of this chapter, with a more detailed listing found at www.marketsegmentation.co.uk.

Marketing insight

On occasions, sophisticated profiling packages are seen as a method of defining segments. Segments, as has already been discussed, are defined by their particular needs, while profiling is the means by which you identify the membership of each segment.

Profiling – additional categories

Two possibilities are discussed here:

1. Acquisition routes – outlets and channels.
2. Other interests and product usage.

Earlier in this chapter we touched on the possibility of using outlets and channels to reach individual segments and suggested that recording the acquisition routes used by the micro-segments, regardless of whether or not they are key discriminating features, may provide the vital link between a specific proposition and its target segment. Even if they do not provide this link, it is essential that you record this information anyway because knowing which outlets and channels are used by each of the concluding segments will enable you to complete your market map and develop your distribution plan. We revisit market mapping at the end of the segmentation process.

With respect to a customer's other interests and product usage, the most obvious inclusions in this category would be leisure interests, such as sports, music, theatre and gardening, readership preferences covering newspapers, magazines, and so on, and a customer's viewing and listening preferences on the television and radio, such as news, soaps and natural history. All of these, however, are often included in the demographic category.

It is the possibility of extending a customer's other interests and product usage beyond the obvious that is being considered here. The value of using these additional profiling possibilities is illustrated by the following example.

> A publishing company that specializes in a particular format for its printed material has found that customers in their most important segment are strongly correlated to a particular approach to credit and their ownership of pets. This company, it should be noted, does not publish material on either financial matters or pets.
>
> When requesting lists of prospects from database companies for campaigns targeted at this segment, the company now only requests individuals who match this profile. As a result, the company has reduced its expenditure on lists, reduced its expenditure on prospecting for new business, and improved the success rate of its new business campaigns.

The broad nature of this profiling category, however, opens up an overwhelming number of possibilities at this stage of a segmentation project, so the following guidelines are suggested:

1. Limit the possibilities to those which are known, or suspected, to correlate with different needs.
2. Keep the number down to what you can handle in an internal workshop and, if it is commissioned, to what an interviewee can be expected to handle in a market research questionnaire, and do not forget that the total number includes characteristics you select from other profiling categories.

3. If the number is too large to work through manually, ensure there is access to a software package that can sort through the profiling data and determine which attributes can be associated with particular groups of customers.

Marketing insight

Looking at other interests and product usage to help link customers to segments is often left until a project has been completed and it is proving difficult to find standard profiles that fit the various segments. It is, of course, a facility limited to countries where externally held databases are available which hold this type of information about individual customers.

What it requires is for a statistically valid sample of named customers to be identified for each segment, along with their address. An external agency takes these lists and enhances the profiling data associated with each customer using their own profiling records, which may include the addition of any demographic data that is missing. The customer records in each segment are then analysed by appropriate software to find which attributes when taken together are good identifiers of customers in each segment.

(Alternative approaches to getting round any difficulties with associating segments to particular profiles were discussed earlier in this chapter.)

Profiling – keeping it practical

The profiling attributes you propose to record should focus on those you can use in your sales and marketing activity to identify customers. For example, although the size of garden may be appropriate in distinguishing between segments for garden equipment, unless there is a database somewhere which records this information for each address, it has no practical use for your sales and marketing activity. Certain postcodes may, however, correlate to particular garden sizes. Exploring the existence of such a relationship in any research you undertake would therefore prove useful. If a relationship between garden sizes and postcodes is then found to exist, the 'practicality' problem will have been overcome. Likewise, be careful about using psychographic profiles of customers as the method of distinguishing between segments, as this is often only suited to certain types of markets. Psychographic differences can be used in the creative execution of advertising and promotional campaigns in mass markets, thereby homing the offer into the target segment. Its use in other types of markets is not so easy.

Fortunately, in many countries the range of data held about individual customers by companies that specialize in this area, along with sophisticated software packages capable of uncovering predictive profiling patterns, is proving to be of great value to the practical side of profiling. The ability to target specific customers with the proposition that suits their needs has improved substantially and continues to improve.

However, as mentioned earlier, some of these sophisticated profiling packages are portrayed as methods of defining segments when, in reality, their use is to identify the membership of each segment.

Process check

The primary purpose of this, the third step in the segmentation process, is to provide guidelines on how an in-company segmentation team using internal resources can develop a representative sample of all the selected decision-makers included within the scope of their segmentation project. In doing so, it identifies the features which customers look for when deciding between competing offers and captures information about the decision-makers themselves which describes who they are and their acquisition routes. This detail provides critical links to other steps in the process:

- The features are used to develop an understanding of why decision-makers select the products and services they specify, thus converting behaviour into motivation, which, in turn, becomes the basis on which segments are formed.
- The information about the decision-makers is used to determine how you reach the customers found in each of the concluding segments, as this is important for the successful targeting of segment-specific offers and is, therefore, a key question in the segmentation checklist used to validate the final segments.

This step, therefore, is of major importance to the segmentation process and requires a great deal of careful thought.

We began by briefly discussing how distinct groups of decision-makers in the specified market can be represented by 'micro-segments' and summarized the three components that make up a micro-segment, namely features, profiling attributes and an indication of its size. We also highlighted that the uniqueness of a micro-segment is that when determining which of the alternative offers is to be bought, the decision-makers it represents demonstrate a similar level of interest in a specific set of features. It was pointed out that issues to do with size and the fact that it was based on features, as opposed to needs, were the reasons for using the term 'micro-segment'.

To conclude the introduction to micro-segments, we pointed out that at this stage of the process it was *not* appropriate to associate customers with the degree of focus they may have on 'price' and that this topic was best left to the next step. However, we did use this as an opportunity to emphasize that if the market was one in which some customers considered lifetime costs and others considered only the initial purchase price, features should be included which reflect these differences.

We then presented the four steps to follow when developing micro-segments. This started with dividing the market into identifiable groups of customers you can visualize and talk about, then identifying their key discriminating features (KDFs) and grading them, profiling the customers represented by the micro-segment and finally sizing the micro-segment. We also suggested that the approach to take when developing micro-segments is to put yourself in the shoes of a customer and evaluate the features from their perspective, with a note to emphasize that in order to put on another person's shoes, you first have to remove your own!

Suggestions were then put forward on how to keep micro-segments under control to help ensure you complete this step with a manageable number of them.

Two reference sections then occurred, one on key discriminating features and the other on profiling, for those looking for greater detail on these two important constituents of a micro-segment.

The section on features that are of interest to a segmentation project, the key discriminating features, sometimes referred to as 'determiners' or 'differentiators', began by emphasizing that it is essential that these features are looked at from the customer's perspective, not your own. It was pointed out that you could either start by drawing up a list of *all* the features available across the specified market, with those selected from this list for the micro-segments becoming the key discriminating features, or progressively compile the list of key discriminating features while developing the micro-segments. We then suggested a structure for organizing the features and presented eight important guidelines to follow, their purpose being to ensure that the features you select for the micro-segments provide the required link to the next step in the process. This was followed by a brief revue of the four categories that make up the key discriminating features, namely 'what' is bought, 'where' it is bought, 'when' and 'how' it is bought.

We then looked at the issue of customer profiling and highlighted its importance in later stages of the project. We also took this opportunity to point out that, even if the association between a segment and the profile of its members proves to be difficult, it does not spell the end of your needs-based segmentation project. Four ways round this difficulty were presented, in one of which we suggested you include, as part of a micro-segment's profiling, the outlets and channels they use.

The discussion on profiling then moved on to suggesting that it was better to attach a number of profiling descriptors to each micro-segment, as opposed to a single type of descriptor, such as age or company size, as this improves the success of identifying customers by their segment. We then summarized the four main profiling categories, namely 'demographic', 'geographic', 'geodemographic' and 'psychographic' and suggested a structure for organizing the profiling data. Two additional profiling categories were introduced, one of which has already been mentioned, namely the outlets and channels used by customers, with the other looking at the possibility of including other interests and product usage, though care needs to be exercised if this is a profiling category you elect to use. We closed the section on profiling by emphasizing that the profiling attributes selected need to be practical and therefore ones which you can use in your sales and marketing activity to identify customers.

Careful and thoughtful consideration of the segmentation steps presented so far, assisted by a healthy dose of realism, will ensure your company is ready to take its project to the next step.

Case study

As you may recall, the segmentation team at Agrofertilizer Supplies have decided to include in their segmentation project both those farmers who do and those who do not currently decide on which product to buy. They have also divided the farmers into three preliminary segments based on the primary focus of the farmer's business, namely 'Arable', 'Grassland' and 'Mixed'.

Given that the project is now at a stage where understanding the customers in the market is becoming increasingly important, it is worth noting that throughout the project the team spoke to members of the sales force on a number of occasions. In addition, for all but one of the team, the very nature of their positions, both at the time of the project and in the past, along with the length of time in the company, meant that they had met and talked to a wide variety of farmers.

Having already established three groups of customers they could readily visualize and talk about, the team decided that they would approach the next stage by first drawing up a list of all the features in their market which they would then refer to, and possibly add to, as they developed their micro-segments.

The potential list of features to be considered by the team was quite large. The company itself had over 40 products on its list. However, when these lists were looked at from the customers' point of view, they could be simplified quite substantially and with confidence. For example, although most bags of fertilizer contain three different fertilizer components which can be mixed (blended) in a wide variety of ratios, farmers tended to distinguish between the blends according to whether they were part of a range, therefore made up and bagged by the manufacturers (manufactured blends), or whether the farmer had specified the ratio they wanted and had the blend made up specifically for them (bespoke blends). It is rather like paint: paint can be bought in a particular colour and used as it is, or a customer can request a specific colour to be made up for them.

(*Continued*)

In addition to the blends, farmers also bought one of the fertilizer components (nitrogen) on its own, nitrogen being the nutrient in most demand by the crops. Nitrogen could be bought in one of two forms, ammonium nitrate (AN) or urea.

Farmers were therefore seen to buy one of four product combinations:

1. AN and manufactured blends
2. AN and bespoke blends
3. Urea and manufactured blends
4. Urea and bespoke blends

Thus, by putting themselves into their customer's shoes a large range of product types could be captured quite simply.

Other features were also looked at from the farmers' point of view and adjusted accordingly. For example, fertilizers could be purchased from three different types of distributor (national, independent or the cooperative), as well as from an importer or direct from the manufacturer. However, the three different types of distributor tended to be subsumed under the general description of 'local' distributor, regardless of ownership. The resulting feature list appears in Table 6.8.

The team then selected a preliminary segment and began by having a general discussion about the farmers it represented, covering such topics as the way they ran their farms, the issues they faced, the different characters they had come across, what had happened to this type of farming over the past decade and what the future appeared to hold for it. Once they had immersed themselves into a preliminary segment it became clear that the general feature list they had compiled contained items that contributed very little to a farmer's decision on which competing offer to buy. They therefore decided to tidy up the list by applying the 80/20 rule to the feature groups, though this clearly does not prevent them from selecting one of the 'discarded' features if a micro-segment requires it. The result of this exercise for the grassland preliminary segment appears in Table 6.9.

To arrive at the figures in Table 6.9, the team first identified what they believed was the most important feature group for the preliminary segment, there were in fact two of them, 'product' and 'brand', and gave each of these feature groups a score out of 100 to represent their importance to the farmers. The next most important feature group was then selected and given a score that reflected its relative importance to those already on the list. This was repeated until all the feature groups had been given a score, as illustrated in the table. These scores were then added up and the total came to 396, but in order to apply the 80/20 rule it is easier if they total 100. In order to reset these scores so that when added together they came to 100, each individual score was divided by the total of 396 and the answer multiplied by 100.

(*Continued*)

Table 6.8 Feature list for the case study

Category	*Group*	*Specification*
What	Product	AN and manufactured blends; AN and bespoke blends; Urea and manufactured blends; Urea and bespoke blends
	Package	50 kg; 500 kg
	Brand	Well-established; Any brand
	Quality	High consistency; Any quality
	Concentration	High nitrogen level; Low nitrogen level
	Consultants/ services	Manufacturers; Distributors; Independent
	Publication	Specialist technical; General
Where	Channel	Local distributor; Importer; Direct from the manufacturer
When	Frequency	As required; Bulk in advance
How	Payment method	Standard terms; Long-term finance from the manufacturer; Long-term finance from the bank

Note: 'Quality' referred to the consistency of fertilizer granule size with no lumps or very fine (dusty) particles and the consistency of nutrients throughout the granules (nitrogen, N, phosphate, P, and potash, K; NPK). It is also worth noting that consultancy, along with some agronomic services, was often available from the manufacturers and distributors at no charge. Even so, many farmers preferred to pay for independent advice while others chose not to use these facilities from any supplier.

Table 6.9 Prioritizing feature groups for a preliminary segment in the case study

Feature group	*Initial individual score*	*Total*	*Reworked individual score*	*Cumulative score*
'What' – product	80		20	20
'What' – brand	80		20	40
'What' – quality	60		15	55
'Where' – channel	60		15	70
'What' – concentration	40		10	80
'What' – consultant/svc	30		8	88
'When' – frequency	20		5	93
'How' – payment	10		3	96
'What' – publication	8		2	98
'What' – package	8	396	2	100

Note: The dotted line indicates the suggested cut-off point. Given the closeness of the scores for 'concentration' and 'consultant/svc' (consultants/services – see Table 6.8) it would be perfectly in order to drop the cut-off point to 88.

(*Continued*)

The initial discussion about each preliminary segment also highlighted to the team that the farmers they represented were not all the same. They therefore developed their micro-segments from more precisely defined customer groups, adding to these groups as they progressed with their analysis until they were satisfied that they had covered all the farmers. A selection of the micro-segments developed for the grassland preliminary segment and their key discriminating features appear in Table 6.10.

Table 6.10 A selection of micro-segments and their KDFs for a preliminary segment in the case study

Feature category	*Specification*	*Micro-segments*				
		G1	*G4*	*G8*	*G9*	*G12*
'What' – product	AN & manufactured blends	★ ★ ★	★ ★	★		
	AN & bespoke blends				★ ★	
	Urea & bespoke blends					★ ★ ★
– brand	Well-established	★	★ ★		★	
– quality	High consistency	★ ★ ★	★			
– concentration	High nitrogen	★ ★		★ ★	★ ★	★ ★
	Low nitrogen		★ ★ ★			
– consultants/ services	Manufacturers	★			★	
	Distributors		★			
	Independent					
'Where'	Local distributor	★	★ ★ ★		★	★
– channel	Importer			★ ★ ★		

Note: The most important KDFs are identified by three stars (★ ★ ★) in this table. G1, G4, and so on are the identification labels for each micro-segment, with 'G' indicating that they originated from the grassland preliminary segment (the letters 'A' and 'M' were used for the arable and mixed preliminary segments, respectively). This table only shows the KDFs for the micro-segments in the grassland preliminary segment which, as you will have noticed, includes 'consultants/services' (please refer to Table 6.9). Although 'Independent consultants/services' appears redundant in this table it was in fact a KDF for one of the other grassland micro-segments. The full list of KDFs for the market included 'Urea and manufactured blends' along with the 'Direct' channel.

(*Continued*)

A total of 13 micro-segments were identified for the grassland preliminary segment, a further 17 for the arable preliminary segment and a final four to represent farmers in the mixed preliminary segment, a total of 34. Although this number was at the high end, the team were confident that all 34 represented actual farmers in the market. In hindsight, however, the number could have been lower as they had differentiated between some farmers on the basis of features that played only a minor role in their decision and, therefore, were not key discriminating features, a fact picked up when the team looked at the real needs of the farmers (the next step in the process). Even so, this still meant that the team had covered the full range of farmers in their market (later verified by market research).

Attached to each micro-segment were a number of profiling characteristics such as size of farm, the farmer's formal level of agricultural training, level of investment, production focus (a more detailed breakdown of 'arable', 'grassland' and 'mixed'), farming style and some personality descriptions. Of these, there was a particular interest in seeing whether farm size and training could be used to distinguish between segments, but, in the end, neither of these characteristics could be reliably used for this purpose.

Finally the team looked at sizing each micro-segment and although some estimating inevitably went into these calculations, the availability of sales figures from the industry trade body, access to government statistics on the amount of farmland used for various types of production and estimated fertilizer usage levels proved to be of great help here. This had already helped them estimate the size of the preliminary segments. Many markets, however, are not so fortunate, but it is important to all segmentation projects that at least some reasonably informed approximations are arrived at as this information becomes essential when assessing the commercial viability of each concluding segment.

From the figures accessible to the team, they could estimate the splits between the different products for each preliminary segment, estimate the proportion accounted for by the 'well-established' brands, work out the probable split between high and low nitrogen levels and the split by channels. All of this was used to build a picture along the lines appearing in Figure 6.4.

The status of the case study as it now stands is summarized in Figure 6.5.

(*Continued*)

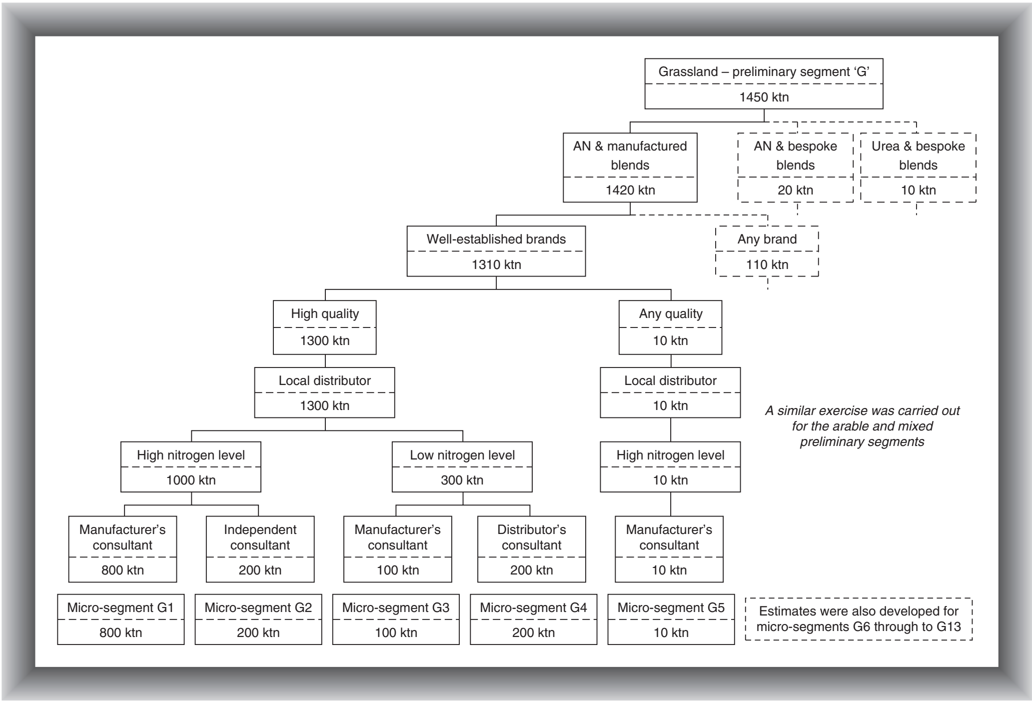

Figure 6.4 Sizing micro-segments in the case study
Note: To construct a cascade along the lines in this figure it helps if you include 'features' such as 'Any quality', 'Any brand', 'Any colour', and so on to cover the customers who do not have an interest in particular features. Both 'Any quality' and 'Any brand' have been used in the above cascade.

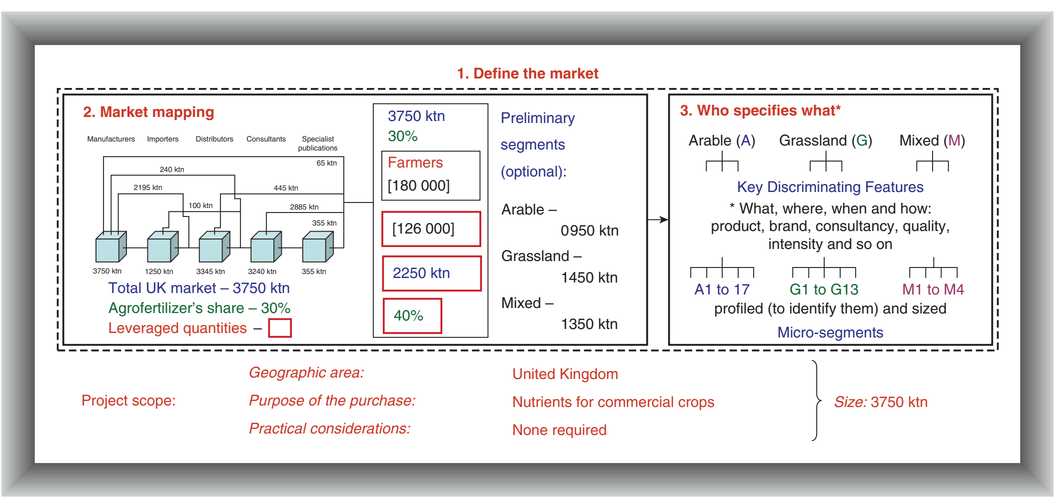

Figure 6.5 The segmentation process – Steps 1 to 3

Further examples

In general, it is by listening to customers, in addition to observing their buying behaviour, that companies arrive at the lists of key features for their market.

Example 6.1

The first example presents some of the feature groups you could take into account when drawing up your list of what is bought, along with a selection of features from a range of markets:

- **Type of product** Cleaners, galvanizers, installed, flat pack, ready made, on-call engineers, resident engineers, included with a service package, and so on.
- **Specification** 100% purity, 98% purity, tolerance levels, percentage failure rate, and so on.
- **Colour** Red, white, blue, pastel, garish, and so on.
- **Size of package** Single, multiple, family pack, 5 litre, 10 litre, 20 kg, bulk, and so on.
- **Area occupied by equipment (footprint)** Small, medium, large, very large, or by specific areas.
- **Volume used** Small, medium, large, very large, or by specific quantities.
- **Type of service** Testing service, design service, technical advice (which is sometimes, unintentionally, provided by the sales force), evaluation, evaluation analysis, and so on.
- **Brand** Innovative, youthful, sober, luxury, local, international, own label, high profile, and so on.
- **Country of origin** UK, German, French, European Union (EU), Scandinavian, North American, Arabian, Asian, African, Japanese, and so on.
- **Independent influencers** Advisers, consultants (complementing or competing with the technical/advisory services provided by the manufacturers/ suppliers), specialist publications, consumer publications, accountants, financial advisers, financial consultants, and so on.
- **Type of delivery** Courier, first class, within four hours, collected, automatically triggered (via links with inventory control systems), and so on.
- **Volume of purchase** Large, medium, small, or in particular quantities.
- **Value of purchase** High, medium, low, or in specific expenditure bands.
- **Range bought** All, single, across the range, those at the top, middle, bottom, and so on.

Example 6.2

This next example contains extracts from the final, summary feature lists pulled together for three different projects:

- **Lawnmowers** Hover, cylinder, rotary, petrol driven, manual, electrically driven, 12″ cut, 16″ cut, engine from specialist manufacturer, extended warranty, metal structure, with after sales service, and so on.
- **Paints** Emulsion, gloss, oil-based, water-based, non-drip, one coat, 5 litre cans, 2 litre cans, environmentally friendly, 'homely' brand, own label, and so on.
- **Petrol stations** Self-service, forecourt service, with convenience store, with 'newsagent's' products, cash-based loyalty programme, travel-based loyalty programme, and so on.

Rationalizing complex feature lists often proves difficult for companies, but customers are very skilled at doing this, as the following three examples illustrate.

Example 6.3

1. For one particular company, listening to their customers enabled them to simplify an extensive catalogue of components into those which were:
   - off-the-shelf; or
   - bespoke.

   Further divided into those which were of:
   - materials able to survive 'harsh' operating environments (varying temperatures and pressures); or
   - materials required to function in 'benign' operating environments.
2. In yet another market, it quickly became apparent that the features customers focused on in their market were split between:
   - features linked to the latest technology;
   - features which were of the most exacting specifications;
   - features related to the productive capacity of the equipment;
   - the product being available on demand and stocked at their local supplier.
3. For a company providing information on how to carry out particular tasks, the extensive range of products that they and their competitors supplied to the market were categorized by customers along the following lines:
   - illustrative, guiding them through what to do with sequential diagrams illustrating how to do it;

- factual, leaving them to decide how to do it;
- minimalist, containing just basic information expressed in as few words and in as few diagrams as possible.

Example 6.4

The following example is a simplified illustration of avoiding the mythical customer. You may recall that micro-segments are based on actual decision-makers and their transactions, therefore truly representing different groups of customers in the specified market.

Assume that for a group of customers established at the start of this step in a market served by florists just two feature groups exist, 'colour scheme' and 'type of bouquet'. Within the colour scheme the key discriminating features are 'red-based', 'blue-based' and 'pastel-based', and the types of bouquet are either 'bespoke' or 'ready made'. A feature combination known to occur is that of 'red-based, bespoke bouquets', so this would form one micro-segment. For some reason, no customer in this group ever requests a 'pastel-based, bespoke' bouquet, therefore, no micro-segment should be developed for this particular customer group based on the combination of 'pastel-based' and 'bespoke' features.

An extremely simple example, but it is not unknown for companies to develop micro-segments from a mathematical standpoint based on all the key discriminating feature combinations that are possible. Even in the above example, only six micro-segments are technically possible, but if one of these possibilities does not occur, creating a mythical micro-segment to accommodate it is of no help to the segmentation process.

Example 6.5

The final example is of a company which used market research to understand which features were basic market entry requirements, and which features were the differentiators, from the customer's perspective. The particular products they were interested in were printers and photocopiers and what follows is a selection from the resulting lists drawn up some years ago.

- Basic market entry requirements:
  - Clarity of the image (based on the fact that above a certain number of dots per inch the improvement in clarity is hardly detectable);
  - Number of copies per minute (the entry level requirement going higher with each increase in speed);
  - Helpline (available during normal office hours).
- Differentiators:
  - Short warm-up times;
  - Understandable error messages
  - Multiple paper trays (accommodating different types of paper);

- Built-in finishing technology (stapling, folding, hole punching);
- High capacity paper trays.

As pointed out earlier in this chapter, it is important to periodically review these lists as what were once used by customers to decide between alternative offers can, over time, become the norm and be regarded as basic entry requirements.

A selection of standard approaches to profiling businesses

Demographic characteristics

Standard Industrial Classification (SIC)

The latest details are available from the appropriate statistical office. Summaries of both the UK/European and North American SIC systems appear below, with a more detailed listing found at www.marketsegmentation.co.uk.

United Kingdom and Europe

Agriculture, Forestry and Fishing (01–03)

Mining and Quarrying (05–09)

Manufacturing (10–33)

Electricity, Gas, Steam and Air Conditioning Supply (35)

Water Supply; Sewerage, Waste Management and Remediation Activities (36–39)

Construction (41–43)

Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles (45–47)

Transportation and Storage (49–53)

Accommodation and Food Service Activities (55–56)

Information and Communication (58–63)

Financial and Insurance Activities (64–66)

Real Estate Activities (68)

Professional, Scientific and Technical Activities (69–75)

Administrative and Support Service Activities (77–82)

Public Administration and Defence; Compulsory Social Security (84)

Education (85)

Human Health and Social Work Activities (86–88)

Arts, Entertainment and Recreation (90–93)

Other Service Activities (94–96)

Activities of Households as Employers; Undifferentiated Goods- and Services-Producing Activities of Households for Own Use (97–98)

Activities of Extraterritorial Organizations and Bodies (99)

North America (USA, Canada and Mexico)

Agriculture, Forestry, Fishing and Hunting (11)

Mining, Quarrying, and Oil and Gas Extraction (21)

Utilities (22)

Construction (23)

Manufacturing (31–33)

Wholesale Trade (42)

Retail Trade (44–45)

Transportation and Warehousing (48–49)

Information (51)

Finance and Insurance (52)

Real Estate and Rental and Leasing (53)

Professional, Scientific and Technical Services (54)

Management of Companies and Enterprises (55)

Administrative and Support and Waste Management and Remediation Services (56)

Educational Services (61)

Health Care and Social Assistance (62)

Arts, Entertainment and Recreation (71)

Accommodation and Food Services (72)

Other Services (except Public Administration) (81)

Public Administration (92)

Size of company

Size is usually based on the number of employees or on turnover, though the figures used for different categories vary a great deal, as does the number of categories that are used:

Very small

Small

Small–Medium

Medium

Medium–Large

Large

Very large

Very large+

Other descriptions include: SoHo (small office/home office), SME (small-medium enterprise), mid-cap or mid-market (medium size), corporate (large and very large), global (very large+).

Ownership

Private, public

Quoted, private

Independent, wholly owned, subsidiary

Department/section

Although a number of functions can be found in most organizations, variations will occur in different sectors, such as health care:

Manufacturing

Distribution

Customer services

Sales

Marketing

Commercial

Engineering

Office services

Estates

Planning

Finance

Personnel/Human resources

Health and safety

Legal

Information technology (IT)

Purchasing

Secretariat

Board

Where appropriate, use more specific descriptions, such as telesales, internet sales and face-to-face sales, specialist purchasing units and general purchasing units.

Job title

Variations in job titles clearly occur by sector. This list is of the more general titles that are found:

Director

General manager

Departmental head

Manager

Inspector

Officer

Supervisor

Foreman

Technician

Operative

Fitter

Senior executive

Junior executive

Assistant

Clerk

Multi-demographic

Combining a selection of demographic criteria, such as size of company with job title along with whether the company is public or private.

Geographic

Postcode/zip code (many schemes take location down to a very low level of geography)

Metropolitan, urban, rural; city, town, village; out-of-town, suburban, central

County, province, state

Region (frequently defined in the UK by TV areas, listed in the following section which summarizes the approaches to profiling individuals)

Country

Economic/political union or association (for example, Gulf Cooperation Council (GCC))

Continent

Geodemographic

Associating geographic areas with, for example, the type (standard industrial classification) and size of businesses found there. Areas down to postcode level are then described as being retail, financial, light industrial, large manufacturing, dairy farming, cereal farming, and so on.

Psychographic characteristics

Personality

Stage in its business life cycle (start-up, growth, maturity, decline, turn-round)

Style/age of staff (formal, authoritarian, bureaucratic, disorganized, positive, indifferent, negative, cautious, conservative, old-fashioned, modern, ageing, youthful)

Style of decision-making (centralized, decentralized, consensual, individual, committee)

Attitude

Risk takers, risk avoiders

Customer relationship orientation (high, medium, low)

Approach to technology, new products and/or new services (innovator, early adopter, early majority, late majority, laggard)

Approach to sharing information (open, secretive)

Many of the adjectives used to describe different types of personality can also express a company's attitude towards your product line (as opposed to their distinctive personal character).

Lifestyle

Environmentally concerned; involved with the community; sponsor of sports and/or the arts.

Multidimensional

This is the most recent addition to business profiling and combines a range of profiling attributes into a number of distinct business types. For example, Experian's Mosaic Commercial[2] classifies over five million businesses in the UK into 13 broad categories and 50 distinct types based on a selection of demographic data and behavioural characteristics. These 13 broad categories are as follows:

A Major Retail

B Industrial Blue Chips

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[2]Further details can be found at www.experian.co.uk/business-information/mosaic-commercial.html.

C National Service

D Fleets and Finances

E Monumental Monoliths

F Specialist Suppliers

G Local Solid Rocks

H Hotels and Catering

I Health and Social Work

J Property Portfolio

K Independent Entrepreneurs

L Energetic Enterprises

M Cottage Industry

The types include such descriptions as: New Born Subsidiaries (B3); Large Subsidiary Specialists (C6); Major Money Movers (D9); Vehicles and Veg (D13); Farsighted High Fliers (E16); Expert Engineers (F22); Small Town Stalwarts (G29); Inns and Eats (H32); Nurses and Nannies (I34); Landlords and Ladders (J39); Developing Dynamos (K42); Supply Chain Sophisticates (L46).

A selection of standard approaches to profiling individuals

Demographic characteristics

Age

The most appropriate breakdown will vary according to the market being segmented:

≤5

5–10

11–15

16–19

20–24

25–34

35–44

45–54

55–64

≥65

Gender

Male

Female

Family life cycle

Bachelor (young, single), split into dependants (living at home or full-time student) and those with their own household; newly married (no kids); full nest (graded according to the number and age of children); single parent; empty nesters (children left home or childless couple); elderly single.

Number of children

0

1–2

3–4

≥5

Type of residence

Flat/maisonette, bungalow, house

Terraced, semi-detached, detached

Owned, rented (private, house association, council)

Number of rooms, bedrooms

No garage, single garage, double garage

Income

Usually recorded as household or family income:

≤£10k

£10k–£19k

£20k–£29k

£30k–£39k

£40k–£49k

≥£50k

Occupation

These are usually grouped into a manageable number of categories due to the range of occupations that exist:

Manager, administrator, proprietor

Scientist, lawyer, engineer, accountant, clergy, teacher

Nurse, entertainer, surveyor, journalist

Supervisor, foreman

Secretary, telephonist, flight attendant

Fitter, mechanic, rail guard, operative

Security guard, cook, carpenter, bus driver

Machinist, labourer, courier, cleaner

Housewife/husband

Student

Retired

Unemployed

White collar (professional, managerial, supervisory, clerical)

Blue collar (manual)

The socio-economic classification scheme in the UK introduced in 2001 is occupationally based and provides groups that are linked to official statistics and surveys (see later).

Qualifications
The highest level is usually recorded:

None

Secondary education (GCSE, AS level, A level)

Vocational education (NVQ)

First degree, higher degree, professional

Readership
Listed by title, type, topic and/or target group.

Newspapers (tabloids, broadsheets; daily, Sunday)

Journals

Magazines

Viewing and listening

Sports

News

Current affairs

Drama

Soaps

Contests

'Reality' TV

Natural history

Leisure interests

Football, rugby, cricket, baseball, golf, hiking, keep-fit

Art, theatre, cinema, opera, classical music, pop, jazz

Gardening, cooking, needlecraft, DIY, reading

Wildlife, countryside, history

Travel (with holidays split by type of accommodation, by type of destination and by selected geographical areas)

Religion

Christian

Muslim

Jewish

Sikh

Hindu

Buddhist

Other

None

Ethnic origin

African

Asian

Caribbean

Chinese

Caucasian

Polynesian

Other

Socio-economic

Table 6.11 contains the eight-class version of the socio-economic classification (SEC) scheme introduced by the Office for National Statistics (UK) in 2001. This socio-economic classification is occupationally based with rules to provide coverage for the whole adult population and has replaced 'Social Class based on Occupation' (formerly the Registrar General's 'Social Class') and 'Socio-economic Groups' in all official statistics and surveys.

Also illustrated in Table 6.11 is the approximate relationship between the eight-class version of the 2001 socio-economic classification with the former Registrar General's 'Social Class' and the socio-economic class indicators used by advertisers, market researchers and pollsters.

Table 6.11 Eight-class analytic version of the 2001 Socio-economic Classification (UK) and its approximate relationship with other schemes

New eight-class SEC		***Former Registrar General's social class***		***Former socio-economic class indicators***	
1	Higher managerial and professional occupations				
	1.1 Large employers and higher managerial occupations	I	Professional, administrative	A	Upper middle class
	1.2 Higher professional occupations	II	Managerial and technical	B	Middle class
2	Lower managerial and professional occupations	III N	Skilled workers (non-manual)	C1	Lower middle class
3	Intermediate occupations				
4	Small employers and own account workers	III M	Skilled workers (manual)	C2	Skilled working class
5	Lower supervisory and technical occupations				
6	Semi-routine occupations	IV	Partly-skilled	D	Working class
7	Routine occupations	V	Unskilled labour	E	Subsistence level
8	Never worked and long-term unemployed		Other		Other

Note: The alignment is only approximate due to the differences in criteria used to allocate individuals to their respective classes in the above schemes. 'Large employers' refers to individuals who employ others in enterprises employing 25 or more persons. *Source:* Based on the National Statistics website: www.statistics.gov.uk.

A more detailed listing of the new socio-economic classification, including examples of occupations in each of the classes, can be found at www.marketsegmentation.co.uk. Full details can be found on the UK National Statistics website, www.statistics.gov.uk.

Multi-demographic

Combining a selection of demographic criteria, such as life cycle stages and occupation groupings, on the basis that these are indicative of different aspirations and behaviour patterns.

Geographic

Postcode/zip code (many schemes take location down to a very low level of geography)

Metropolitan, urban, rural; city, town, village

County, province, state

Region (frequently defined in the UK by TV areas – Anglia, Border and Tyne Tees, Central, Granada, London, Scotland, South, UTV, Wales, West and West Country, Yorkshire)

Country

Economic/political union or association (for example, Association of Southeast Asian Nations (ASEAN))

Continent

Population density

Climate

Geodemographic

A Classification of Residential Neighbourhoods (ACORN) produced by CACI Ltd[3] is one of the longer established geodemographic classifications in the UK, updated with census information and lifestyle data. ACORN covers every postcode in the UK and classifies the whole population into 56 types, summarized into 17 groups, which in turn are condensed into five broad categories (2003 version). These five broad categories act as a simplified reference to the overall household classification structure. The categories and their respective groups are as follows:

1. 'Wealthy Achievers'
   - A Wealthy Executives
   - B Affluent Greys
   - C Flourishing Families
2. 'Urban Prosperity'
   - D Prosperous Professionals
   - E Educated Urbanites
   - F Aspiring Singles
3. 'Comfortably Off'
   - G Starting Out
   - H Secure Families
   - I Settled Suburbia
   - J Prudent Pensioners

[3]Further details can be found at www.caci.co.uk/ACORN.

4. 'Moderate Means'
   - K Asian Communities
   - L Post Industrial Families
   - M Blue Collar Roots
5. 'Hard Pressed'
   - N Struggling Families
   - O Burdened Singles
   - P High Rise Hardship
   - Q Inner City Adversity
6. Unclassified

The types include such descriptions as: Villages with wealthy commuters (A3); Mature couples, smaller detached houses (B8); Well-off working families with mortgages (C10); Older professionals in detached houses and apartments (D14); Young educated workers, flats (E17); Singles and sharers, multi-ethnic areas (F21); White collar singles/sharers, terraces (G25); Mature families in suburban semis (H29); Middle income, older couples (I33); Elderly singles, purpose built flats (J35); Low income Asian families (K38); Young family workers (L40); Home owning, terraces (M42); Low income, routine jobs, unemployment (N46); Council terraces, unemployment, many singles (O51); Singles and single parents, high rise estates (P54); Multi-ethnic, crowded flats (Q56).

Geodemographic data are also combined with financial data to provide detailed information on financial product ownership. For example, Financial ACORN combines census, financial research data and lifestyle variables into 49 types, summarized into 11 groups, from Wealthy Investors to Impoverished Pensioners.

Psychographic characteristics

Personality

Compulsive

Extrovert

Gregarious

Adventurous

Formal

Authoritarian

Ambitious

Enthusiastic

Positive

Indifferent

Negative

Hostile

Specific personality profiles by gender have also been developed.

Attitude

Degree of loyalty (none, total, moderate)

Risk takers, risk avoiders

Approach to technology, new products and/or new services (innovator, early adopter, early majority, late majority, laggard)

Many of the adjectives used to describe different types of personality can also express an individual's attitude towards your product line (as opposed to their distinctive personal character).

Customer status

Purchase stage (aware, interested, desirous, ready for sale)

User classification (non-user, lapsed, first time, potential)

Lifestyle

Lifestyle data are obtained from consumer questionnaires which are then combined with publicly available information such as share registrations, census data and the Electoral Roll to provide extensive coverage of the population. The number of different attributes which can be used to select individuals is quite extensive and can cover:

Product and service usage

Activities, including work, social, sports and holidays

Interests, including family, home, community, recreation, fashion, food and media

Opinions, covering themselves, social issues, politics, economics, education, the future and culture

Because these data are based on individuals, variations in the attributes to be used can result in different people in the same household being selected.

Multidimensional

Combining psychographic profiles with selected demographic data and identifying geographic areas where the resulting 'behavioural' types are found. For example, Experian's Mosaic[4] classifies all the

[4]Further details can be found at www.experian.co.uk/business-strategies/mosaic-uk-2009.html.

individuals, households and neighbourhoods (postcodes) in the UK into 141 person types, summarized into 67 household types (2009 version) which describe their socio-economic and socio-cultural behaviour. These 67 types are then aggregated into 15 broad groups:

A Alpha Territory
B Professional Rewards
C Rural Solitude
D Small Town Diversity
E Active Retirement
F Suburban Mindsets
G Careers and Kids
H New Homemakers
I Ex-Council Community
J Claimant Cultures
K Upper Floor Living
L Elderly Needs
M Industrial Heritage
N Terraced Melting Pot
O Liberal Opinions

The household types include such descriptions as: Global Power Brokers (A1); Serious Money (A4); Yesterday's Captains (B6); Escape to the Country (B9); Country Loving Elders (C12); Upland Struggle (C15); Hardworking Families (D18); Golden Retirement (E20); Beachcombers (E22); Garden Suburbia (F24); Shop Floor Affluence (F27); Soccer Dads and Mums (G30); Military Dependants (G33); Foot on the Ladder (H36); Stressed Borrowers (I41); Streetwise Kids (J43); Tenement Living (K46); Multicultural Towers (K48); Pensioners in Blocks (L50); Meals on Wheels (L52); Clocking Off (M54); Asian Identities (N58); Crash Pad Professionals (O62); Anti-Materialists (O65); Study Buddies (O67).

In addition to Mosaic for the UK as a whole, there are separate Mosaics for Scotland and Northern Ireland which identify the characteristics that make living in these areas different from the rest of the UK at the household and neighbourhood (postcode) levels. Experian has also extended Mosaic to other countries including most of Western Europe, the United States, Australia and the Far East, and uses the data from 25 national Mosaic classification systems to produce Mosaic Global.

For the public sector in the UK, Experian has developed Mosaic Public Sector which is a classification system based on location, demographics, lifestyles and behaviours. This classifies all UK citizens into 146 person types, summarized into 69 household types, which are in turn aggregated into 15 broad groups (2009 version). It is designed to help the public sector understand each individual's need for public services.

Exercises

Exercise 6.1

Among the list of key discriminating features drawn up by one company were 'brand', 'quality', 'service' and 'performance', all of which are meaningless as they tell you nothing about what is being bought. For this exercise, consider a market in which you are a decision-maker and in which these four 'features' are issues for you when choosing between alternative offers. You may need to consider more than one market to cover all four 'features'. Identify for each of these 'features' the particular specification you are actually looking for. A copy of the worksheet appearing in Table 6.12 can be used for this exercise.

Now identify for this market the particular specification(s) customers are looking for with respect to each of these four 'features', assuming, of course, that they apply to this market. The guideline is to think of these 'features' in terms of how you would have to describe them on a product or service specification brief. Further copies of Table 6.12 can be used for this part of the exercise.

Exercise 6.2

For this exercise, take a product or service you use at home or at work and list the features you particularly focus on when deciding between the alternative offers available in the market you have selected, in other words, your key discriminating features. As discussed in this chapter, 'price' is better left until the next step in the process. You can capture these features on the first part of the worksheet appearing in Table 6.13. Make as many copies of this worksheet as you need.

Using one of the micro-segment columns, indicate the relative importance to you of each feature using one to three stars or tick marks.

In order to extend this exercise to some of the other micro-segment columns, consider someone else known to you who is also a customer in this market, but who is different to you in the features they look for, and complete the entries in Table 6.13 for them. You can repeat this as many times as you wish.

Table 6.12 Worksheet – making sense of meaningless features

'Feature'	*The particular specification being looked for*
Brand	
Quality	
Service	
Performance	

Table 6.13 Worksheet – recording micro-segments, their KDFs, profiling characteristics and size

Feature			***Micro-segments***				
Category	***Group***	***Specification***					
Profiling							
Category	***Group***	***Specification***					
Acquisition routes							
		Size					

Now attempt to complete the profiling and acquisition details for each micro-segment. You may also be able to make some estimate of the quantities each of these micro-segments accounts for, even if, at this stage, it is simply along the lines of the ratios they account for (such as micro-segment 2 buys three times more than micro-segment 3).

Exercise 6.3

Now apply the last exercise to the market your company is in. After drawing up an initial list of micro-segments, discuss them with others in the organization to obtain their views on the key discriminating features, how they see customers differing with respect to these features along with the profiles and acquisition routes they associate with these micro-segments.

7 Accounting for the behaviour of decision-makers

Summary

To really understand what lies behind the choices made by customers requires their behaviour to be understood in terms of the needs they are seeking to satisfy. This is the most useful and practical way of explaining customer behaviour as it provides the insights required for putting together the most appropriate offer for each of the concluding segments, thereby realizing the most valuable benefits of segmentation. It is the needs of decision-makers that are identified by this, the fourth step in the segmentation process, as illustrated in Figure 7.1.

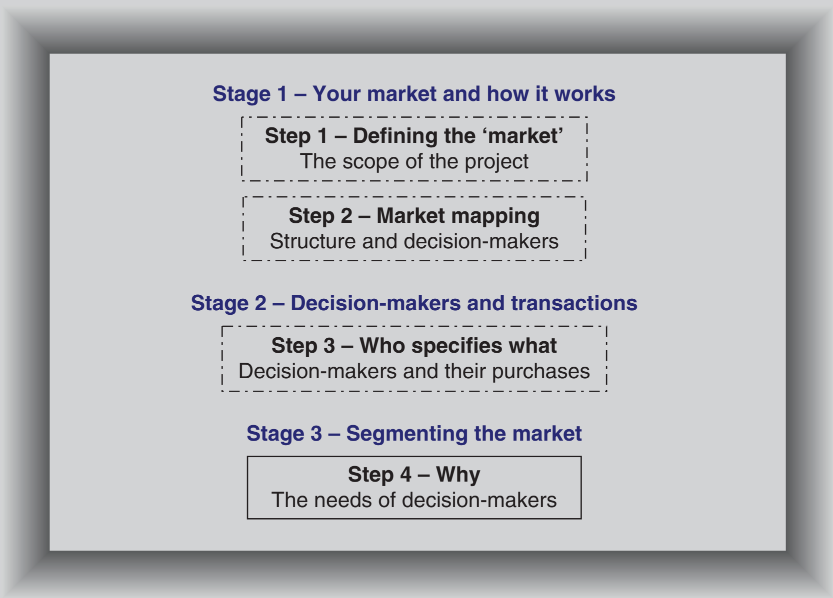

Figure 7.1
The segmentation process – Step 4

This chapter uses the details put together in the previous step to determine the needs-based buying requirements of the decision-makers who now form the sample for your project and takes account of the role of 'price' in their decision-making. As these are the criteria on which the concluding segments for your market will be based, this step, when

(*Continued*)

completed, provides the framework for comparing the different decision-makers with one another.

When conducting a segmentation project using internal resources, information for this step potentially can be found among the same individuals involved in the previous step, supplemented, where possible, by lost sales reports and appropriate past market surveys. It is important to remember, however, that the project is looking at the needs of the entire market falling within the scope of your segmentation project, not just the needs that your company can satisfy.

While we would still recommend that your internal segmentation project completes the phase of developing segments before commissioning an external market research company to fill in any information gaps, a substantial part of the brief can usefully be pulled together once you have taken the project through this step of the process.

A term we use for the first time in this chapter is 'decisive buying criteria' (DBCs). This refers to the attributes of a purchase that customers evaluate when choosing between alternative offers and describes customer needs. We also use the term 'critical success factors' (CSFs) which refers to the constituents of an offer that enable companies to deliver the benefits customers are seeking. Critical success factors therefore describe for the company the relevant product, price, promotion and place requirements (and all other relevant 'Ps').

This chapter is organized as follows:

- A brief discussion about the two principal theories of customer behaviour and why explaining this behaviour in terms of 'benefits' is preferred
- How to progress from a feature, through its advantage, to the benefit a customer is looking for
- A discussion about the role of price in segmentation and its inclusion in this step
- The procedures to follow when identifying the benefits that lie behind the choices made by micro-segments – their 'decisive buying criteria' (DBCs)
- How to indicate the relative importance of decisive buying criteria numerically as opposed to using stars and tick marks
- A further look at why understanding behaviour in terms of 'benefits' leads to successful marketing
- The distinction between 'standard', 'company' and 'differential' benefits
- How to avoid providing answers to the question 'why?' that simply represent the status quo, and keeping alert to the possibility of there being unsatisfied needs
- Techniques that can be used to uncover unsatisfied needs
- A brief note for those whose project is focusing on one strategic business unit (SBU), but whose market straddles a number of these business units

(*Continued*)

- A review of this step in the segmentation process
- Decisive buying criteria for the case study and their scores for a selection of micro-segments, along with some further examples of benefits
- Exercises further to help you identify decisive buying criteria and to indicate their relative importance to micro-segments

Explaining customer behaviour

Basically, there are two principal theories of customer behaviour. One theory refers to the rational customer, who seeks to maximize satisfaction or utility. This customer's behaviour is determined by the utility derived from a purchase at the margin compared with the financial outlay and other opportunities foregone. While such a view of customers provides some important insights into behaviour, it must be remembered that many markets do not work this way at all, there being many examples of growth in demand for every rise in price.

The most useful and practical way of explaining customer behaviour has been found to be benefit segmentation.

Another view of customer behaviour which helps to explain this phenomenon is that which describes the psycho-socio customer, whose attitudes and behaviours are affected by family, work, prevailing cultural patterns, groups they relate to, perceptions, aspirations and lifestyle.

While such theories provide useful insights, they rarely explain the totality of customer behaviour.

The most useful and practical way of explaining customer behaviour has been found to be **benefit** segmentation, in other words, the benefits sought by customers when they acquire a product or service in order to satisfy their explicit needs. For example, some customers choose products for their functional characteristics (product), for economy (price), for convenience and availability (place), for emotional reasons (promotion), or, as is often the case, for a combination of these reasons (a trade-off). Otherwise, how else can the success of car firms like Bentley, retailers like Harrods, and many others be explained? Understanding the benefits sought by customers helps us to organize our **marketing mix** in the way most likely to appeal to our target groups.

Definition: A benefit is a perceived or stated relationship between a feature and what a customer gets that they explicitly need.

Definition: A company's marketing mix consists of the 'tools' or means available to the organization to improve the match between benefits sought and those offered by the organization so as to obtain a differential advantage. Among these tools are product, price, promotion and place (services and distribution) – the four Ps.

Marketing insight

For one of America's more innovative companies in the hair-care business, the guiding principle of its marketing director is, 'Customers don't buy products; they seek to acquire benefits'.

From 'features' to 'benefits'

A summary of the distinction between a 'feature', an 'advantage' and a 'benefit' appeared in the last chapter and is repeated here for convenience:

Marketing insight

The distinction between a 'feature', an 'advantage' and a 'benefit' can be summarized as follows:

- Feature: what it is, consists of, or is made from;
- Advantage: what it does;
- Benefit: what the customer gets that they explicitly need.

From this it can be seen that in order to get from a feature to a benefit, first describe what the feature does, its 'advantage', and, finally, identify the particular appeal this has to the customer, the 'benefit', this being the reason why the feature is of interest to them, in other words, the particular need that it satisfies.

This systematic approach to developing benefits appears in a worksheet as Table 7.6 in the Exercises section of this chapter. Included on the worksheet is one of the more informative background topics to consider when looking at the benefits for your market, namely, the issues that are of particular concern to the customer. For example, issues of concern for customers paying for goods and services over the counter could be: personal safety; ease of use; cash flow (credit); speed of transaction; making purchases while overseas; and/or bulkiness of purse/wallet. So for a MasterCard credit card (feature) the advantage for some customers is that it enables purchases to be made worldwide, with the benefit being that it removes the need to carry large amounts of bulky cash.

A simple formula to ensure that a benefit-oriented approach is adopted is to use the phrase 'which means that' to link a feature to its advantage, and then to the benefit it brings. For example, 'This product is coated in new formula paint *(feature)* which means that the colour will never fade *(advantage)* which means that it will require repainting less often *(benefit)*'. Once you *know* this is what the customer *needs*, then you have arrived at a *benefit*.

To check if you have arrived at a benefit and not just an advantage, apply the 'so what?' test. Ask this question after the benefit. If the 'so what?' prompts you to go further, it is likely you have not yet reached the real benefit. For example, 'The products are ultrasonically tested before cleared for sale *(feature)*, which means our shipped products contain no flaws *(benefit?)* – 'so what?' – which means they last longer *(the real benefit)*'.

Marketing insight

It is important to note that a particular feature may be seen by different customers as providing them with different benefits. For example, an airline's non-stop service between two cities could mean:

- a better use of time (less of it spent at 35,000 feet);
- less opportunity to go missing at transit airports (a concern of parents when their children are travelling alone to and from overseas boarding schools, for example);
- a better chance of arriving on time (a transit stop being an opportunity for a delaying incident to occur).

Marketing insight

It is also important to note that a single feature may also provide more than one benefit to the same customer. For example:

- a business traveller may be attracted to an airline's non-stop service because it is both a better use of time and because it means that they are more likely to arrive in time for their appointments;
- canned food may appeal to some customers because it provides both easy storage (no special storage conditions) and reduces the frequency of shopping trips (long shelf life).

Marketing insight

And finally, the possibility that different features may provide the same benefit should not be overlooked. For example:

- the provision by airlines of on-board power connections for portable PCs, along with telecommunication facilities, enable business travellers to make better use of their time while at 35,000 feet;
- frozen food reduces the frequency of shopping trips because it too has a long shelf life.

Before identifying benefits for your micro-segments you may prefer to consider this topic in more detail and read through the section, 'Benefit analysis – essential input to successful marketing', which appears later in this chapter.

There is, however, one topic we need to discuss in detail before you embark on this next stage of your project, and that concerns 'price'.

Price

Clearly, 'price' has an important part to play in explaining customer behaviour and is obviously a component of their 'buying criteria'. Everything has its price!

However, a detailed discussion of 'price' has deliberately been kept out of the process up until this point because it can too easily be used as a 'catch all' or 'get out' in answer to some of the more difficult questions you need to address in a *market*-based segmentation project. All too often, 'price' is given as the reason for particular buying activity. Not everyone buys the cheapest, and for those that do, it could be because there is nothing available in the market that really meets their requirements. As we pointed out in the last chapter, in most markets, rarely more than around 10% of customers have 'price' as their overriding requirement and can be regarded as true price chasers, and in those markets where it is claimed that 'price' accounts for a much higher percentage, it is all too often the case that the supply side has not taken the time to understand customers and their needs. Customers are therefore left with little else other than to buy on price. Put together the propositions they are looking for, and price becomes less of an issue.

> 'Price' is a measure of value placed by the customer on both the tangible and intangible components of a purchase.

'Price' is simply a measure of value placed by the customer on both the tangible and intangible components of a purchase. Three simple examples should suffice to illustrate this point.

A company launched a new pure juice product on the market after tests had indicated an overwhelming acceptance by the target group. When sales fell far short of expectations, research indicated that the target group simply did not believe that the claims on the container about the product could be true at such a low price. So the company doubled the price and relaunched it, and the product was a resounding success.

Jaguar launched a luxury car in the 1960s and priced it on their cost-plus basis. Demand far outstripped supply and a lengthy waiting list developed. This resulted in some customers buying the car and reselling it immediately after delivery at a much inflated price. In other words, the *value* of the car to the customer was much greater than the actual price charged.

Likewise, some tertiary educational establishments claim their courses are the best in the world, then charge lower prices than their competitors. Research indicates that for directors and very senior managers in industry, a low price is more likely to be counterproductive, because in this particular product field, it is considered to be an indicator of educational standard.

For the purposes of segmentation, we are concerned with the relative importance of price to the other components of the purchase: in other words, to what extent will the customer sacrifice their requirements for a lower price? Alternatively, when will they start trading in their requirements in order to keep the price at an acceptable level? The ability of one supplier to supply the market at lower prices than everyone else for a directly comparable offer is not the issue we are addressing here, or need to address, when segmenting markets and the failure to recognize this often leads to the wrong conclusions. This is illustrated in the following example.

The UK market for car insurance is characterized by customers obtaining a price quotation from different suppliers. It would be wrong, however, to instantly conclude that this market was dominated by price chasers.

Many will be limiting their search to a selected list of preferred suppliers, having rejected other possible suppliers, indicating that they attribute some value to particular brands. In addition, many will be presenting their preferred suppliers with a particular list of requirements they want to include in their car insurance and regard as being important.

In this market, therefore, the segmentation project would need to focus on the lists of alternative suppliers and the lists of requirements, the collecting of quotes basically indicating that the customers regard the suppliers on their list as all being very similar to each other. They are, therefore, comparing one with another in order to obtain the best value. Inevitably, of course, some of those collecting quotes will be looking for the cheapest, willing to take out a car insurance policy with any supplier and ready to sacrifice any of their requirements in order to get a lower price (assuming they have any requirements other than the basic legal minimum).

If two offers are perceived to be the same, it is obvious that the one with the lowest price will win most of the time.

In the above situation there is, of course, a serious competitive issue to be addressed, namely how to differentiate your offer in the market. This brings into sharp focus the whole question of market segmentation and what ingredients of the marketing mix a company should put together so that their 'offer' to the customer cannot be compared directly with anyone else's 'offer'. For, if two offers *can* be directly compared and are perceived to be the same, it is obvious that the one with the lowest price will win most of the time.

Market research note

In any market research project commissioned to assist you with your segmentation project, it is crucial that the questionnaire and/or interviewer makes it very clear to the respondent what is meant by 'price', so that when the respondent is asked to give it an importance score, they understand how it is to be related to the other benefits they are being asked about. If this is not correctly understood, the conclusions drawn for the project will be misleading. This, in turn, will result in marketing objectives and strategies failing to deliver the best financial returns available to the company.

For respondents who give 'price', or, as it is sometimes phrased, 'buying the cheapest', a high level of importance, introducing a check question can be a useful way of confirming that this means they would be willing to lessen their demands for, or even give up, the other benefits they value in order to obtain a lower price.

To conclude these comments on price, it is worth noting that, in some instances, the role played by price can be distorted, as in the case, for example, of company car purchases by individual employees. This will certainly be true when none of the options available are really what the employee wants, yet they 'have' to spend their allowance! This should, however, have been picked up earlier in the process and these individuals established as a distinct group of customers.

Micro-segments and their decisive buying criteria (DBCs)

In this section we look at your micro-segments and, by reference to the picture you have built about the individuals they represent, along with their key discriminating features, determine what lies behind the choices they make so that we can understand their needs-based buying requirements. The benefits that are uncovered by this analysis are referred to in this book as **'decisive buying criteria'** (DBCs). They have been called this to emphasize the point that it is these attributes that determine which of the alternative offers the decision-makers will choose. 'Price' is therefore included as one of the decisive buying criteria.

Definition:
Decisive buying criteria are the attributes of a purchase that customers evaluate when choosing between alternative offers.

Marketing insight

For a company to succeed in a segment it clearly has to put together an offer that delivers to these decisive buying criteria better than any of its competitors. The specific constituents of the offer this requires are frequently referred to as **'critical success factors'** (CSFs). Decisive buying criteria are therefore from the customer's perspective and describe needs, while critical success factors are from the company's perspective and describe the relevant product, price, promotion and place requirements. Critical success factors are discussed in more detail in Chapter 10.

Definition: Critical success factors are the constituents of an offer that enables companies to deliver the benefits customers are seeking.

Marketing insight

This is a critical stage in the process. Once the analysis it entails has been completed, the resulting list of decisive buying criteria are used to determine the segmentation structure for the specified market, as they provide the framework for comparing the micro-segments with each other. It is, therefore, important that you spend as much time as necessary in compiling these benefits.

To help identify the benefits for the market covered by your project, you may need to involve some, or maybe all, of the colleagues who helped you with the previous step. This included a cross-section of representatives from sales, marketing, customer services, and so on along with any individual familiar with appropriate past market surveys. If your company also follows the practice of putting together lost sales reports, or simply logs ad-hoc feedback of this nature, involving someone familiar with this information could also provide some useful input. Continuing the involvement of any intermediaries you included in the last step may also be appropriate.

Although the principle of approaching each step of the segmentation process from the customer's point of view is probably well established by now, it is timely to highlight this requirement once again, as it is crucial that the benefits identified in this step are looked at from the customer's perspective, not your own. The two pertinent points to remind yourself and the segmentation team about while working through this step are that:

- the benefits are for the whole of the market covered by your project, not simply limited to those that you deliver to your customers; and
- these benefits are what the decision-makers regard as their decisive buying criteria, not what you would prefer them to see as their decisive buying criteria.

Marketing insight

Although the segmentation process moves from key discriminating features to decisive buying criteria in this step, it is still useful to track the key discriminating features through to the concluding segments. The performance of your company with respect to these features, and those that may, in time, supersede them, is how customers assess your ability, and that of your competitors, to satisfy their needs. Your company's competitive position in each segment is looked at in Step 7 of the segmentation process.

In addition, this insight enables you to review the actual purchasing practice of the customers found in each segment. This is useful when determining the most appropriate strategies for the segments you elect to target. Setting marketing objectives and strategies for identified segments is looked at in Chapter 13.

If in Chapter 5 you decided to consider lapsed users and prospects in your project (we last mentioned these two groups when looking at the options for preliminary segments) this is an appropriate point at which to reintroduce them into your project. Reintroduce them as a suitably identified micro-segment with an estimate of what these potential new marketing opportunities could represent in terms of their size.

Defining micro-segments by their needs

As a preparatory step, you may find it a useful exercise to draw up an initial list of benefits based on each key discriminating feature identified for the specified market as a whole and add these to any benefits you noted while developing the micro-segments. This can then be followed by the analysis of benefits for each micro-segment. Alternatively, you may prefer to leave any list of benefits you have developed this far as it is and move straight to the analysis of benefits for each micro-segment. Adopt the approach you feel most comfortable with. It is important to note, however, that only the benefits highlighted during the analysis of each micro-segment's needs, be they from a previously prepared list or additional to this list, become the decisive buying criteria.

The procedure to follow when identifying the benefits for each micro-segment can be summarized as follows:

1. Take one of your micro-segments, refamiliarize yourself with the customers it represents and carefully list the benefits being sought from their key discriminating features in order to identify their decisive buying criteria. Capture any meaningful differences between customers as separate micro-segments and reassess their size and profiling characteristics.

2. Now attempt to indicate the relative importance of the listed buying criteria to each other for the micro-segment, including the importance of price, using a simple grading structure initially based on, for example, one to three stars. Capture any further meaningful differences as separate micro-segments, updating their size and profiles.

Repeat both steps of this procedure for each micro-segment.

Finally, review and compare the micro-segments with each other, look for any buying criteria listed for later micro-segments that may be applicable to earlier micro-segments and add them in, and change the importance of appropriate buying criteria if this better reflects the differences between individual micro-segments.

Marketing insight

It is important not to force differences between micro-segments if such differences do not exist, as this will distort the final segmentation structure.

Taking each step of the above procedure in turn.

1. List the decisive buying criteria for each micro-segment

Select one of your micro-segments and begin by refamiliarizing yourself with the customers it represents in order to put yourself back in their shoes once again (removing your own while doing so!). In the previous chapter we suggested that topics such as the type of life they lead (family, social, work), their personal situation and responsibilities, the issues that concern them (personal, family, business), their background and their aspirations for the future can all help bring customers to life. We also suggested in the equivalent step in the previous chapter that you could consider splitting the participants into a number of teams with each team adopting the standpoint of particular customers. This approach could also be applied here.

Now carefully think through what the micro-segment's key discriminating features really mean to these customers in terms of the underlying needs they are satisfying, taking the features both individually and together. It is sometimes only through specific combinations of features that customers obtain the benefits they are looking for. If it becomes apparent that not all the customers represented by the micro-segment would generally agree, capture any **meaningful difference** as separate micro-segments. Redistribute the size of the original micro-segment between them and, if necessary, adjust their profiling characteristics.

Definition: A meaningful difference occurs when some of the customers within a micro-segment would not respond positively to an offer based on the decisive buying criteria listed for them.

To help identify the needs, consider such questions as:

- Why do they look for these features?
- What do these features do for them?
- What are they really trying to achieve?
- Why are some features not of interest to them?
- What would they really like to achieve?
- What causes them disappointment?
- Why are they customers of ours and not of our competitors (and vice versa)?

The two questions looking at 'what customers are really trying to achieve' and 'what they would really like to achieve' are discussed in more detail in the section 'Looking beyond the status quo' found later in this chapter. This is followed by a section which looks at techniques for uncovering unsatisfied needs.

Do not forget that a single feature can have more than one benefit and that different features can deliver the same benefit.

Apply the 'so what?' test suggested earlier in this chapter to ensure you arrive at the real benefits and consider using the benefit analysis worksheet appearing as Table 7.6 in the Exercises section to take you through the sequence of features, advantages and benefits.

As you progressively pull together the full list of decisive buying criteria you may find it useful to show which particular key discriminating feature, or features, each of them relate to. This is illustrated in Table 7.1 which appears as part of the next step. A further refinement you may be able to apply to the structure of this list is to arrange the benefits by the specific part of the marketing mix that delivers them, such as by product, promotion and place (price is covered in the next step), which is sometimes extended into a number of other 'Ps' such as people and processes. This assumes, however, that the 'Ps' do not share the same benefits. Alternatively, record the benefits as a straightforward list if this is what you would prefer to do.

Marketing insight

You should find that around five benefits are sufficient to explain the motivations that drive the choices a micro-segment makes and, in turn, can truly be regarded as their *decisive* buying criteria. It certainly can be less than this, but rarely is it more than seven (which can occur for more complex products). If it is running at a high number, it may be because the benefit analysis is simply highlighting that the customers represented by the micro-segment are not as similar to each other after all.

Market research note

When commissioning research to uncover the real needs of customers, it is essential that the agencies you consider for this work clearly demonstrate their skills in carrying out and, in particular, interpreting qualitative discussions. The emphasis is deliberately placed on 'interpreting' as this tends to be the area where weaknesses, if there are any, are to be found.

2. Indicate the relative importance of the decisive buying criteria for each micro-segment

Once the benefits have been agreed for the micro-segment, complete the list of decisive buying criteria by adding 'price' and indicate the relative importance of these buying criteria to each other for that micro-segment. The importance given to their respective key discriminating features in the previous chapter is helpful here. If this highlights any further meaningful differences within the micro-segment, capture these as separate micro-segments, adjusting the size and profiling characteristics as appropriate.

'Importance' can be indicated using the same approach you took in the previous chapter, the simplest approach being the use of tick marks or stars, as illustrated in Table 7.1.

Marketing insight

A reminder: When considering the relative importance of 'price' to the other buying criteria it is in terms of how readily the customers will give up other benefits to get a lower price. It is important that this is clearly understood by the team involved at this stage of the segmentation project, otherwise, as mentioned in the section on price, the conclusions will be misleading and the resulting marketing objectives and strategies will fail to deliver the best financial returns available to the company.

In most markets it is unusual to find more than around 10% of customers who are true price chasers.

An alternative approach to indicating relative importance is to use numbers, by either rating each buying criteria on a simple scale ('1' to '10', for example) or by apportioning a total sum of 100 between them. This is looked at in the next section.

A worksheet for recording decisive buying criteria and their relative importance by micro-segment appears as Table 7.7 in the Exercises section of this chapter. This worksheet also contains the option of showing the link between buying criteria and their key discriminating features.

Table 7.1 Recording DBCs and indicating their relative importance to micro-segments

		Micro-segments				
Features	***DBCs: benefits + price***	***D***	***E1***	***E2***	***F***	***G***
Lightweight Mounted on wheels	Easily moved around		★ ★ ★	★ ★ ★		★
Heavyweight	OK in production areas				★ ★ ★	
Latest technology	Innovative functionality	★ ★ ★	★			★ ★
Proven technology	Reduces training time			★ ★	★ ★ ★	
24/7 support staff	Fewer hold-ups for users	★ ★ ★			★ ★	
Staff answer calls	Faster call handling	★			★ ★	★ ★ ★
Small supplier	Personalized service			★ ★		★ ★ ★
Large supplier	Dependable back-up	★ ★	★ ★		★ ★	
Large supplier	Easier approval of choice		★			
	Price	★	★	★	★ ★	★ ★

Note: While it is useful to show the link between DBCs and their KDFs, it is optional. The most important DBCs are identified by three stars (★ ★ ★) in this table. Using more is best left until you review and compare the micro-segments with each other. If, however, you find that at this stage limiting it to three does not adequately portray the relative importance of the DBCs to a micro-segment, consider using 'half' tick marks ($^{1}\checkmark_{2}$) or an equivalent 'half' star, such as an outline star '☆', to extend the range.[1]

Marketing insight

Using a spreadsheet on a PC is, once again, particularly helpful when putting together these lists.

If you really do not feel able to indicate the relative importance of buying criteria for micro-segments, simply indicate the applicable buying criteria for each micro-segment with a single tick mark or star. This does not prevent you from completing your internal look at how the market splits into segments, though it could well have implications when you look at forming the segments in the next chapter. This will particularly be the case if the concluding segments share a number of buying criteria but the importance each segment gives to them is different as this needs to be recognized in the offers designed to attract them.

[1]This refinement is suggested for decisive buying criteria and not for key discriminating features because it is the buying criteria that are used to compare one micro-segment with another when forming the concluding segments. Being more precise about the relative importance of the needs-based buying requirements and price can play a crucial role in these conclusions.

Now repeat the above two steps for each micro-segment.

Marketing insight

To keep the team on track, occasionally remind them that:

- the benefits are for the whole of the market covered by your project, not simply limited to those that you deliver to your customers; and
- these benefits are what the decision-makers regard as their decisive buying criteria, not what you would prefer them to see as their decisive buying criteria.

Once all the micro-segments have been taken through these steps, you can review each micro-segment against the complete list of decisive buying criteria and make any necessary changes to the buying criteria that have been listed for it. As you have progressively been identifying the decisive buying criteria for each micro-segment it is possible that new buying criteria have been uncovered that may be applicable to micro-segments looked at earlier.

Finally, review and compare the micro-segments with each other to ensure that you have adequately indicated the differences between them in terms of the importance of their various buying criteria. Where required, increase or decrease the importance of appropriate buying criteria for individual micro-segments to redress any 'imbalances' and better reflect the differences between them, but avoid imposing differences between micro-segments if such differences do not really exist. As was suggested for the final review of the micro-segments and their key discriminating features, it helps ensure that the final picture remains visually comprehensible if no more than five stars (or tick marks) are used to highlight the most important buying criteria. Where necessary, however, use half tick marks (^{1}✓$_2$) or 'half' stars (☆) if this helps better reflect the differences between micro-segments.

A list compiled of all the decisive buying criteria is, of course, a list of the 'market's decisive buying criteria'.

Market research note

At this point you are in a position to pull together a substantial part of the brief for any external research you may be considering. It is suggested, however, that this is best deferred until your internal segmentation project has completed the phase of developing segments before finalizing the brief and commissioning the research.

Expressing the relative importance of decisive buying criteria numerically

Numerically indicating the importance of decisive buying criteria was suggested as a possible option in the previous section. It is also the approach most likely to be adopted for the quantitative stage of a segmentation research project as it is relatively quick and easy to administer, especially if this stage is conducted over the telephone. Two methods of numerically indicating the importance of buying criteria are reviewed here:

1. rating each buying criterion using a scale;
2. apportioning a total sum between the buying criteria.

Taking each of these in turn:

Alternative importance scales can be used, such as a five-point or a seven-point scale, and 'zero' is sometimes used instead of 'one' for indicating 'no importance'. Whichever scheme is chosen, the principle behind the approach is the same.

1. Using a scale

With this approach, each buying criterion is rated on an importance scale of, for example, 1 to 10 where '1' means it is of no importance at all and '10' means it is extremely important. This approach is often suggested by research companies as the preferred method for quantitative fieldwork because it is the most time efficient and the simplest to administer, particularly if telephone interviews are being conducted. It also has to be said that this approach is, in the main, easily understood by respondents. An example of a seven-point scale appears in Table 7.2 where the respondent is being asked how strongly they agree or disagree with particular needs statements.

The simplicity of this approach, however, has a downside when rating the specific buying criteria of an individual respondent (or micro-segment) because, by their very nature, all these buying criteria are important (with the possible exception of price). This is illustrated in the following example.

Table 7.2 A seven-point scale for rating DBCs

Strongly disagree	*Disagree*	*Slightly disagree*	*Neither agree nor disagree*	*Slightly agree*	*Agree*	*Strongly agree*
1	2	3	4	5	6	7

Note: The equivalent importance statements could be 'Completely unimportant', 'Unimportant', 'Somewhat unimportant', 'Neither important nor unimportant', 'Slightly important', 'Important', 'Extremely important'.

Assume there is a micro-segment that is not very price sensitive and values five buying criteria, one of which is very dominant. The highest score that can be given to any single buying criterion is set at '10', so the respondent gives the dominant one a score of '9'. As this micro-segment values four more buying criteria, the inclination will be to give each of them a reasonable score in order to indicate their individual importance to the micro-segment. If we assume the scores for these four buying criteria range from, say, '7' down to '5', averaging out at a score of '6', the total for these four buying criteria comes to 24. Add a score for price of, say, '2' and the total for these less dominant criteria comes to 26. Although the dominance of one buying criterion when compared to all the others still remains, its true relative importance to the micro-segment is highly likely to be masked. A very dominant buying criterion could well account for 35% or more of a decision. This could have crucial implications for the marketing strategy put together for a particular segment.

Table 7.3 summarizes the situation presented in the above example and illustrates how the 'rating' approach to indicating importance can hide the true *relative* importance of decisive buying criteria.

In quantitative fieldwork the questionnaire will, of course, contain statements covering all of the market's decisive buying criteria and

Table 7.3 The 'rating' approach to signifying a DBC's importance

Decisive buying criteria	*Individual rating: 1 to 10*	*Rescored to total 100*
Maintains 'pioneering' status	9	26
Enables precision work	7	20
Reduces labour requirement	6	17
Occupies little floor space	6	17
Easy to move	5	14
Price	2	6
Total	35	100

Note: Rescoring the individual ratings so that they total 100 is calculated by dividing each individual rating by the total of the ratings column (being 35 in this example) and multiplying the answer by 100 (as if you were expressing each individual rating as a percentage of the total).

Although the dominance of 'maintains pioneering status' survives, its true relative importance, which in the example given could mean it accounted for over 35% of the decision, is masked.

respondents will be asked to rate each and every one of them. A further difficulty that occurs in these situations is that some respondents are inclined to give scores within a narrow range to everything, be they all low, medium or high scores. This means that comparing such respondents with each other and with the rest of the respondents distorts the results. It is usually anticipated, however, that the number of interviews conducted for the quantitative phase, accompanied by quality control checks, will minimize this problem. This is not always the case.

In 2009 a financial services company commissioned quantitative fieldwork for one of its markets following a successful qualitative phase. The sample size was set at 1000 interviews. The commissioned research company conducted five interviews for the pilot, which appeared to endorse the questionnaire and the interviewers' skills, before rolling out the full study.

On completion of the fieldwork the computer file containing the data was handed over to the company commissioned to undertake the analysis. The statistical analysis revealed that the vast majority of respondents had rated *all* the needs statements within very narrow ranges and after two months of trying a range of highly complex and creative statistical techniques the output remained virtually unusable. As one of the statisticians put it, it has been like 'torturing the data until it confesses', but the data remained resolutely unyielding.

In the end, the financial services company reverted back to the qualitative conclusions as the basis for its strategy and squeezed what extra details they could from the quantitative exercise to add to this. The lessons learnt were:

1. Conduct a larger pilot (five is pitifully small)
2. Ensure there are frequent quality control checks (none had occurred)

2. Apportioning a total sum

While this is not the simplest of the two approaches being reviewed here and, therefore, the less easy to administer, it is better at indicating the true relative importance of the buying criteria to each other and in itself generally overcomes the problem of some respondents giving low scores and others high scores. We have, in fact, already touched on this method of scoring in the last chapter when discussing the 80/20 rule for identifying the features with the greatest influence.

In this approach, a total sum of, say, 100, is apportioned between the buying criteria to indicate their relative importance to each other, with benefits that play no part in the decision being given no score at all. A useful starting point is to arrange the buying criteria for the micro-segment in a descending order of importance, or simply number

Table 7.4 The 'total sum' approach to signifying a DBC's importance

Decisive buying criteria	*Initial individual score*	*Rescored to total 100*
Maintains 'pioneering' status	95	50
Enables precision work	50	26
Reduces labour requirement	15	8
Occupies little floor space	15	8
Easy to move	10	5
Price	5	3
Total	190	100

Note: Rescoring the initial individual scores so that they total 100 is calculated by dividing each individual score by the total of the individual scores (being 190 in this example) and multiplying the answer by 100 (as if you were expressing each individual score as a percentage of the total).

each of them accordingly. The total sum being apportioned is then distributed between the buying criteria to represent their relative importance to each other. The simplest way of administering this method of scoring, you may recall, is first to score the most important out of 100 and then score each of the others relative to this score. This is then reset back to 100 by adding up all the individual scores, dividing each individual score by this total and multiplying the answer by 100. A fully worked example of this approach appeared in the case study section of the last chapter, Table 6.9. Administering this approach along these lines is far better than trying to ensure that the total adds up to 100 at the outset. Table 7.4 shows what this looks like and uses the same example appearing in Table 7.3.

As will be apparent, when this approach to indicating the importance of buying criteria is adopted in research projects, it gets round the problem of some individuals always giving low scores and others always giving high scores.

Administering this approach during a research project is made easier if the respondents have a list of the market's decisive buying criteria in front of them. This is easily done with face-to-face interviews or online questionnaires, and when conducting telephone interviews it can be achieved by either e-mailing or faxing this part of the questionnaire to the respondent. The alternative when conducting a telephone interview is to read through the list to the respondent and ask them to note down those that they care about (suggesting that this is kept to around five, but no more than seven). The respondent then gives a score to their most important and using this as a reference point, they then score all the other relevant buying criteria accordingly. During a telephone interview it may be necessary to run through the list a couple of times.

Market research note

For some respondents, scoring their most important buying criteria out of a lower figure is preferred. Clearly, the preference of the respondent should be respected, as it is important they feel comfortable with what they are being asked to do. This flexibility is also more likely to produce a more accurate reflection of the respondent's priorities and, therefore, a more accurate segmentation result.

Because of what this approach involves, it is not as administratively easy or as fast as awarding each item a score out of 10, but it is more accurate.

Marketing insight

The 'total sum preference' approach to indicating the importance of benefits is the lesser used of the two approaches summarized here. This is mainly because the extra time it requires increases the cost of the survey and reduces the time available for other questions, there being a finite time over which a respondent can be expected to participate. However, when it has been administered, the distinction between the concluding segments has usually been clearer. Another method to consider for the quantitative stage of your research project is briefly discussed in the next market research note.

Market research note

For quantitative fieldwork being conducted online or by utilizing computers in some other way, an alternative to using rating scales or the total sum approach is the Maximum Difference Scaling (MaxDiff) method. By requiring respondents to choose the most important and least important of three to six buying criteria presented in a number of subsets, namely to nominate in each subset the pair with the maximum difference, the opportunity to give consistently low, medium or high scores is removed. Respondents find this method easy to understand and it has been shown to demonstrate greater discrimination among buying criteria and between respondents on these buying criteria. Presenting the resulting importance of each buying criteria in a format in which the total sum of importance adds up to 100 also makes the findings easy to interpret.

Benefit analysis – essential input to successful marketing

'Customers don't buy products; they seek to acquire benefits.' Behind that statement which appeared earlier in this chapter lies a basic principle of successful marketing. When a customer selects a particular product or service, they are not motivated in the first instance by physical features, or objective characteristics of the product, but by the benefits that those attributes bring with them. In a sense, therefore, all products and services are problem-solvers.

For example, a purchaser of industrial cutting oil is not buying the particular blend of chemicals sold by leading manufacturers of industrial lubricants; rather, they are buying a bundle of benefits which include the solving of a specific lubrication problem.

The motivation behind employing a surveyor when contemplating moving into a new home is not to preserve the subspecies *Homo sapiens 'surveyorcus'*; rather, they are employing the surveyor because they want to be assured the proposed new property is structurally sound.

Analgesics are not bought to keep the pharmaceutical companies in business; they are bought to relieve pain.

The do-it-yourself 'handyman' does not buy drill bits out of an interest in preserving the precision engineering industry of a particular country's industrial heartland; rather, as a drill manufacturer might put it, 'Last year we sold one million quarter-inch drills [approximately 0.65 centimetres], not because people wanted quarter-inch drills, but because they needed quarter-inch holes'[2] (although this could be seen as a blinkered understanding of the real need, which is usually to attach two items together and could therefore be achieved by using an appropriate glue!).

The difference between benefits and products is not just a question of semantics. It is crucial to any company seeking success on two important counts:

1. Unless the benefits are clearly identified, the strength of a company's product may simply go unnoticed, even if the features outperform those of competing products in terms of satisfying the needs of its target group. Many companies, however, still fall into the trap of talking to customers about features, rather than about what those features mean to the customer.
2. A company's output is only saleable for as long as it provides the benefits the customer requires, and for as long as it is seen by the customer to be good value when compared with other possible methods of solving their problems. Once there is a better, cheaper, quicker, tidier, more enjoyable way of putting holes in walls, the drill manufacturer will go the way of the buggy-whip maker.

[2]Based on Theodore Levitt's quote, 'People don't want to buy a quarter-inch drill. They want a quarter-inch hole.'

Therefore it is vitally important to know just as much about the benefits you supply as it is to know about the products or services themselves.

Standard, company and differential benefits

Benefits generally fall into one of three categories, namely 'standard' benefits, 'company' benefits and 'differential' benefits.

1. Standard benefits

These are basic benefits provided by product features but are not in any way unique to any particular manufacturer/supplier: for example, 'the aerosol propellant is one that does not damage the ozone layer'. Although in this respect your product might be like all others, it is still worth noting if it is an important consideration in the purchasing decision for your market. Its importance may also differ between customers. Not to make customers aware of this standard benefit could imply that you still use environmentally unfriendly materials. Clearly this would be to your disadvantage.

2. Company benefits

Whenever a purchase is made, the transaction links the customer to the company supplying the item. Links will be forged between the two at many levels. For example, in business-to-business transactions, their accounts departments will be in contact to deal with payment or financial matters; people on installation work or after-sales servicing will interact with the personnel at the buyer's company; delivery personnel with storekeepers; designers with technicians, and so on. When a buyer selects one of a number of competing suppliers, there ought to be some benefits to that buyer for making that choice.

Customers will prefer to deal with companies that, for example, provide better customer service, inspire confidence, have a reputation for fair trading policies, are known to be flexible, have a particular image associated with them, and so on. Company benefits are a means of differentiating your products or services from competing ones if, to all intents and purposes, they are similar. For example, some UK banks are trying to establish specific identities for the benefits they supply. Hence there is 'the world's local bank', the bank that provides 'a little extra help' and one that is 'with you all the way'. There has also been the 'listening bank', 'the action bank' and the bank that liked to say 'yes'. In many parts of the world there are now even banks which are 'open when their customers want them to be'!

3. Differential benefits

In a competitive marketplace, most suppliers vying for the available customers will not be able to claim that their standard, or company, benefits are, in truth regarded as being a great deal different from those of the competition. The benefits that only your products or services provide, and/or only the other constituents of the offer provide, which are also benefits in the eye of the customer, give your company its competitive advantage and are known as 'differential benefits'. To understand the market dynamics fully, however, particularly in the context of developing a segmentation structure for it, you not only need to be aware of your own company's differential benefits, you also need to note those differential benefits of your competitors which attract some of the market to them, as opposed to you. Differential benefits could include, for example:

- the only breakdown service genuinely open 24 hours a day and therefore available at any time to get the customer back on the move again;
- the only product with self-cleaning heads, so once installed there are no maintenance worries.

These are, of course, only benefits if they meet an explicit customer need.

Looking beyond the status quo

It is important when considering the reasons why a customer shows interest in certain features that you are not simply providing answers that represent the status quo. To help uncover their real needs and their true motivations, we must be able to answer the question, 'What are they really trying to achieve?' Examples of this can be found in the case study being used to illustrate the first phase of the segmentation process.

In the agricultural market covered by the case study, commercial crop nutrients (principally fertilizers), the focus of some farmers was to buy products which produced lush, green grass for their livestock to graze on. For another group of farmers, their concern was how well their livestock looked (the appearance of the grass being a minor concern). In the arable sector, one group of farmers concentrated solely on producing crops which met the needs of the market they were selling into, again regardless of how the crop looked while in the field. This particular group also demonstrated another important point when looking at the reasons 'why' particular products are bought.

This point concerns the 'market-oriented' arable farmers, who bought a great deal of this product in its constituent parts, rather than already mixed (which was how the majority of it was sold in various standard combinations), and they always looked for the cheapest buys. The initial conclusion was that this group bought on price, a conclusion which, it was later discovered, combined them with another group of farmers who *were* driven by price. However, on probing what they were really trying to achieve, it became apparent that they were combining the constituent parts in a variety of ways to make up a number of different mixes. This was being done because the standard, off-the-shelf combinations produced by the manufacturers were not sophisticated enough for the needs of this particular group of farmers. These bespoke combinations improved their farm's output and had nothing to do with price. In addition, a further driving force for this group of farmers was innovation, and their own bespoke mixing operation was also seen to be innovative.

Also understanding why customers show little interest in a product and asking, 'What would they really like to achieve?', can help take the analysis of benefits beyond the status quo, as in the following example.

In quite a different market from that covered by the case study, one segment was found to consist of unenthusiastic buyers who stated they were not really interested in the product class at all and only made purchases in this product class for the functional needs it satisfied. For example, they bought cars simply to travel between 'A' and 'B'. However, a research project discovered that this segment did have aspirations, in addition to the functional requirements, which could be met by the product if only it was designed and specifically targeted at this distinct group (which, usefully, had a distinct demographic profile). An example of this would be a car specifically designed to meet the requirements of the female executive and specifically positioned to appeal to this group of customers. A car manufacturer that pursued a strategy similar to this some years ago was Jaguar, which in the USA positioned their XJS model as one targeted at (wealthy) women.

Be alert to any possible unsatisfied needs manifesting themselves in the guise of something else.

Thus, it is crucial at this stage to be alert to any possible unsatisfied needs manifesting themselves in the guise of something else, rather than accepting the status quo. For example, 'price' may be given as the sole or major criterion for choice, but it *could* be hiding the fact that customers are currently dissatisfied with the present alternative offers available, as their real needs are not being met. What they are currently limited to buying in order to meet a functional need is, therefore, second rate, for which they certainly would not pay a premium, as in the following example

There is a functional need of (most) garden owners to mow the grass. To meet this need, there used to be only cylinder mowers available. Despite a close cut, a collecting box and roller providing an attractive finish, the cylinder mower was regarded as cumbersome by some gardeners and, because of this, they would buy cheap versions.

Then the hover mower arrived, which was light and quick, thus enabling a substantial amount of the time previously allocated to a chore to be better spent. Many individuals in the group dissatisfied with the cylinder mower switched to the hover mower as this met their need for a fast method of keeping their grass in check. In contrast, the need of the group choosing to use a cylinder mower was, in many instances, to present the lawn as a 'show piece'.

To assist in identifying whether there are any unsatisfied needs in a market, current products can be looked at in terms of the functional requirements they meet and by the views and attitudes customers have of them. By positioning today's products along these dimensions, unfilled *potential* opportunities may then become apparent. They could be unfilled, of course, because there is no demand. Details of this approach appear in the next section.

It is often by considering the possibility of unmet needs that the reasons why there are lapsed users and prospects become clear. We have already suggested that if you have chosen to consider these two groups in your project, this is the appropriate step in the process to reintroduce them (you may have established them as preliminary segments in Chapter 5).

Techniques for uncovering unsatisfied needs

There are usually several main motivations in any market, just a few of which are of real importance to the decision-makers. These dimensions can be viewed as bipolar scales along which current offers in the market can be positioned. For example:

- Expensive/inexpensive
- Strong/mild
- Fast/slow
- Large/small
- Complex/simple
- Garish/subtle
- Masculine/feminine

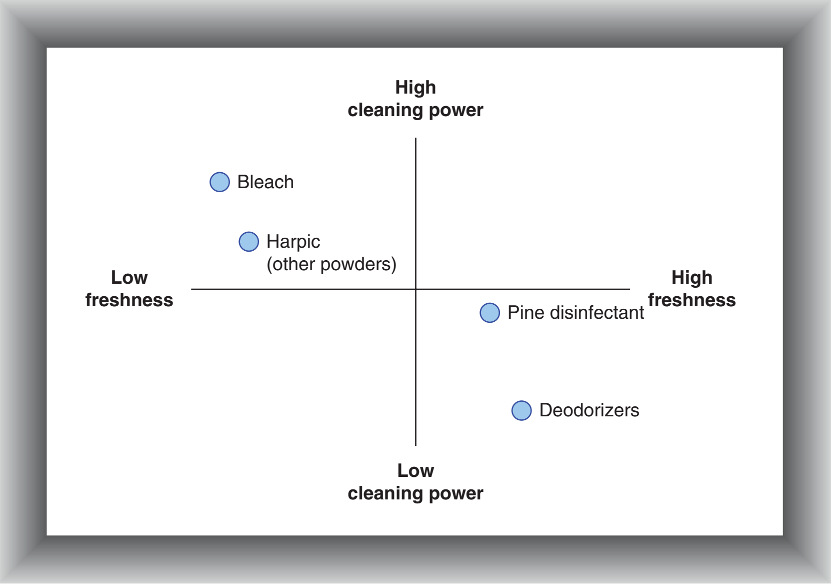

Figure 7.2
Bipolar map for detergents

The possibility of there being unsatisfied needs in a market can be determined by putting together a two-dimensional matrix with the axes selected from the list of main motivations and the current offers positioned accordingly. The resulting picture is often referred to as a 'bipolar map'. A simple example appears in Figure 7.2 which shows a bipolar map for detergents.

Figure 7.2 would appear to suggest that there are a number of possible 'opportunity gaps' in the market for detergents where customers with unsatisfied needs could be found. But before investing resources in new products targeted at these gaps it is essential to ensure that the gaps do not simply exist because they represent products for which there is no demand.

Uncovering an opportunity gap populated by potential customers and then targeting these customers with an appropriately designed product enabled a struggling car company of the 1960s to become one of the world's top brands.

Bayerische Motoren Werke, a motor company struggling to survive in the 1960s, desperately set out to uncover whether there were any unmet market opportunities in an already seemingly saturated market.

After undertaking extensive market research to uncover both the needs of car buyers and how well the models available at that time met these needs, it became apparent that buyers of motor cars in the 1960s made their choice of model based primarily on two criteria, speed and price. The company then sat down and plotted out on a simple, two-dimensional, matrix a 'picture' of the total market for cars as it was then, as shown in Figure 7.3.

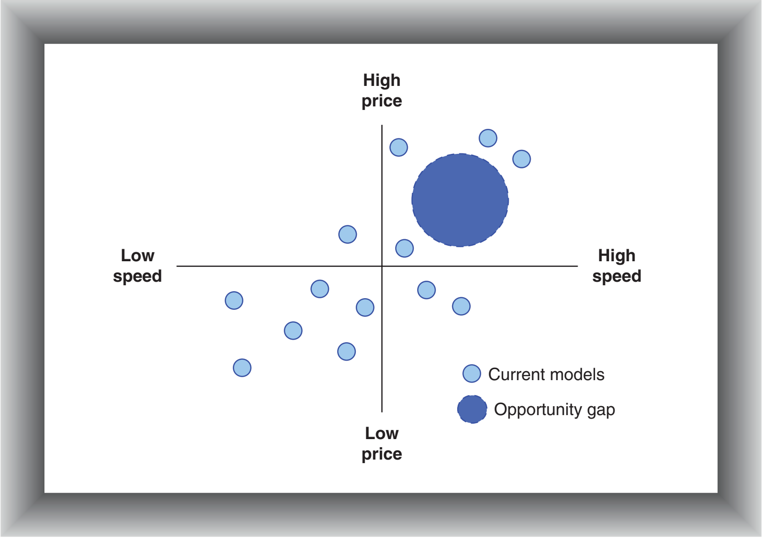

Figure 7.3 Opportunity gap in the 1960s market for cars

The resulting picture revealed that there was a gap in the market, a gap with sufficient sales potential to justify the required capital investment, so the company set about building cars for it.

Today this motor company has only a small share of the total market for cars, but has a large share of the particular part of this market its namesake brand has become associated with. Rarely has the brand stepped outside its specialist area. Today, many car manufacturers have fluctuating financial results, but BMW, as it is better known, continues to be one of the more profitable brands.

Not being alert to unsatisfied needs and having these opportunity gaps filled by competitors has sharply dented the performance of some companies.

In 1972, Rank Xerox, as it was then known, had an 80% share of the UK market for replicating printed material in offices, schools, and so on, and a margin of 40%. This dominant position was principally down to the company's patented imaging technology, a patent that expired in 1972. Once the patent had expired, Japanese companies came into the market with photocopiers aimed at companies who did not need the sophisticated, high volume photocopiers produced by Xerox. By 1977, Xerox's share had dropped to 10% and their margins had also dropped to 10%. By 1983, however, helped by producing products better tuned to the needs of different segments in the market, Xerox had recovered some of its former position and had a 30% share and 20% margins. The bipolar map for 1972 appears in Figure 7.4.

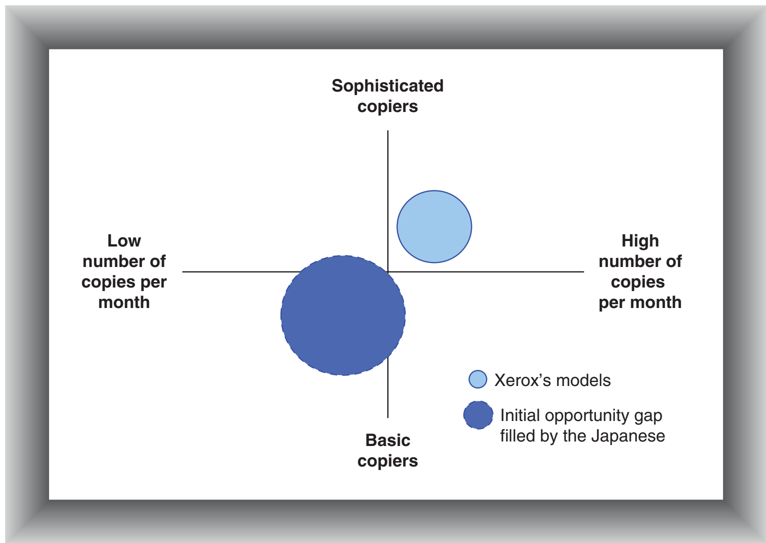

Figure 7.4 Opportunity gap for photocopiers in 1972

A further technique which can be used to identify where there are needs not being fulfilled is to construct what could be termed a 'needs cascade'. This is simply a build-up of needs based on an analysis of functional requirements: in other words, requirements that do not take into account the less tangible aspects of buying such as attitudes and perceptions. In the pharmaceuticals market, for example, a needs cascade for the 'relief of pain and inflammation' could be constructed as illustrated in Figure 7.5.

The precise structure of this cascade may differ, of course, by sex, and further differ by age. Separate cascades would therefore need to be constructed for each of these different user groups, who could well have entered the segmentation process earlier as preliminary segments.

Clearly, however, it would be essential to qualify the size of the opportunity each distinct need represented. It may be necessary to 'back-track' up the cascade and combine some of the needs before a distinct marketing strategy can be justified.

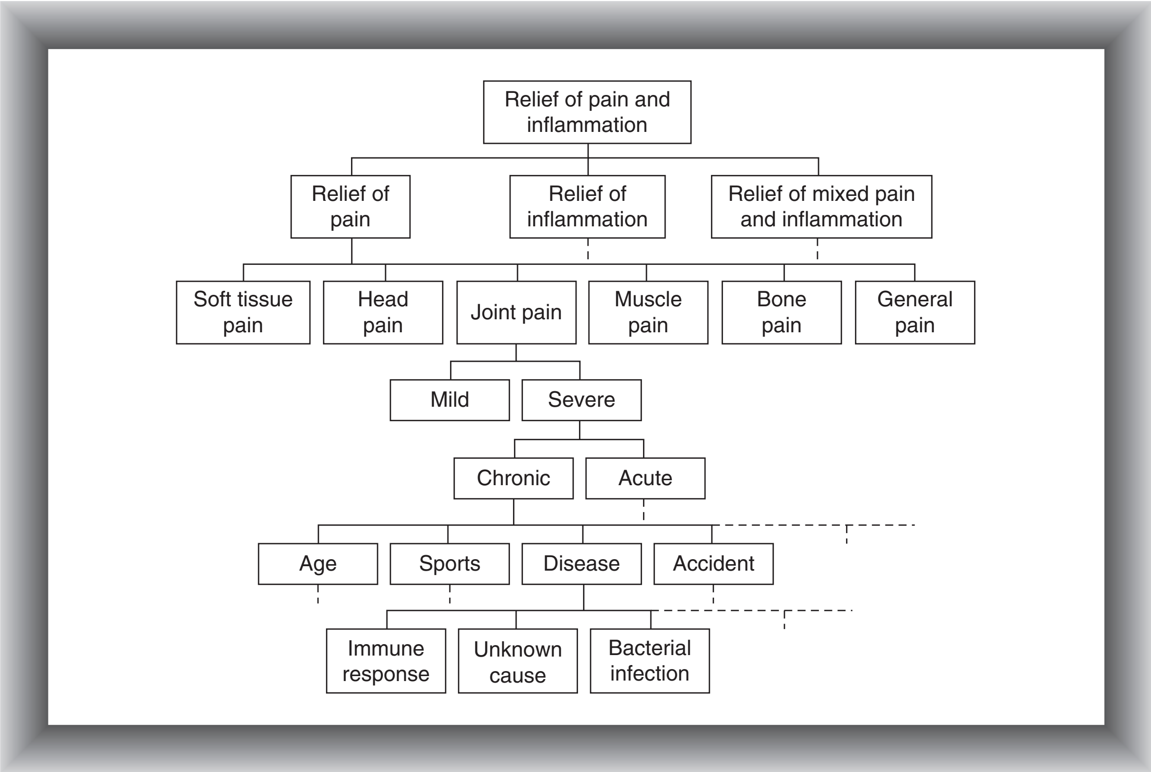

Figure 7.5 Extracts of a 'needs cascade' for the 'relief of pain and inflammation'
Source: Lidstone, J. (1989) 'Market segmentation for pharmaceuticals'. *Long Range Planning*, 22(2), 54–62.

The examples presented so far have focused on the more functional needs of a market. Bipolar maps can also be based around the views and attitudes of customers and such maps are sometimes referred to as 'perceptual' maps. These maps have the advantage of being able to illustrate the changes which can occur in a market's view of what a particular product line can represent. By plotting the position of currently available products on this map, opportunity gaps can be seen for positioning new products in the market, or even repositioning current brands, assuming, of course, it is a gap waiting to be filled by currently underserved or potential new customers.

The example in Figure 7.6 looks at the market for soap in terms of soap being positioned between feminine brands and family brands, and between soaps with medical benefits and those with cosmetic benefits. Clearly, other dimensions are possible.

There appear to be two areas of opportunity in the market for soap as represented above. These new opportunities clearly would have to be evaluated before resources were committed to developing and launching suitable products in case they were actually representing areas where little or no demand existed. It is interesting to note that in the male toiletries market, there are an increasing number of new

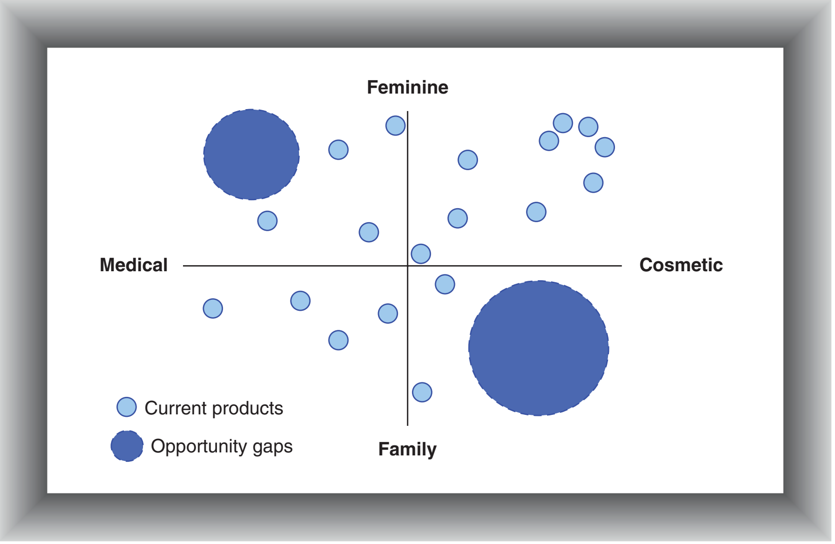

Figure 7.6
A perceptual map of the market for soap

products positioned as having a cosmetic value. There has clearly been a major shift in this market which has opened up the 'cosmetic' area of the male's perceptual map.

As a final example, it is interesting to go back a few years and look at the perceptual map of the tabloid newspapers in the UK as they were in 1993, because it is a good example of a market in which brands (titles) have been steered towards new positions.

The dimensions used for the perceptual map in Figure 7.7 show the extremes of 'up market' and 'down market', which

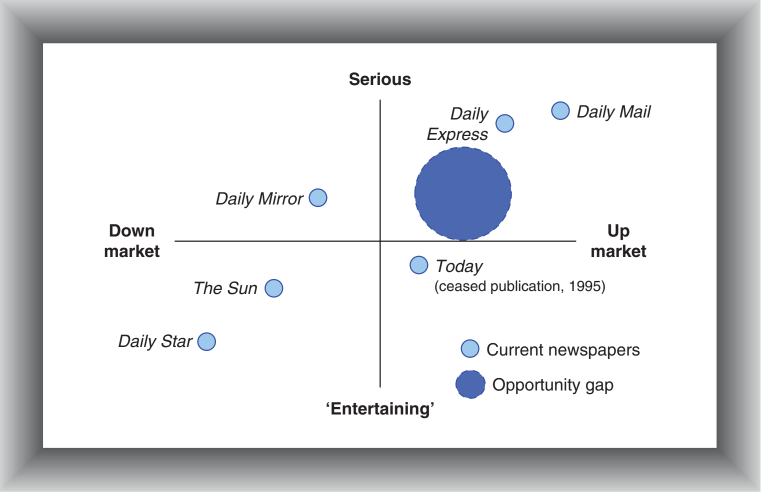

Figure 7.7 Perceptual map of the market for tabloid newspapers (1993)

can, in some cases, be associated with socio-economic group, and 'serious' and 'entertaining', the latter often being associated with 'exclusive' stories about individuals which the individuals concerned would prefer not to be highlighted!

In this market, the *Daily Mail*, for example, was gradually steered towards its 'up-market' position and the *Today* newspaper also changed position and became more 'serious', a move which possibly contributed to its demise. Some years later, *The Sun* and the *Daily Mirror* saw themselves as occupying about the same position, and in 2002 the *Daily Mirror* sought to distance itself from its arch rival by dropping its 'red top'[3] to look more 'serious'.

With respect to the moves that have occurred in the above example, it is important that we do not confuse deliberate repositioning with drifting. The danger of drifting is that it can often take a product into the weak, middle ground.

Addendum for those intending to test the validity of a current structure of strategic business units (SBUs)

This note is for those of you who are segmenting a market that straddles a number of strategic business units (SBUs) in the company, and have, so far, been looking at only one of them, though the intention is to take the other business units through the process. We covered this situation in Chapter 4 when discussing how to define the market.

You are now at a stage in the process where it is useful to take stock and tackle the remaining business units, bringing them through Steps 1 to 4. This is because Step 5 is where the process combines like-minded micro-segments. If all the applicable business units are, therefore, included in Step 5, it will enable you to see whether your current structure of business units is the most appropriate for the market, or whether a more customer-focused structure of your business is required.

Alternatively, you may prefer to take the first business unit through the whole process in order to become familiar with it. Afterwards, the remaining business units are taken through Steps 1 to 4, with the first business unit taken through Step 5 again, once the remaining business units are ready.

[3] A number of tabloids in the UK have their brand name appearing on a red banner at the top of the front page and are referred to as the 'red tops'. They tend to be from the less serious stable.

Process check

This, the fourth step in the segmentation process, provides guidelines on how the information pulled together in the previous step for each micro-segment can be used to determine the needs-based buying requirements of the decision-makers they each represent. These findings will then provide the basis on which the final segments will be formed, which means that this step must be worked through both carefully and thoroughly.

We began by briefly discussing the two principal theories of customer behaviour, the rational customer and the psycho-socio customer, but pointed out that although they provided useful insights, they rarely explained the totality of customer behaviour. The clear conclusion was that explaining customer behaviour in terms of the 'benefits' they were looking for from the choices they made was by far the most useful and practical approach. In particular, this approach provides the insights that can be used to organize the most appropriate proposition for each concluding segment, which is a key deliverable from a segmentation project.

The section explaining customer behaviour then moved on to a more detailed discussion about features and benefits, starting with a useful sequence for advancing from a feature to a benefit. We pointed out that a single feature can deliver more than one benefit and that the same benefit can be delivered by more than one feature.

The final topic in our discussion about customer behaviour covered the role of 'price'. Here we emphasized that it was the relative importance of price to the other buying criteria that was of interest to a segmentation project, 'price' being a measure of value placed by the customer on the tangible and intangible components of their purchase. We highlighted that the ability of one supplier to price its products lower than everyone else was not an issue in segmentation, though it clearly would be of major concern to the other suppliers.

With the discussion of benefits complete, we then presented the two steps to follow when determining the needs-based buying requirements of the decision-makers in each micro-segment. We refer to these benefits, along with price, as their 'decisive buying criteria' (DBCs). The steps began with an analysis of the benefits customers were seeking from their key discriminating features (KDFs). These were then graded, along with price, to indicate their relative importance to each other. We emphasized the importance of approaching all of this from the customer's perspective and suggested that the approach to take when developing and grading the decisive buying criteria was to place yourself back in the shoes of the customers once again.

While tick marks and stars can be used to indicate the relative importance of the decisive buying criteria, we also discussed the option of using numeric scales. Two approaches were presented, one which rated each buying criterion using a scale, such as 1 to 10, and another which apportioned a total sum of, say, 100 between the buying criteria.

A further look at understanding customer behaviour in terms of 'benefits' highlighted its importance to successful marketing and we explained the distinction between 'standard' benefits, 'company' benefits and 'differential' benefits. We also pointed out that in order to uncover the real needs and true motivations of customers, it was essential that the explanation of their behaviour went beyond the status quo.

We then moved on to discuss some techniques that could be used to help identify unsatisfied needs in the market, but at the same time pointed out that 'gaps' sometimes appear in markets because there are no customers with that particular need rather than there being an untapped opportunity.

Finally, we included a short addendum in which we suggested that for those who were segmenting a market that straddled across a number of strategic business units in their company but, so far, had only been looking at one of them, this was a suitable stage in the process to consider bringing all of them into the process.

Case study

Spread across the 34 micro-segments the segmentation team at Agrofertilizer Supplies had developed in the previous step were 14 key discriminating features (the two additional features to those appearing in Table 6.10 in the previous chapter being 'urea and manufactured blends' and 'direct' sales). The team now had to look at these features in terms of the real needs their representative sample of different decision-making farmers were looking to obtain from them, not overlooking the possibility that the choices made by some farmers could be reflecting unsatisfied needs.

Identifying the needs-based buying requirements of their market and understanding what the farmers were really trying to achieve proved to be quite challenging for the segmentation team. This was primarily down to two key reasons:

1. the company had sold fertilizers from the very first day based on their technical specification and what this gave the crops in terms of the nutrients they required, not what the farmer was actually trying to achieve in totality;
2. with fertilizers 'officially' declared to be a commodity it was, for many in the industry, all down to price and moving the analysis of buying behaviour out of this death-trap had been given very little thought.

The team also believed that any list of benefits they developed would be contested, even with the sales force involved.

Input for this stage of the project finally came from a qualitative piece of market research they commissioned conducted by an independent research company skilled in this particular area of market research. The resulting list of the market's decisive buying criteria, with the inclusion of price, came to a total of 10 and these were graded for each of the micro-segments. A selection of micro-segments and

(*Continued*)

their buying criteria appear in Table 7.5 and, as you will see, the team used the total sum approach for illustrating the relative importance of the buying criteria to each micro-segment.

Table 7.5 DBCs and their scores for a selection of micro-segments in the case study

		Micro-segments				
Features	***DBCs: benefits + price***	***A1***	***A6***	***G3***	***G9***	***M1***
AN & bespoke blends Urea & bespoke blends	Innovative/new	–	38	–	22	–
AN & bespoke blends Urea & bespoke blends	Sophisticated	–	14	–	5	–
AN & manufactured blends Well-established brand	Proven/traditional (reassurance)	24	–	21	–	35
High consistency (of nutrients – NPK)	Healthy looking crop or grass	6	–	–	–	5
High consistency (of nutrients – NPK) Low nitrogen level	Healthy looking animal stock	–	–	26	–	5
Well-established brand	Service (qualified help)	23	–	–	–	15
High consistency (no lumps or dust)	Ease of handling	21	–	9	–	25
High nitrogen level	Maximum output/yield per acre	–	32	–	9	–
Local distributor	Convenience/easy access to supplies	16	–	39	–	10
	Price	10	16	5	64	5
	Total	100	100	100	100	100

Note: 'A' identifies micro-segments originating from the Arable preliminary segment, 'G' for micro-segments from the Grassland preliminary segment and 'M' for micro-segments from the Mixed preliminary segment. Although the benefit of having 'healthy looking crop or grass' receives only small scores in the above table, there were other micro-segments who were seen to score it at around 25.

Once the potential implications of the results were realized, the initial conclusions were tested by commissioning a detailed quantitative market research project. The results from this illustrated that while the team had miscalculated the

(*Continued*)

importance of benefits in some areas, their overall conclusions had provided a general indication of the reality. The research project, however, provided not just accuracy, but also the robustness the team would need when presenting the results and the strategic messages it carried.

The status of the case study at the end of Step 4 is summarized in Figure 7.8.

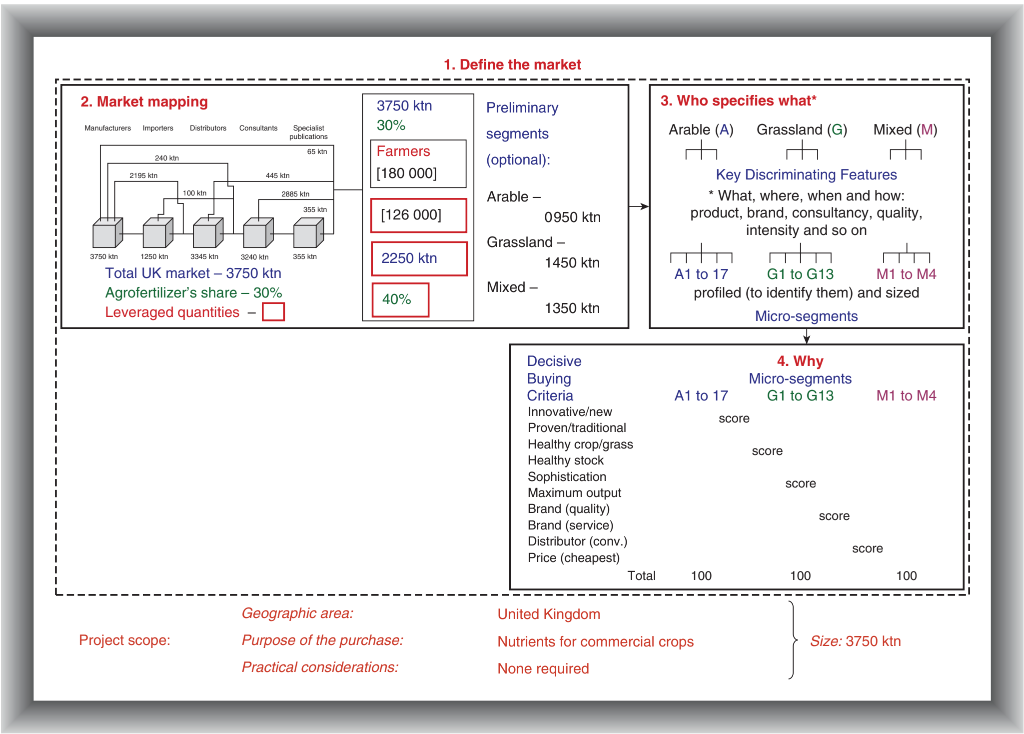

Figure 7.8 The segmentation process – Steps 1 to 4

Further examples

Success in identifying the real benefits being sought by customers in a market can lead to remarkable increases in market share when the right offer is put in place. Unfortunately, getting it wrong can have exactly the reverse effect.

Example 7.1

The first example is an extract from an article which appeared in the mid-1980s. Here we see one overseas tour operator has correctly identified a growing preference in the UK market for self-catering holidays, while some of its competitors have not caught on so quickly. In fact, one of the competing tour operators makes an overall assumption that the holidaymakers buying this type of holiday have traded down and bought on price. This fails to acknowledge that there could well be other benefits associated with self-catering holidays which are more important to these holidaymakers than price, such as the freedom to eat *what* they want, at a place *where* they want and at a time *when* they want.

Shrewd anticipation of holiday trends has paid off for Intasun by nearly doubling its share of the Greek market.

By buying heavily into the Greek self-catering sector for 1985 the leading operator has captured a 17% stake compared to the 9 points held last year.

According to the latest figures produced by the British Market Research Bureau this means it is breathing down the necks of flagging frontrunner Thomson Holidays which has plunged from 28 points to 19.

Horizons share has fallen 5 points to 11, while Olympic Holidays has dropped 2 points to 4.

Apart from Intasun, the other star performers are Sunmed – whose share has doubled to 10 points – and Grecian which is up to 11 from 8.

Commenting on overall trade, the managing director of Olympic Holidays said that holidaymakers had traded down and bought on price.

'Specialists at the bottom of the market such as Grecian and Sunmed and Intasun have done well, while those offering more expensive hotel holidays are down on last year.

'But only 35% of the Greek market is self-catering, and Sunmed is probably around 70% sold out, so the hotel holidays will have to start filling soon.'

The managing director of Olympic Holidays warned that if the British did not fill up the beds in Greece, then hoteliers would start to look for clients from other European countries.

Source: *Travel Trade Gazette*, UK.

The understanding of customer needs and the provision of holidays to match them has moved on a great deal since this article appeared.

Example 7.2

The second example consists of a short series of mini-case histories:

Pampers When 'Pampers' were first test-marketed by Procter & Gamble (P&G), the results were extremely disappointing. The 'convenience' offered by the product, along with its high price, failed to impress its target customers. The real benefit that turned this product into a winner, supported by a price that presented the offer as a value proposition, was its ability to keep babies drier and that it could be used as a permanent replacement for diapers, rather than a convenient stand-by for when you were out.

New Coke The failure to recognize a particular benefit was the undoing of 'New Coke', launched in 1985 by the Coca Cola Company to replace 'Coke' with the claim that it was offering a better taste. We briefly mentioned this case in Chapter 1. What the new product could not inherit from its stable mate was the emotional association the original drink had, particularly in its home market, with all that was American.

Plastic In a car showroom for a brand of cars made by General Motors a sales executive was challenged by a customer over the amount of plastic in the car. Without batting an eyelid, the sales assistant pointed out that this reduced the overall weight of the car, which clearly meant that the power to weight ratio was much better. The customer bought the car.

Not long afterwards, a second customer was being shown round the various cars on display by the same sales executive. This customer also made exactly the same comment about the amount of plastic in the car. Once again, the sales executive explained that this reduced the overall weight of the car. However, on this occasion, the reduction in weight, so the sales executive enthusiastically pointed out, meant that it improved the fuel consumption of the car. This customer also bought the car.

Post-it Notes Sometimes a potential winner is developed, but the company struggles to recognize what it is about the product that makes it a valued proposition. This was the case when a section of 3M developed a glue that did not bind items together, but merely attached them to each other. This, as far as the company was concerned, at least for a short time, was not what glue was about! But along with this new type of glue was the idea of adding it to square pieces of paper, sold in blocks, which could be used to write notes on, detached from the block and then conveniently attached to a desk, chair, wall, door, well, anything really, for the intended, but absent, recipient, knowing that it would still be there when the recipient returned. Conveniently, just as easily as it was attached, the recipient could then detach it and, if they wanted to keep it, reattach it to where they would not miss it, again knowing that it would still be there when they needed to refer to it. Obvious, isn't it!

The outcome was the launch of 'Post-it Notes'.

A handle A supermarket that sold drinks in large plastic bottles, as well as in other containers, was receiving feedback from some of its customers about the difficulties they were having in handling these large bottles. The customers, however, liked the large bottles as it meant that they could store larger quantities of these drinks in the storage space they had available, which, in turn, meant that they did not have to shop as often. In addition, the price for these larger bottles of drink meant that the customer received better value for money. The supermarket took their customer's problem to the manufacturer of the plastic bottles and asked them to design a bottle that was easier to handle.

The manufacturer missed the point, and asked its engineers to design a more rigid bottle so that the customer would feel more confident in holding it. The engineers, responding to the brief, came up with a design consisting of a skeletal structure built inside the bottle which met the brief exactly. The manufacturer turned the design into a product, shipped them to the supplier of drinks, and these much improved plastic bottles were soon on the shelves of the supermarket.

It was still difficult to handle.

It is not often that the benefit being sought actually describes the feature that best delivers it!

Eventually, large plastic bottles with handles began to appear.

Exercises

Exercise 7.1

The following is a list of various benefits:

Availability – when required

Convenience – where required

Reduces required stocks (of supplies) – prompt delivery

Proven/trusted performance

Innovative/leading edge

Efficient performance

Personalized service

Respects my personal 'space'

Eye-catching/grabs attention

Saves time

After-sales support (resolves issues, rather than logs them)

Long-lasting/robust

Looks good – streamlined/sleek

Looks good – chunky/solid

Looks extravagant – feels good

Childproof (safety)

Sporty image

High-tech image

Space-saving design

Portable

Referring now to Exercise 6.2 in the last chapter which looked at your key discriminating features for a product or service you use at home or at work, select from the above list any benefits that apply to you when buying this particular product or service, and note the particular feature that delivers it. If there are other benefits you are looking for, also note these down, along with their associated key discriminating feature. When you have linked a benefit with a feature, capture this link on the worksheet in Table 7.6 and take it through the feature, advantage and benefit sequence. As for previous worksheets, make as many copies as you need of this, and the following worksheet.

Now transfer the list of benefits to the worksheet in Table 7.7, add price to the list, assuming it is not already there, and, using one of the micro-segment columns, indicate the relative importance to you of the decisive buying criteria on this list. Either rate each of them out of 10, with

Table 7.6 Worksheet – developing KDFs into benefits

Customer appeal	***Feature***	***Advantage***	***Benefit***
What issues are of concern for this customer? For example, availability, safety, reliability, simplicity, fashionable, leading-edge, and so on.	What features of the product or service, channel, and so on in the customer's view best represent these issues? What are they? How do they work? (The list of KDFs.)	What advantages do these features provide? In other words, what do they do for the customer?	How can tangible benefits be expressed to give maximum customer appeal? In other words, what does the customer get that they explicitly need?
Micro-segment:			
Customer appeal	KDF which means that:	Advantage which means that:	Benefit

'10' meaning it is extremely important (and '1' meaning it is of no importance, but that should not apply at this stage), or apportion a total of 100 between the benefits to indicate their relative importance to each other (made easier if you score the most important out of 100 and score the other benefits relative to this score, and reset them so that they total 100, as described earlier in this chapter). The worksheet in Table 7.7 also enables you to record the relationship between the decisive buying criteria and their respective key discriminating features.

The exercise being referred to in the previous chapter also suggested that you created a micro-segment for someone else you knew who was also in this market. If this is the case, record the benefits and their relative importance to each other for this micro-segment using both worksheets.

Exercise 7.2

Now apply the last exercise to the micro-segments you have developed for the market your company is in. After drawing up the list of benefits and scoring them for a selection, or all, the micro-segments, discuss your conclusions with others in the organization to obtain their views on the benefits and how the micro-segments would score them.

References

Levitt, T. (1960) 'Marketing myopia'. *Harvard Business Review*, July–August, 45–56.

Lidstone, J. (1989) 'Market segmentation for pharmaceuticals'. *Long Range Planning*, 22 (2), 54–62.

Table 7.7 Worksheet – recording DBCs and their relative importance by micro-segment, along with their link to features (optional)

		Micro-segments and their DBC scores				
Features	***DBCs: benefits + price***					
	Price					
	(if apportioning a total sum) ***Total***					

Note: While it is useful to show the link between DBCs and their KDFs, it is an optional entry on this worksheet.

8 Forming market segments out of like-minded decision-makers

Summary

The segmentation process has now reached the point where all the details required for segmenting the market are in place. This, the fifth and final step in the development of segments, as illustrated in Figure 8.1, constructs these segments based on the decisive buying criteria identified in the last chapter.

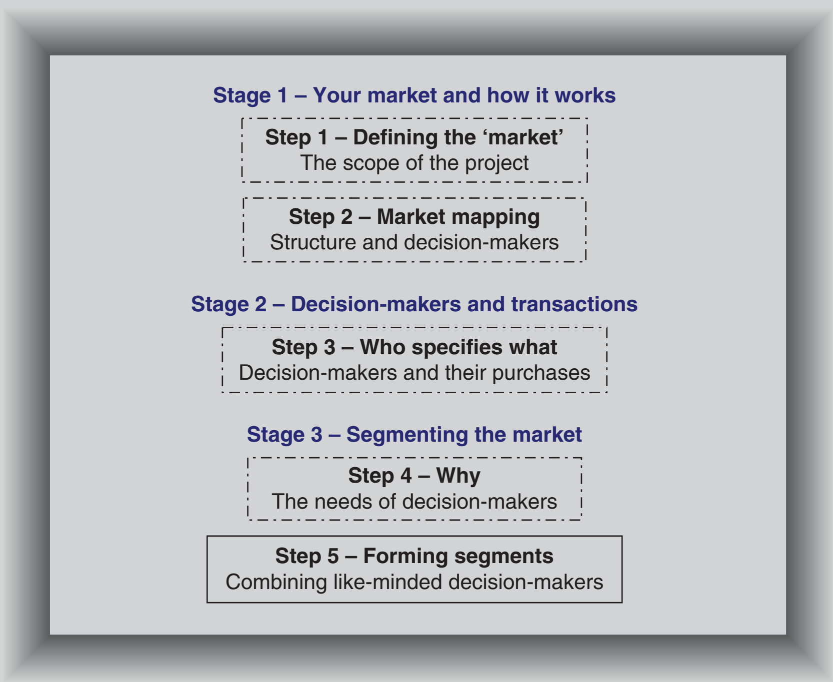

Figure 8.1
The segmentation process – Step 5

Once the segments have been formed, the picture is completed by consolidating for each segment the profiling attributes and estimates of size put together in Step 3 for the customers they now represent.

With a manageable number of micro-segments, internally resourced segmentation projects can conduct this step manually, and this chapter provides the guidelines you

(Continued)

require to form your segments this way. Most internally resourced projects should, therefore, be able to construct their own segments along these lines. The alternative is to use a computer package specifically designed for the purpose, the assistance of which will certainly be required for the quantitative stage of any market research you commission.

This chapter is organized as follows:

- An introduction to 'market segments' and an overview of their key components
- A discussion about the size of segments and economic viability
- Balancing market segments with the number of different marketing strategies a company can handle
- The order of events for developing market segments (clustering) and the clustering routines to consider
- How to carry out visual clustering (pattern matching)
- How to progress through mathematical clustering
- The mechanics for isolating the most important buying criteria
- A brief discussion about 'acceptable differences' between customers
- Working through clustering outcomes that may not have been expected
- Some brief comments about computer-assisted clustering techniques and working with external agencies conducting this analysis
- The rites of passage for a cluster to become a segment, along with some further comments on customer profiling
- A review of this step in the segmentation process
- The concluding segments for the case study and some further examples
- Exercises further to help you with this step

The components of a market segment

The whole purpose of this first phase of the segmentation process has been to develop segments within the market being covered by your project (**market segments**), each of them populated by decision-makers who share a similar level of interest in the same, or comparable, set of needs. This can then be used to develop the most appropriate offer for each of the segments the company chooses to target.

Definition: A market segment consists of a group of customers within a market who share a similar level of interest in the same, or comparable, set of needs.

The first component of a market segment is, therefore, the list of needs that the individuals in that segment regard as important to them when selecting which competing offer to buy.

When this book refers to 'segments' in the text it is referring to 'market segments'.

Marketing insight

An important distinction to note here, and one first mentioned in Chapter 4, is that between a 'market' and a 'segment'.

While a 'market' describes a customer need in a way which covers the aggregation of all the alternative products or services customers regard as capable of satisfying that need, 'segments' focus on specific products or services, their characteristics and properties, along with other components of the total marketing proposition, that different groups of customers are looking for in order to satisfy their particular needs within a market.

A key difference, therefore, between a 'market' and a 'segment' is that a specific marketing strategy can be defined for a segment, whereas for a market, we can only list the alternative products or services. It is simply a different level of aggregation of customer needs.

Successful targeting of segment-specific offers, however, requires an understanding of who is to be found in each of these segments so that there is some way of communicating with and reaching them. Unless they can be isolated in this way, difficulties will be encountered when implementing strategies targeted at specific segments.

The second component of a market segment is, therefore, the profiling attributes of its decision-makers.

But before any resources are committed to developing segment-specific offers and in putting together the appropriate communication and distribution plans, it is essential that the level of business each segment represents is assessed. While this may need to be an informed estimate at this stage of an internal segmentation project, subsequent research can be used to provide a more thorough assessment.

The third and final component of a market segment is, therefore, its size.

In summary, each segment consists of:

1. the needs regarded as important by the decision-makers it represents;
2. characteristics that tell us who these decision-makers are;
3. a volume or value figure.

If you have rigorously been following the steps in the segmentation process to this point, all the above information will now be embedded in your micro-segments; their profiling attributes and an estimate of their size developed for them in Step 3, and their needs identified in Step 4.

Marketing insight

As pointed out in the previous chapter, it is also useful to track the key discriminating features (KDFs) through to the concluding segments. Your company's performance with respect to these features, and those that may, in time, supersede them, is how customers assess your ability, and that of your competitors, to satisfy their needs. Company competitiveness by segment is looked at in Chapter 10.

In addition, as we also pointed out, this insight enables you to review the actual purchasing practice of the customers found in each segment. This is useful when determining the most appropriate strategies for the segments you elect to target and is looked at in Chapter 13.

Consolidating the key discriminating features for each segment is not, however, essential for this step in the segmentation process.

Before reviewing the micro-segments to determine which of them can be merged on the basis of the needs they share, there are two questions to consider:

1. What is the minimum volume or value you require each segment to have (or, perhaps, the minimum number of customers) for it to become an economically attractive group of customers?[1]
2. How many segments could the company actually work with?

For many companies, the more difficult of these two questions concerns the number of segments they will be able to support with different marketing strategies, especially if the performance of the company is judged by its *market* share.

Size of market segments

The question about the economic size of a segment is one that has to be considered by those businesses where tailoring their propositions around the different needs of *individual* customers is unlikely to produce the returns required by the company, a position that most companies find themselves in. An extremely restricted product or service range is very likely to be the case for companies with limited resource flexibility, such as those that are required to invest in large fixed/capital assets in order to produce their products or services. Chemical manufacturers would fall into this category, though they would still have the ability to tailor other constituents of their proposition, such as the packaging, channels, supporting services and messages linked to their

[1]This figure should bear in mind, of course, that in most if not all segments you will have a share of their custom rather than all of it.

products. The real company behind the case study being used to illustrate the process for developing segments fell into this category, particularly with respect to its core product, ammonium nitrate. Aircraft manufacturers also fall into this category. Tailoring can also be severely limited by technical considerations, as would be the case in pharmaceuticals. Such companies would clearly need to establish minimum thresholds of segment viability that were fairly high, though this could then be lowered according to the proportion of value placed by customers on other, more flexible constituents of the overall offer. At the other end of the spectrum are those companies with a high degree of resource flexibility, such as those dependent on human resources, and with almost no technical limitations on their proposition flexibility, as would be the case for consulting services. For these companies, virtually any constituent of their proposition has the potential to be tailored. However, even for these latter companies, unless they are offering full individual tailoring of every proposition, namely one-to-one marketing, they will still need to establish some minimum threshold, but it would be substantially lower than that set by the capital intensive organizations. Figure 8.2 summarizes this relationship.

The impact this decision has on how far the concluding segments represent a compromise of the ideal from the customer's point of view will depend on the degree to which customer needs differ within the market being segmented. If they differ on only a limited number of specific needs and the minimum segment size is high, there will probably be very little, if any, compromise. On the other hand, if they differ on quite a number of specific needs and the minimum segment size is high, then the degree of compromise could be quite high. It only 'could' be quite high because the aim of the clustering routines is to minimize the level of compromise between the customers that are merged to form a particular segment.

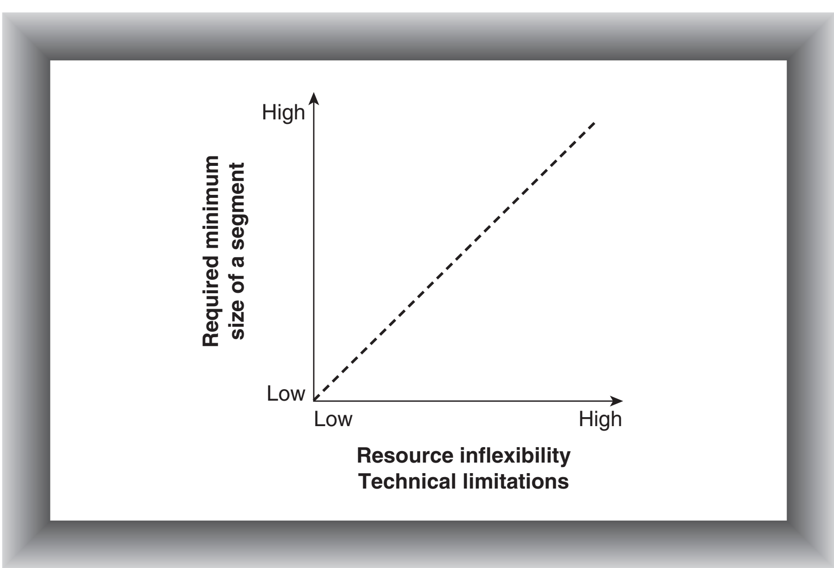

Figure 8.2
The general relationship between resource inflexibility/technical limitations and viable segment size

The degree to which customer needs differ in the market you are segmenting will, of course, be reflected to some extent in the number of micro-segments you finished with at the end of Step 4 in the last chapter. This number cannot, however, be taken as an absolute indication because it is possible that some of the micro-segments, when redefined in terms of their needs, are now very similar to each other.

Marketing insight

When customers are being merged to achieve an economic size but, as independent groups, they could merit distinct propositions, consider the future size of business they could represent. If it looks as if this will go above the minimum threshold in an acceptable period of time (normally the time horizon for your marketing plan) then it would clearly be better to keep them separate.

This consideration would be particularly important for those customer groups you may have introduced into your project whose needs are not being currently met in the market.

The future size of segments is a topic covered in Chapter 9.

Number of market segments

Turning now to the question about the number of segments the company could actually work with, it will be clear from what has already been said that unless you are a company with a high degree of resource flexibility with almost no technical limitations on your proposition flexibility, you will need to consider how many different segment-specific marketing strategies your company could handle.

Marketing insight

Most markets tend to divide into between 5 and 10 segments, so if you were planning to serve every segment in the market, you could be looking at between 5 and 10 different propositions.

With respect to the number of segments you could work with, whatever this number is, increase it by, say, around one-half as it is unlikely you will find that all the concluding segments are actually attractive to your company, or that you can effectively compete in all of them. Segment attractiveness and your competitiveness are looked at in Chapters 9 and 10, respectively. If the number you arrive at is close to the resulting number of segments, you will have arrived at an ideal conclusion.

If the ideal conclusion evades you and the most appropriate number of segments from the customer's point of view is outside this range, it is interesting to continue merging customers until your ideal has been reached, but only after the customer's ideal conclusion has been recorded. The two results can then be compared with each other, with particular attention paid to the level of compromise that has had to occur with respect to the needs recorded for each segment. It will then be a matter of judgement on the strategy you adopt, the options being:

1. adopt the customer's ideal segmentation conclusion and run with the number of different propositions you are comfortable with handling effectively, thereby targeting a lower proportion of the market, but with competitive offers; or
2. adopt the customer's ideal segmentation conclusion and work out how to run with a higher number of different propositions effectively, thereby targeting a higher proportion of the market with competitive offers; or
3. adopt your ideal segmentation conclusion and run with the number of different propositions you are comfortable with handling effectively, thereby targeting a higher proportion of the market but with competitively weakened offers (especially if other companies have offers that are more precisely targeted).

Building micro-segments into market segments – clustering

For internally resourced segmentation projects that have a manageable number of micro-segments, which tends to be most of them, it is possible to build the market segments manually. The alternative is to build the segments with the assistance of a suitable computer-based clustering package. The use of such packages will certainly be required for the quantitative stage of any market research. A short discussion about computer-assisted clustering techniques and working with external agencies conducting this analysis occurs later in this chapter.

The general order of events in clustering can be summarized as follows:

1. Begin by looking for customers who are an exact match with each other in respect of the benefits they are looking for and the importance they give to these benefits and merge identical customers together to form some initial clusters.
2. Next, look for any customers and clusters that are a very close match with each other and merge them together to create a revised set of clusters.
3. Continue by progressively decreasing the level of similarity customers and clusters must have with each other before they can be merged together, revising the clusters until the best or desired result has been achieved.

Marketing insight

Forcing customers together who are really quite different from each other in terms of their needs simply to achieve segment size targets and/or the preferred number of segments should be avoided. By definition, they do not qualify as a segment, as they will not be sharing a similar level of interest in the same, or comparable, set of needs. In such situations, the guidelines you have set for the project should be reconsidered. If it is to do with segment size, do not overlook the future size of business the customer groups could represent.

Any competitor who is able to target a specific group of customers with an offer aligned to their needs is more likely to win their business.

Whether you tackle clustering manually or with a computer, there are two clustering routines you can consider when forming segments and a third routine which is interesting to look at if your company currently segments customers on the basis of their profiling attributes.

Routine 1 This routine is the most obvious routine to follow as it merges micro-segments together according to how similar they are to one another with respect to the relative importance they have given to each of the decisive buying criteria (DBCs) identified for the market.

Once completed, the profiling attributes and estimates of size that accompanied each micro-segment should be consolidated for each concluding segment.

Marketing insight

Although we refer to the 'similarity' between micro-segments, it is often described as determining the 'difference' between micro-segments, especially when clustering is conducted mathematically. To be more accurate, therefore, each segment should be described as consisting of customers who have an 'acceptable' level of difference between them.

A brief discussion on 'acceptable' differences occurs later in this chapter. It is based around the effect a merger of customers has on the most appropriate marketing strategy.

Depending on how satisfied you are with the degree of 'fit' obtained by this first clustering, in other words, how well the micro-segments come together to form distinct segments, you may wish to explore the alternative routine to see whether or not this 'fit' can be improved upon.

Routine 2 A selective clustering routine, following the principles of the first routine, except that you select which of the market's decisive buying criteria to include, which could possibly see 'price' taken out of the equation. This may be a useful routine if the score for one, or more, of the clustering criteria is/are similar across the micro-segments. It can also be useful if one, or more, of the benefits is, in fact, becoming an expected part of the offer and less of a differentiator. Seeing what would happen when a particular buying criterion becomes a market 'qualifier' (and therefore removed from the segmentation equation) can provide you with an interesting future vision of the market – a vision which could provide you with a valuable strategic advantage.

As for the first routine, once completed, the profiling attributes and estimates of size that accompanied each micro-segment should be consolidated for each concluding segment.

As already mentioned, a final routine which is sometimes interesting to look at concentrates on the profiling attributes of each micro-segment.

Routine 3 This routine merges micro-segments together to form segments based on the similarity of their profiling attributes.

When this routine is completed, the similarity (or otherwise) of the scores for their decisive buying criteria are shown for each of the concluding 'segments'.

If segments are, however, about groups of customers with the same or comparable set of needs, the value of this third routine is limited to simply satisfying curiosity. However, if your company is currently following a segmentation structure built around customer profiles, such as industry types, and your needs-based segmentation project has identified that this is not in fact the case, being able to produce the results based on a current view held by the business can help the segmentation team persuade the company to change.

Two approaches to manual clustering are looked at in this chapter:

1. visual clustering; and
2. mathematical clustering.

The second of these approaches will require the relative importance of the decisive buying criteria to be expressed numerically, which is also how they will have to appear if you are proposing to use a computer package for clustering.

At this stage, you only need to consider the micro-segments and their buying criteria, along with their size. Bringing together their profiling details and their key discriminating features can occur once the segments have been formed.

Marketing insight

If, at any stage of building your clusters:

1. a cluster is developed that matches or exceeds the size requirement of a segment; *and*
2. further additions to this cluster will noticeably weaken what is currently a very clear focus around one, or more, of the buying criteria in this cluster, put this particular cluster to one side in order to protect its position.

However, for thoroughness, frequently review its position as you continue to build other clusters to reconfirm that keeping it 'protected' remains the best strategy.

Visual clustering (pattern analysis)

There are three preparatory measures to follow before proceeding to merge like-minded decision-makers into clusters, the third of which you may prefer to implement only if an initial attempt at clustering proves to be too difficult and a reduction in the number of buying criteria having to be considered would resolve the problem.

1. So that the micro-segments are directly comparable with each other, ensure that all the market's decisive buying criteria appear for each micro-segment, even those they have no interest in, and that the buying criteria are in the same order.
2. Remove any buying criteria that appear in all the micro-segments with the same, or very similar, importance values, as they clearly have no role in differentiating between groups of customers, though it is helpful if they still appear in the list of decisive buying criteria for the concluding segments as they will need to be taken account of when putting together the segment-specific offers.
3. Consider clustering the micro-segments using only their most important buying criteria by focusing on those that account for, say, 80% of their decision (the mechanics for this are discussed after the section on mathematical clustering).

As a first step in visual clustering, look across the micro-segments to see if any obvious similarities appear, as these can be used to form some initial clusters. This will reveal if there are any exact matches and should enable you to identify the very close matches. If your micro-segments looked anything like those in Table 8.1 you would be able to form your clusters in a single move.

Table 8.1 Looking for distinct patterns across micro-segments

Market DBCs	*Micro-segments and the importance of their DBCs*									
	A1	*A2*	*A3*	*B1*	*B2*	*C1*	*C2*	*C3*	*C4*	*D*
DBC 1	–	32	–	–	31	22	–	–	18	–
DBC 2	16	–	15	42	–	8	40	21	11	18
DBC 3	21	–	20	8	–	15	10	–	16	–
DBC 4	5	40	5	–	38	11	–	–	9	–
DBC 5	–	14	–	–	16	–	–	–	–	–
DBC 6	19	–	20	20	–	4	20	29	5	32
DBC 7	6	–	5	–	–	24	–	–	27	–
DBC 8	–	–	–	25	–	–	25	–	–	–
DBC 9	23	–	25	–	–	9	–	6	11	4
DBC 10	10	14	10	5	15	7	5	44	3	46

Note: It is not necessary to list the actual DBCs themselves. There are five clusters in this table consisting of A1 and A3, A2 and B2, B1 and C2, C1 and C4, C3 and D.

Marketing insight

This first look across the micro-segments can sometimes be made easier if the micro-segments are laid out so that all of those which have the same buying criterion as their most important one are placed next to each other. If the micro-segments in Table 8.1 had been arranged along these lines then the final clusters would have been even more apparent.

Assuming it was not quite as easy as the example in Table 8.1, once any initial clusters have been formed from this first look, it is now a case of building your clusters by progressively decreasing the level of similarity customers and clusters must have with each other before they can be merged together. This is continued until the best or desired result has been achieved (as described earlier).

Do not overlook the possibility that a segment could consist of one micro-segment, particularly if that micro-segment is of sufficient size to qualify as a segment.

Visual clustering can be made easier if you follow one or other of the following suggestions:

1. Transfer each micro-segment onto a separate sheet of paper with its importance values for each buying criteria, along with its size, as illustrated in Figure 8.3.

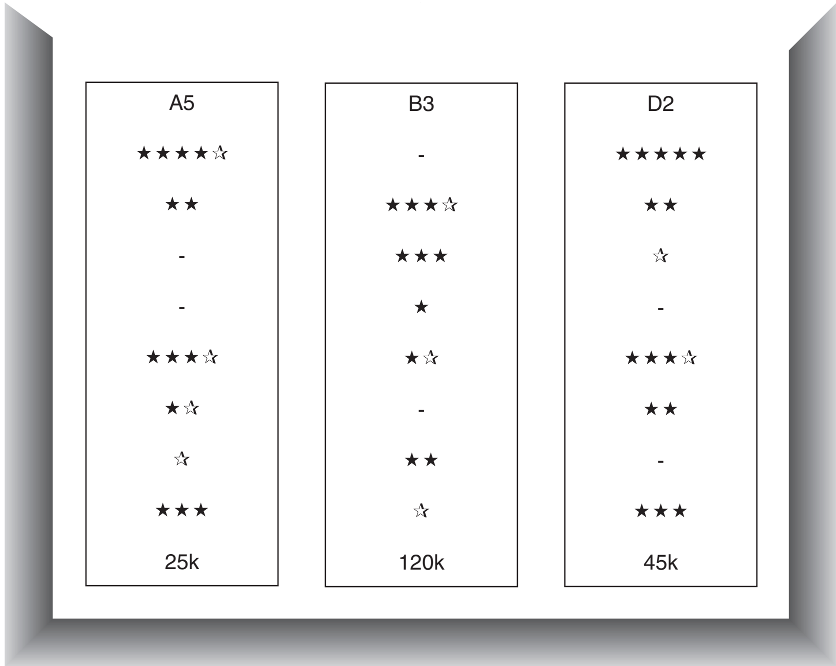

Figure 8.3
Comparing micro-segments with each other visually
Note: When using symbols to indicate the importance of DBCs, as in this example, as opposed to numbers, consider transferring the details of each micro-segment onto acetates as this gives you the option of overlaying them when checking how similar they are to each other. It helps if the acetates also have white backing paper as this will make them clearer for the initial assessment of where the similarities may be found.

Arrange the micro-segments on a table or wall, select one of them, find if it has a close match and place it with the matching micro-segment (which would see A5 and D2 in Figure 8.3 being brought together). Take another micro-segment and follow the same routine. Build the clusters by progressively decreasing the level of similarity customers and clusters must have with each other. Focusing on the buying criteria that account for the major part of a customer's decision and putting aside the buying criteria with very low scores can help here.

As you continue to add micro-segments to your clusters and, as will eventually happen, you add clusters together, you may find it makes it easier if, at various stages, you produce a consolidated single picture for each cluster and work with these as you continue to build the segments. It helps if you label these clusters CL1, CL2, and so on, record their size and make a note of the micro-segments each of them represents. For the consolidated picture, the importance value of each buying criterion should be expressed as an average (or weighted average[2]) of the values that have been given to it by all the micro-segments in the cluster.

2. Alternatively, transfer each micro-segment onto a separate piece of paper with the importance values of its buying criteria captured as a spider-gram, along with its size, as illustrated in Figure 8.4.

[2]Assuming the micro-segments are of different sizes, the 'weighting' is based on these sizes. Otherwise, use straight averaging. An example of how to apply weightings appears in Table 8.5 later in this chapter with a worksheet appearing as Table 8.17 in the Exercises section of this chapter.

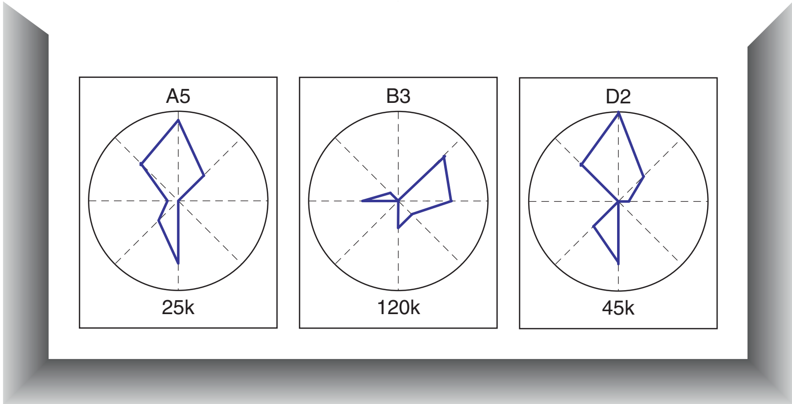

Figure 8.4
Comparing micro-segments with each other visually using a spider-gram
Note: The three micro-segments in this example are the three that appear in Figure 8.3.

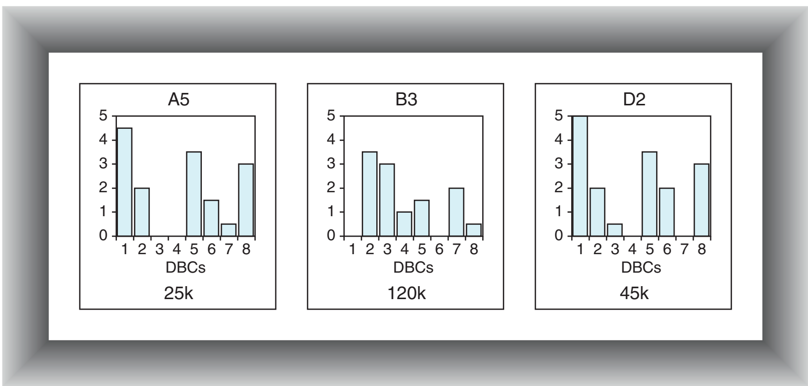

Figure 8.5
Comparing micro-segments with each other visually using a bar chart
Note: The three micro-segments in this example are the three that appear in Figure 8.3. The 'Y' axis on each bar chart is the importance value of the DBCs.

Using acetates is particularly helpful when working with spider-grams.

Follow the procedure suggested in the first option to build your segments.

3. As alternatives to spider-grams, you could consider using bar charts, as in Figure 8.5, or any other visual representation you would prefer to work with.

Once you have completed your clustering and arrived at the segments, take each one in turn, note its size and work out the segment's average (or weighted average) importance value for each buying criterion across its micro-segments. To complete the picture, produce a segment profile by consolidating the profiling attributes of its constituent micro-segments. Consolidating the key discriminating features for each segment is optional at this stage, though it is clearly an opportune time at which to do so.

A worksheet for recording market segments, their decisive buying criteria, profiling characteristics and size appears as Table 8.13 in the Exercises section of this chapter.

Mathematical clustering

As has already been pointed out, it is necessary to have the relative importance values expressed numerically for this option.

The preparatory measures for mathematical clustering are exactly the same as those for visual clustering. Briefly, these were:

1. All the market's decisive buying criteria should appear for each micro-segment and in the same order.
2. Remove any buying criteria that appear in all the micro-segments with the same, or very similar, importance values.
3. Consider clustering the micro-segments using only their most important buying criteria.

The mathematical procedure presented here is very rigorous and one of the most frequently used in programs which progressively build clusters from your data (as opposed to programs which require the number of clusters to be predetermined and then assigns the data to these clusters). It also involves many calculations. How many calculations are required is governed by both the number of micro-segments you are evaluating and the number of buying criteria you are including. As a first step, therefore, it is suggested that you look across the micro-segments to see if any obvious similarities appear so that some initial clusters can be formed (exactly as suggested for visual clustering). Arranging the micro-segments into groups according to their most important buying criteria will help here. For any clusters this produces, note their size and determine the average (or weighted average) scores for each of the buying criteria, as these will be used in the calculations which follow. Label each resulting cluster CL1, CL2, and so on, and note which micro-segments it represents.

Additional shortcuts are included as we walk you through this approach to clustering.

An example is used to illustrate the next steps.

Table 8.2 contains a sample of five micro-segments taken from a particular market, along with their scores for the decisive buying criteria in this market. However, to help in the explanation of this procedure, only four buying criteria are used, one of which is 'price'.

The difference between each of these micro-segments needs to be calculated. The method of doing this is illustrated in Table 8.3, using micro-segments A1 and A2 from Table 8.2 as the example.

The difference between A1 and A2 following the method appearing in Table 8.3 is, therefore, '12.2'.

This is then repeated for A1 and A3, then A1 and A4, followed by A1 and A5, then for A2 and A3, A2 and A4, and so on until all the micro-segments have been compared with each other (a total of 10 pairings in this example). A worksheet for following this method appears as Table 8.16 in the Exercises section of this chapter.

Table 8.2 Micro-segment details for a clustering routine

Market DBCs	***Micro-segments and their DBC scores***					
		A1	***A2***	***A3***	***A4***	***A5***
	Value	£30k	£20k	£20k	£20k	£30k
Local availability – access		40	50	45	30	30
Eco-friendly packaging		30	25	30	20	15
Trusted brand – reliability		20	20	15	40	45
Price		10	5	10	10	10
	Total	100	100	100	100	100

Note: Although there are some obvious similarities between micro-segments in this table and the suggested 'first step' outlined earlier would see four of them merged into two separate clusters, they are put through the mathematical procedure both to illustrate how it works and how it would also conclude that these four micro-segments should merge into distinct clusters.

If you have used symbols, such as stars and half-stars, to illustrate the importance of DBCs, or scored each of them out of 10, they can be converted to scores that total 100 by following the procedure discussed later in this chapter for isolating the most important DBCs and illustrated in Table 8.7.

Table 8.3 Calculating the difference between micro-segments

Market DBCs	***Micro-segments and DBC scores***		***Difference between scores***	***Difference squared***	***Square root of total difference***
	A1	***A2***	***(A1–A2)***		$\surd$
Local availability – access	40	50	−10	100	–
Eco-friendly packaging	30	25	5	25	–
Trusted brand – reliability	20	20	0	0	–
Price	10	5	5	25	–
Total	100	100	–	150	12.2

Note: This particular procedure is known as 'squared Euclidian distances'.

The results of all the difference calculations required for the micro-segments appearing in Table 8.2 are summarized in Table 8.4. For ease of reference, Table 8.4 is presented along the same lines as a distance chart in an atlas.

The closest matching micro-segments in the example are A1 and A3, with a difference calculated at 7.1, along with A4 and A5, which also have a difference calculated at 7.1. There is very little similarity, however, between either A1 or A3 and A4 or A5 (the difference scores ranging from 24.5 for A1 versus A4, to 36.7 for A3 versus A5).

The first cluster is formed by combining the micro-segments with the least difference between them. In the example, two sets of micro-segments have the lowest scores, meaning two sets of micro-segments

Table 8.4 Difference scores for five micro-segments

		Micro-segments				
		A1	***A2***	***A3***	***A4***	***A5***
Micro-segments	***A1***	0	12.2	7.1	24.5	30.8
	A2		0	10.0	29.2	33.9
	A3			0	30.8	36.7
	A4				0	7.1
	A5					0

can be combined on this first run. Therefore, assuming a difference of 7.1 is acceptable, A1 and A3 can be combined, which will now be referred to as 'Cluster 1' (CL1), and A4 and A5 can be combined, which will now be referred to as 'Cluster 2' (CL2). The issue of 'acceptability' is discussed later in this chapter.

For the procedure to progress, a single set of buying criteria scores needs to be calculated for each new cluster. This can be either the average or weighted average scores of the buying criteria, with the 'weighting' based on the size of each constituent micro-segment. Weighted average scores can be calculated using either of the following two approaches:

1. in Cluster 1 (CL1), micro-segment A1 accounts for £30,000 and micro-segment A3 for £20,000, therefore the buying criteria scores in A1 have a weighting of 1.5 times the buying criteria scores in A3 (£30k/£20k = 1.5);
2. alternatively, the weighting attributed to each micro-segment can be expressed as a percentage of the total size of the new cluster. Using percentages, the buying criteria scores in A1 have a weighting of 60% (£30k/£50k = 60%), leaving A3 accounting for 40%.

Calculating weighted average buying criteria scores for a new cluster using percentages is illustrated in Table 8.5.

A worksheet for calculating decisive buying criteria scores following the above method appears in the Exercises section of this chapter.

The updated status for the market as originally illustrated in Table 8.2 appears in Table 8.6.

Ideally, the calculations in Table 8.3 should be repeated, in the first instance, across all the micro-segments in the project before any clustering took place. However, before conducting any calculations, all the obvious similarities between micro-segments would have been looked for and initial clusters formed for each group of like-minded micro-segments. In the example, this would have seen A1 and A3 placed in one cluster, and A4 and A5 placed in another cluster.

Table 8.5 Calculating weighted average DBC scores for a cluster

	Micro-segment/ cluster	***Volume/ value***	***DBC score × weight***	***Micro-segment/ cluster***	***Volume/ value***	***DBC score × weight***	***New cluster (CL1)***
	A1	£30,000		A3	£20,000		Size: £50,000
	Weight: 60%			***Weight:*** 40%			100%
Market DBCs	***DBC score (a)***	***Weight (b)***	***(a) × (b) (e)***	***DBC score (c)***	***Weight (d)***	***(c) × (d) (f)***	***DBC score (e) + (f)***
Local availability – access	40	60%	24	45	40%	18	42
Eco-friendly packaging	30	60%	18	30	40%	12	30
Trusted brand – reliability	20	60%	12	15	40%	6	18
Price	10	60%	6	10	40%	4	10
Total	100	–	60	100	–	40	100

Table 8.6 Clustering update

		Clusters, micro-segments and weighted average DBC scores		
		CL1 (A1 and A3)	***A2***	***CL2 (A4 and A5)***
Market DBCs	***Value***	£50,000	£20,000	£50,000
Local availability – access		42	50	30
Eco-friendly packaging		30	25	17
Trusted brand – reliability		18	20	43
Price		10	5	10
	Total	100	100	100

Note: There are more rigorous routines which do not calculate the weighted average scores for clusters, but retain the highest and lowest scores that exist for each DBC from the micro-segments in the cluster. When calculating differences, these routines work out the *maximum* difference for each DBC. This means that when comparing a DBC for two clusters, the difference score is determined by the greatest difference that exists between the highest or lowest scores in one cluster and the highest and lowest scores in the second cluster. If, therefore, we were to compare CL1 with CL2 using this approach, the difference between them on 'trusted brand – reliability' would be 45 minus 15 (the A5 score less the A3 score).

Once this first run of calculations has been completed, the new clusters are required to have their difference scores calculated against all the remaining micro-segments and against all the other clusters, after which the clustering sequence detailed above is repeated once again. The project continues along this path until a conclusion is reached.

Marketing insight

As each successive run of calculations uses ever increasing differences to build up the clusters, look across the data before starting each new sequence to see if there are any obvious similarities that would be uncovered at the next level of 'difference'. If there are, merge them together and recalculate their buying criteria scores along the lines already suggested.

You can also cut down the number of calculations by omitting calculations for pairs of micro-segments/clusters that are clearly dissimilar to each other.

Difference calculations can then be limited to:

- clarifying the position between micro-segments/clusters when it is visually unclear; and
- determining where a particular micro-segment/cluster should move to next when there is more than one contender and it is unclear where the best fit occurs.

At some stage you may need to calculate the difference between all the remaining clusters and micro-segments to progress with forming the segments but, by following the above suggestions, the number of occasions on which you will have to do this will be limited.

After each completed cluster run, it is useful to briefly record the project's status in case you need to refer back to it later. It is particularly useful to have a record of the size of each cluster as it grows, as well as a record of the micro-segments and, as will eventually happen, the clusters it contains. Number each run in sequence and record it on a separate sheet. A suggested worksheet for recording the results of a cluster run appears as Table 8.18 in the Exercises section of this chapter.

Once you have completed your clustering and arrived at the segments, each of them sized and with a single set of buying criteria scores, take each segment in turn and consolidate the profiling attributes of its constituent micro-segments to produce a segment profile. Consolidating the key discriminating features for each segment is optional at this stage, though it is clearly an opportune time at which to do so.

A worksheet for recording market segments, their decisive buying criteria, profiling characteristics and size appears as Table 8.13 in the Exercises section of this chapter.

Isolating the most important decisive buying criteria

The mechanics for isolating the most important buying criteria by identifying those that account for 80% of the decision are exactly the same mechanics presented in Chapter 6 when we were discussing the 80/20 rule as a method of identifying the most influential features. This requires the importance values to be expressed in percentages.

If you have been using symbols to illustrate importance, such as stars and half-stars, they first need to be converted to numbers with each 'half-star', for example, being equivalent to a single unit, thus '★ ★ ★ ★ ☆' (four and a half stars) is equivalent to 'nine'. Once all the buying criteria for a micro-segment have their importance expressed numerically, the steps to follow when determining the most important 80% are as follows (this also applies to micro-segments with the importance of their buying criteria rated on a scale of, say, one to 10):

1. Arrange the buying criteria for the micro-segment in a descending order of importance.
2. Add up the individual numbers to arrive at a total.
3. Rework the individual numbers into percentages by dividing each of them by the total and multiplying the answer by 100.
4. Build a cumulative picture by progressively adding up the reworked individual figures.
5. Determine the best position for the 80% cut-off point.

The results of these calculations for micro-segments A5 and D2 in Figure 8.3 appear in Table 8.7.

Micro-segment D2 in Table 8.7 highlights a decision that you may have to make when reducing the decisive buying criteria to the most important. This micro-segment has two buying criteria with the same value competing with each other as to which of them falls above or below the cut-off point. Such situations can only be resolved in the first instance by making a judgement as to which of them is probably the more important of the two. What can be done later is a check to see whether reversing this decision would have made any difference to the segment D2 finally ends up in. If it does make a difference, it will once again have to be a matter of judgement as to which segment you leave it in.

Acceptable differences

The most useful method of assessing 'acceptability' is your own judgement. The main consideration for this judgement concerns the effect the merger of micro-segments/clusters would have on the marketing strategy you would put together to win their business. If, by merging two micro-segments/clusters, the resulting scores for their buying criteria would have little impact on the type of offer best suited to one or the other as they currently stand, then the level of difference between them is acceptable. If, on the other hand, the combination would weaken a good offer you could put together for one or both of them separately, the level of difference is *usually* not acceptable. The exception would be if one of the micro-segments/clusters was only quite small, while the other was quite large, as the smaller of the two would not justify a distinct offer for itself anyway. Finally, if you are only addressing this problem at the last stages of clustering and simply trying to sweep up some currently 'homeless' micro-segments/clusters, too small to form their own

Table 8.7 Prioritizing DBCs

Micro-segment – A5				***Micro-segment – D2***			
DBC value	***As a number***	***Re-worked***	***Cumulative***	***DBC value***	***As a number***	***Re-worked***	***Cumulative***
★★★★☆	9	30	30	★★★★★	10	31	31
★★★☆	7	23	53	★★★☆	7	22	53
★★★	6	20	73	★★★	6	19	72
★★	4	13	86	★★	4	13	85
★☆	3	10	96	★★	4	12	97
☆	1	4	100	☆	1	3	100
Total	30	100		***Total***	32	100	

Note: The dotted line indicates the suggested cut-off point. When the cumulative scores do not provide an 80% cut-off point, the most sensible cut-off point is selected.

segments, note which cluster they would join, add their volume/value figure to that cluster, but do not change the cluster's current buying criteria scores. The overriding rule is, however, if in doubt, do not merge them, as you can always revisit this decision later.

What if . . .

Not all projects see their micro-segments settle into a clean set of clusters that match up to what was being expected. The three most often mentioned concerns with the results at this stage are as follows:

1. A number of micro-segments do not appear to have a natural fit with any cluster.
2. The resulting clusters are fewer in number than expected or a small number of the concluding clusters account for a high proportion of the market.
3. The best result in terms of producing clusters with very clear differences between them in their buying criteria preferences produces more clusters than expected, but taking the clustering routine further blurs the distinctiveness.

Each project clearly has to be looked at individually, but the following may help you through these issues if you have to address any of them.

1. 'Homeless' micro-segments

First check the size of these micro-segments, as a single micro-segment could be large enough to form a segment in its own right. If this is not the case for any of them, consider the potential future size of these micro-segments. If this would qualify any of them as a segment in the future, take advantage of that possibility *now*. Both these possibilities were covered earlier in this chapter

For any which are of a reasonable size, but not large enough to qualify as a segment, and which do not currently appear to demonstrate any possibility of future growth, revisiting them at a later stage is an option you could consider for any follow-up work.

If you are still left with a number of 'homeless' micro-segments, add up the total volume/value they account for and if this total is, say, less than 10% of the market, then you can usually put them to one side without having to face any major repercussions in the market. No specific marketing strategies will be targeted at them, unless, of course, there are niche operators in the market for whom they represent a worthwhile marketing opportunity.

As a final resort, it often helps if you, or your research agency, talk with a representative sample of these micro-segments to ensure you have a full understanding of their buying requirements. They are, after all, active in the market today and it is unlikely any supplier is putting together a bespoke offer for them. On the other hand, they may represent a group, or groups, in the market whose needs are not being satisfied by any supplier and who are currently having to compromise on what they buy. Build this understanding into the segmentation process and they may well form into a new cluster.

This same approach would be applicable if your project was ending up with homeless, small, clusters.

2. Fewer clusters than expected

This usually means that only two or three of the market's decisive buying criteria have attracted high scores from the micro-segments and/or a large number of micro-segments seem to want a portion of everything.

In these cases it can often mean that the prominent buying criteria require further investigation in the market in order to establish if, at the qualitative research phase, the real requirements were teased out. For example, if one of the prominent buying criteria was, say, a 'large, reputable company', it would be useful to establish a clearer understanding of what exactly was meant by this. At the time of the qualitative work for the project, assuming you required such research, the decisive buying criteria this uncovered may have appeared to be adequate. You could not have known at that stage its true level of 'popularity'. This does not, however, prevent the segments you have arrived at from being taken through to the next step and into the second phase of the process. What can be usefully done in the meantime is to revisit this buying criterion with customers represented by the micro-segments giving it a high value. You can check with these customers whether or not there are some more specific requirements being delivered by this buying criterion which, if introduced into the segmentation project would lead to a more focused result.

Marketing insight

A buying criterion such as 'large *reputable* company' could mean to some customers that the companies they associate with this description deliver a 'conservative' line of products or services. To others it could represent companies that are innovative, while to a further group of customers it could mean 'strong ethical business policies', and so on.

A useful clue as to whether you may have overlooked more exacting requirements could be in the key discriminating features associated with the micro-segments. If any prominent buying criteria cover a range of different features, such as different brands, these different features may be delivering different benefits. A wrong assumption may have been made earlier on in the project.

3. More clusters than expected

The first check would be on the size of each cluster to see if any qualify as a segment (including future growth, if appropriate). If a large number of them qualify by size in their own right, you may have to accept that the specified market splits into more than the number of segments you were anticipating, especially if each of them has quite distinctive requirements. Alternatively, it could be because the market definition is too wide.

Too many clusters may also be generated when what are believed to be the decisive buying criteria are not really reflecting the real needs-based buying requirements of the market.

Finally, if only some of the clusters qualify as segments in terms of size, check the other clusters to see if any of them are, in fact, growing into the market segments of tomorrow. For the clusters which are tomorrow's new segments, these should progress to the next step in their own right. For the remaining clusters which, we can now assume, are quite small, refer back to the earlier section which looked at 'homeless micro-segments' (the second and subsequent paragraphs).

Conclusion

As will be clear, each particular project needs to be looked at in turn, as the range of possibilities could go beyond those summarized above. Those discussed in this section tend to be the most frequently observed.

It is worth emphasizing, however, that *most* markets tend to divide into between five and 10 segments.

Computer-assisted clustering

The purpose of this section is to briefly introduce the clustering techniques you may come across and to provide some guidelines on what to look for when working with external agencies running the clustering analysis for you. For a detailed discussion of alternative clustering algorithms we would refer you to Everitt (1993).

In his review of the more traditional statistical methods used for clustering, Everitt recommends Euclidian distances, which is the technique described in the section on mathematical clustering earlier in this chapter, or Ward's hierarchical clustering method, which progressively builds clusters based on minimizing the loss of information between data sets (customer groups). Of these two, the most frequently used appears to be Euclidian distances.

A different approach, and one briefly mentioned in the section on mathematical clustering, is to predetermine the number of clusters you want the data to fall into, as in *k*-means clustering. It is this particular approach to clustering that you will generally find your market research agency using and some of the more popular packages they use are based on the *k*-means algorithm. The main advantage of this technique is its speed while its main disadvantage is that it does not produce the same result with each run, so, for example, two eight-cluster solutions using the same data will look different. It should be pointed out that despite this it does not usually cause the analysis too great a difficulty.

A more recent development in clustering packages is the use of a neural network, or the use of a technique similar to a neural network, to analyse the data. One of the main advantages of this approach is that it is extremely fast, which means that testing the impact of varying the data included in the analysis can be conducted very easily, thus enabling the analysis to be a more continuous process.

A statistical clustering methodology gaining increased interest is latent class analysis which, rather than assigning each respondent to a particular class (cluster), produces a probability of membership for each class. It is a technique that can utilize different types of data, such as continuous and binary data, without the need to rescale or normalize the data. While not new, today's high-speed computers are making this computationally demanding method more accessible.

It is important to involve yourself in the cluster analysis rather than leave it solely in the hands of an external agency or in the hands of another department in your organization.

When using an external agency to conduct the clustering, we would strongly recommend that you involve yourself in the analysis, rather than have the agency present you with their analysis. This is because, more often than not, interpreting the results involves a degree of intuition along with an element of judgement as to whether or not what is being presented actually makes sense. This recommendation also applies if you are using another department in the organization for the clustering.

The most useful approach to analysing the data is to start with a series of cluster solutions and compare one with the other. Deciding on what series of cluster solutions you would like to review is based on the number of segments you are expecting to find in the market. If, for example, you were expecting the number of segments to be between five and eight, it would be in order to request separate data runs for a four cluster solution, a five cluster solution, a six cluster solution, along with a seven, eight and nine cluster solution, requiring a total of six separate data runs. The cluster solution producing the best result, which is a decision principally based on the solution that contains the most distinctive clusters, is then selected.

For these initial cluster runs, it is also useful to review the profiling characteristics associated with each cluster and how other key data appears for each cluster. In particular, if the data has been collected through research you have commissioned for your project, you could use this as an opportunity to look at the features that appeal to each cluster, which is an area of questioning we would suggest is included in the survey. A complete run of all the questions in the survey should, however, be deferred until you have selected the preferred cluster solution.

Table 8.8 Standard formats for comparing clusters

Format 1: Benefit scores as numbers			***Format 2: Benefit scores as variations***		
Market DBCs	***Cluster 1***	***Cluster 2***	***Market DBCs***	***Cluster 3***	***Cluster 4***
Access	6.3	1.6	Access	★★★ ⋮	⋮ ★
Eco-friendly	2.9	8.3	Eco-friendly	★ ⋮	⋮ ★★
Reliability	7.0	3.7	Reliability	⋮ ★★	★★★ ⋮
Price	1.8	3.1	Price	⋮ ★	⋮ ★

Note: The dotted vertical line in 'Format 2' represents the average score for that benefit across the whole sample, with stars on the left of the vertical line indicating where a score for a cluster is below the average and stars on the right indicating where a score for a cluster is above the average. The number of stars indicates the extent of the difference around the average. Where a score for a particular benefit in a cluster is equal to the average score, no star appears.

As an alternative to predetermining the cluster solutions you would like to see, there is occasionally the option of choosing to see what cluster solutions are produced at various levels of 'difference'. Depending on the outcome, you then select a higher or lower level of difference until you arrive at a cluster solution that produces the best result. Referring to the example appearing in Table 8.4, here we see difference scores ranging from just over seven to just under 37 for a small selection of micro-segments, so in the option being discussed here, what you could request is to see the clusters that are produced when the level of difference is set at no more than eight (which would be three clusters in the example).

Finally, as the main focus of the analysis will be the different scores given to the benefits by each cluster, it is worth giving some thought to the format you would prefer to work with. The options tend to be either a presentation of the benefit scores numerically, or as points either side of a central line to indicate how the score for a particular benefit in a cluster varies with the overall average score given to that benefit by the sample as a whole. These two options appear in Table 8.8.

A further alternative is to have the clusters positioned on a two-dimensional map which shows their overall relative positions to each other for all the benefits, as illustrated in Figure 8.6.

The distinctiveness of each cluster becomes immediately apparent using the above format.

Segment checklist

To determine whether the clusters qualify as 'market segments', apply the checklist as follows:

Volume/Value The size of each segment must be sufficient to justify the expense of developing specific offers for them and the expense of taking these offers into the market. The 'size' test for each

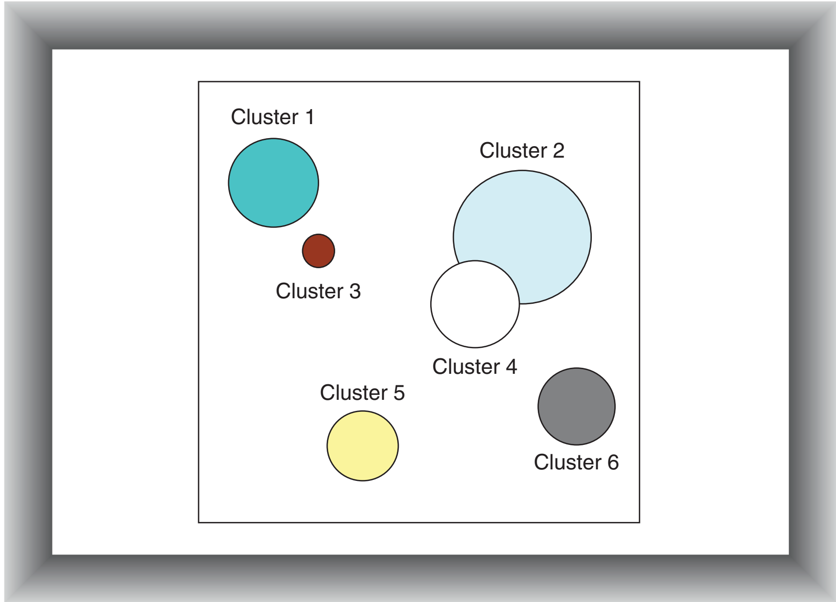

Figure 8.6 Comparing clusters using a two-dimensional map

Note: In this example, a six cluster solution, the clusters are fairly well separated from each other (using the mid-point of each circle) and therefore look quite distinctive. Other cluster solutions may improve on this separation (distinctiveness) or worsen it. The size of each circle can either represent the number of customers in each cluster or the quantity they account for.

segment should already have been cleared. Segments have to be measurable.

Differentiated Is the offer required by each segment sufficiently different from that required by the other segments? This is where the marketing strategies appropriate for one segment are checked to ensure they are distinguishable from the marketing strategies developed for the other segments.

Reachable This is where the different segments are checked to ensure that the marketing strategies appropriate for each of them can be directed towards them in some way. Each segment must, therefore, have some distinctive characteristics that can be used to identify the customers it represents, thereby enabling us to communicate with them and distribute our products and services to them, for example:

- distinct television viewing, radio listening, newspaper or magazine reading profiles; and/or
- distinct characteristics which can classify them by who or what they are, such as socio-economic group, type of company; and/or
- distinct characteristics which can classify them by a geographic area, such as postcodes; and/or
- distinct characteristics which can classify them by their purchasing preferences, such as purchasing patterns, distribution channels, distinct benefits looking for, distinct response to prices.

This is discussed in more detail after the final item on the checklist.

Compatibility This is where you rigorously check your own company's ability to focus on the new segments by structuring itself around them organizationally, culturally, in its management information systems and in its decision-making processes. Such changes may not be possible immediately, therefore the organization's ability and willingness to evolve to the required structure should be tested.

The checklist questions appear towards the end of this section after a final look at segment profiling and reachability.

Profiling revisited

Profiling, and its importance in segmentation, was covered in Chapter 6 when we looked at the components of a micro-segment. Here we discussed standard approaches to profiling, namely demographic/firmographic, geographic, geodemographic and psychographic profiling, and the possible use of acquisition routes (outlets and channels) along with the other interests and product usage characteristics of customers to reach particular segments. Now that the segments are fully developed, there are the additional possibilities of distinguishing between them by relying on the strength of their individual propositions to self-select their target customers, by how the offer is communicated to them or even by price bands.

> A financial services company in the European Union looking at how customers segmented in a particular market they specialized in found that the standard approaches to profiling did not adequately distinguish between the segments. However, there were major differences between the segments in terms of the propositions they would respond to and they believed that these in themselves would overcome the problem. After some initial tests proved that this was the case, they moved to a regional launch using direct response advertising in the press. To further verify that the propositions were hitting their target segments, respondents who telephoned the company were asked a series of short questions, their answers to which enabled the company to check which segment the respondent was from.
>
> The match between the segment a proposition was targeting and the segment the respondent was from proved to be extremely high, so the campaign was extended to other regions in the knowledge that the individual propositions would reach their target segments.

Whereas in the above example the company in question was using a short series of questions to verify what segment a customer was from, some companies have used this approach as their sole method of determining a customer's segment. These questions, sometimes referred to as the 'golden questions', have been used by sales representatives when with prospective clients to quickly assess what selling message they should follow and by telephone sales staff to determine what sales line should be adopted when either prospecting or receiving enquiries.

> A global credit card company has developed and put into effect a 'golden question' routine for its telephone sales staff. For every prospecting call or new enquiry, the computer-generated screen prompt starts with these golden questions. Once the customer, through their answers, has indicated the segment they are most probably from, the screen prompt seamlessly transfers to the sales routine designed specifically for that segment.
>
> While this has certainly increased the time required for each call, the increased success rate has more than compensated for it. Periodically, current customers have their segment re-verified through the same routine.

In other cases, companies have used a mix of current knowledge and feedback from sales calls to progressively allocate customers into their respective segments.

Marketing insight

The ability to reach customers with their segment-specific offers is a key measure of success for a segmentation project. Addressing the issue of profiling early in the project and exploring a wide range of potential profiling attributes will make an important contribution to this success. What cannot be ignored, of course, is that any difficulties you may have with this issue are of no concern to your customers, just as it is of no concern to you as a customer of other businesses. Customers, including you, will not change their buying preferences simply to slot themselves into an administratively convenient segment for any company.

When reviewing the profiling information you have put together, it is important to remember that it is not necessary to have the identical profile for *all* the customers in a segment, as we are just looking for one distinctive, but usable, characteristic, or one particular distinctive set of 'conditional', but usable, characteristics, such as 'medium-sized companies *and* privately owned' or 'single *and* gym-club member *and* aged 30 to 35'. It is also not necessary for *all* the customers in a segment to have this single or conditional set of distinctive characteristic(s), as long as the majority have. Table 8.9 provides an example.

Table 8.9 Segment age profiles in a market

Segment 1 (2200 units)			*Segment 2 (3050 units)*		
	Vol/val by age: Age ranges			*Vol/val by age: Age ranges*	
Micro-segments	*31–40*	*41–50*	*Micro-segments*	*31–40*	*41–50*
A2	150		A1	250	
A3		1250	A4	350	
B2	300		A5	200	
B3		500	B1		250
			C1	2000	
Total	450	1750	*Total*	2800	250
Segment %	20.5%	79.5%	*Segment %*	91.8%	8.2%

From the above table, you could now state that 'Segment 1 was predominantly in the age group 41–50', and that 'Segment 2 was predominantly in the age group 31–40'. These distinctions could therefore be used to reach one or the other segment. If, however, the concluding segments had a less focused age structure, you would then conclude that 'age' was not a profiling discriminator between segments in the market being looked at and an alternative would have to be found. This alternative may, of course, be a 'conditional' set of profiling characteristics which could include age. For example, let us assume that for the market represented by Table 8.9, you were *not* satisfied with the result when using age profiles as a means of distinguishing between segments. If it was known that in this market all of the micro-segments originating from customer group 'B' did not own a car, namely 'B2' and 'B3' in Segment 1, along with 'B1' in Segment 2, then a more targeted description of customers found in Segment 1 would be, '41–50 year olds *and* 31–40 year olds *with no car*', which would give you a 93.2% hit rate. This would, of course, have no effect on the hit rate for Segment 2, though it already stands at a very acceptable 91.8%.

Marketing insight

With the increasing sophistication of multidimensional profiling packages, many of which are capable of being run on desktop PCs, and the extension of this technology into business marketing, the problems that have sometimes been faced with profiling segments defined by their needs are increasingly becoming problems of the past.

This sophistication, however, does not mean that the packages define segments. Their value is in enabling you to identify the characteristics associated with the customers in a specific segment.

If, despite all that has been tried and tested, you still have a cluster populated by customers who are difficult to isolate and reach, and assuming they are customers you would like to do business with, first ensure that there are not some other attributes that could be used to identify them. As a last resort, you may simply have to be pragmatic and modify the ideal segmentation picture to one that can be effectively implemented.

Checklist questions

For *every* cluster generated, check out your answers to the following questions (of the seven questions, questions 2, 3, 4, 5 and 7 are the most important; it is therefore *essential* they each can be answered by a 'Yes'):

1. Can this segment be sized by a set of measurable parameters? (For example, volume, value, number of customers.)

   Yes [ ]

   No [ ]

2. Has the segment achieved sufficient size to make it worth being considered a significant business opportunity? (This should have been covered earlier in this chapter, which will also have ensured you have not excluded those segments with strategic potential, either because of unmet needs, or because they are at an early stage of their growth curve.)

   Yes [ ]

   No [ ]

3. Can the customers in this segment be served by a distinctive marketing strategy that they will respond to and other segments will not be attracted to? (This should, by definition, have been built into the segment.)

   Yes [ ]

   No [ ]

4. Can this segment be reached by sales and distribution channels you currently use, or could use?

   Yes [ ]

   No [ ]

5. Can you identify and reach customers in this segment by means of a distinctive and cost-effective communications strategy (for example, promotion, selling, direct marketing, advertising)?

   Yes [ ]

   No [ ]

6. Can this segment be clearly identified by a set of common characteristics and can you describe it?

   Yes [ ]

   No [ ]

7. Can your company adopt a structure, information and decision-making system which will enable you to serve this segment effectively?

   Yes [ ]

   No [ ]

   You may also want to consider your answer to the following question, which applies to segments that are to be served through independent intermediaries who have an important role in the marketing mix required by the segment:

8. Will your intermediaries play their part in the marketing activity required by the segment?

   Yes [ ]

   No [ ]

With your clusters successfully through the checklist, you have now not only arrived at how customers segment themselves in the market covered by your project, you also have segments you can work with, develop propositions for and profit from.

Marketing insight

Now that the internal project has completed the phase of developing segments, it is time to consider if there are any information gaps that need to be filled before you commit resources to any of the segments you have arrived at. If there are such gaps, this is the point at which to complete the research brief and look at commissioning an external market research company to provide the substantive evidence you may be challenged to provide.

Justifying the expense of a market research project may also have to depend on the strategic implications which emerge from the findings of the internal segmentation project. In this regard, you may find it useful to progress through the next phase of the segmentation process, prioritizing and selecting segments, and present these conclusions as part of your proposal for funding.

Market research note

Depending on how accurate you believe your concluding segments are in representing the market, it is possible to take account of them in the design of any follow-up research you commission. This would be especially appropriate for the initial, small-scale detailed study intended to provide the qualitative insights, rather than for the subsequent, larger-scale study that would use these insights to develop the quantitative conclusions. In particular, you could specify that the sample frame for the qualitative phase covered the different profiling characteristics that occur between your concluding segments, extending this, if required, to ensure it covered the different features they particularly focused on.

However, depending on the range of specifications built into the sample frame, this could lead to an unnecessarily large sample size in terms of cost and/or in terms of the number of interviews required and may need to be scaled down. Focusing on the really key differences between the concluding segments will help here.

A further possibility is to include in the specification for the qualitative phase that the interviews themselves cover the various groups of features that were seen as important to your concluding segments, along with the particular needs these features were satisfying. It is important, however, that the interviews are not restricted to these criteria and include time to explore other possibilities you may have overlooked.

The number of interviews for the quantitative phase should be based on a sample size that ensures it is representative of the market being segmented, therefore capturing all the different types of decision-makers found within it, and is statistically valid for deriving the size of the concluding segments. However, if certain decision-makers were of particular interest to the company, quotas could be specified for them and the overall sample frame adjusted accordingly. During the analysis of the findings, any over-represented decision-makers would then be scaled down to reflect their true position in the market so as not to distort the final results.

Process check

With all the details in place for determining how the customers in your project split into segments, this, the fifth step in the segmentation process, provides guidelines on how this data can be built into segments, thereby completing the first phase of the segmentation project.

We began by summarizing the three components of a ‘market segment’, namely their needs, profiling attributes and a volume or value figure, all of which will already be embedded in your micro-segments. Two questions were then raised which we suggested should be considered before proceeding to build the micro-segments into market segments and these concerned:

1. the minimum economic size a segment needed to have to justify the development of a distinct marketing strategy for it; and
2. the number of segments, and therefore the number of different marketing strategies, it was believed the company could actually work with.

A detailed section then looked at the process of 'clustering', which is the term usually used to describe the combining of like-minded customers into segments.

We introduced this section by first highlighting the order of events in a clustering process, which starts with merging customers who are an exact match with each other, followed by finding very close matches to these customers and then progressively decreasing the level of similarity customers are required to have with each other before they are merged (more often referred to as 'increasing the difference' between customers). We made the point, however, that forcing customers together who were really quite different from each other in terms of their needs simply to achieve segment size targets and/or the preferred number of segments should be avoided. A cluster derived this way would not qualify as a market segment because, by definition, a market segment consists of a group of customers within a market who share a similar level of interest in the same, or comparable, set of needs.

We then moved on to highlight the possibility that in addition to building clusters using all the decisive buying criteria (DBCs), it is possible to look at building clusters with only some of these buying criteria, a move that would depend on how well the micro-segments came together to form distinct segments using all the buying criteria.

Guidelines were then presented on how manual clustering could be conducted for projects with a manageable number of micro-segments, a situation that would apply to most internally resourced segmentation projects. We discussed how to proceed with visual clustering using pattern analysis, along with some alternative formats to consider, and we presented the procedures to follow if building clusters from a mathematical base was preferred. Where appropriate, shortcuts were suggested to speed the clustering process along.

This was followed by a brief review of how to isolate the most important decisive buying criteria for the clustering process, which may be required for manual clustering if a large number of buying criteria appear for each micro-segment, and a section with comments about 'acceptable differences'.

Because not all projects find their micro-segments coming together into a clean set of segments, some suggestions were put forward on how to approach three of the most mentioned concerns that occur with clustering. These covered 'homeless' micro-segments, fewer clusters than expected and more clusters than expected.

The section on clustering finished with a brief review of the clustering techniques you may come across and some guidelines on what to look for when working with an external agency running the clustering analysis on your behalf.

Finally, we presented a series of key questions that each cluster must be checked against before it qualifies as a segment. These principally check on its size, its distinctiveness, its reachability and its compatibility with the company. Some final comments on segment profiling and reachability were also included here, because with the segments now fully developed there are additional possibilities for distinguishing between them.

Case study

Case study

As will be recalled from the previous chapter, in the Agrofertilizer Supplies' project the resulting list of the market's decisive buying criteria, with the inclusion of price, came to a total of 10. All of these buying criteria were graded for each of the 34 micro-segments using the total sum approach for illustrating their relative importance. The segmentation team were now faced with sifting through these 34 micro-segments to uncover the market segments that, unbeknown to the company, had been there all along.

Manual clustering was certainly possible for the internal project, especially when the most important buying criteria were identified for each micro-segment, but with access to a clustering programme the team delegated this task to technology.

A selection of micro-segments and their buying criteria scores appears in Table 8.10, with the selection designed to illustrate how two pairs of micro-segments could be clustered manually.

For the 34 micro-segments generated in the case study, Figure 8.7 illustrates where they started from, in terms of their preliminary segments, and how they ended up.

As can be seen from the final clusters, the preliminary segment structure, which basically distinguished between the final users according to their different application for the product, was a good starting point. Most of the final clusters are based on important differences that existed between the members of a preliminary segment. Only one of the final clusters, Segment 7, covers more than one preliminary segment, a cluster which, interestingly, is the segment that is very price sensitive, a purchase priority that will often bring together members from different preliminary segments. The final segments and their scores for the market's decisive buying criteria appear in Table 8.11.

Table 8.10 DBCs and their scores for a selection of micro-segments in the case study

Market DBCs	***Micro-segments***				
	A4	***G4***	***G6***	***M2***	***M3***
Innovative/new	18	–	–	–	–
Sophisticated	4	–	–	–	–
Proven/traditional (re-assurance)	–	20	20	29	32
Healthy looking crop or grass	–	–	–	–	–
Healthy looking animal stock	–	25	25	–	–
Service (qualified help)	–	–	–	6	4
Ease of handling	–	8	10	–	–
Maximum output/yield per acre	12	–	–	–	–
Convenience/easy access to supplies	–	42	40	21	18
Price	66	5	5	44	46
Total	100	100	100	100	100

Note: 'A' identifies micro-segments originating from the Arable preliminary segment, 'G' for micro-segments from the Grassland preliminary segment and 'M' for micro-segments from the Mixed preliminary segment.

As you will have noticed, one of the segments consisted of only one micro-segment (Segment 5). It may well be a segment in terms of the different requirements it is looking for, but is it a big enough segment to warrant its own marketing strategy? With respect to the volume of product bought by each of the concluding segments, Figure 8.8 summarizes this as a pie chart.

Segment 5, although only consisting of a single micro-segment, is, in fact, one of the larger segments.

When assessing each of the seven segments against the four criteria on the segment checklist, it was clear that two of the criteria could be met without any further consideration. All the segments were large enough to justify a distinct marketing strategy, and they all were quite different from each other in terms of what they required. The difficulty, at least initially, appeared to be with the profiling characteristics of the final users in each segment, and with the company's ability to adopt this new segmented approach in its activities.

Although some profiling criteria were tracked throughout the Agrofertilizers project, the two of most interest being farm size and formal level of agricultural training, none came through as being really distinctive identifiers for the different segments.

(*Continued*)

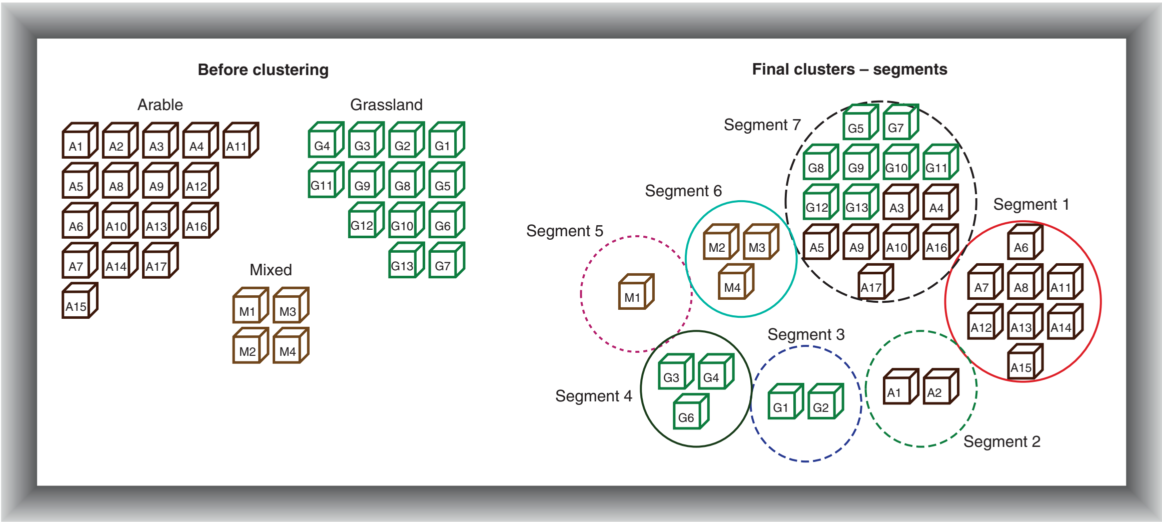

Figure 8.7 Before and after clustering for the case study

Note: 'A' identifies micro-segments originating from the Arable preliminary segment, 'G' for micro-segments from the Grassland preliminary segment and 'M' for micro-segments from the Mixed preliminary segment.

Table 8.11 The concluding segments and their market DBC scores for the case study

Market DBCs	***Segments and their market DBC scores***						
	S1	***S2***	***S3***	***S4***	***S5***	***S6***	***S7***
Innovative/new	40	5	10	–	–	–	20
Sophisticated	15	–	–	–	–	–	5
Proven/traditional (re-assurance)	–	20	5	20	35	30	–
Healthy looking crop or grass	–	5	25	–	5	–	–
Healthy looking animal stock	–	–	–	25	5	–	–
Service (qualified help)	–	25	10	–	15	5	–
Ease of handling	–	20	15	10	25	–	–
Maximum output/yield per acre	30	–	20	–	–	–	10
Convenience/easy access to supplies	–	15	10	40	10	20	–
Price	15	10	5	5	5	45	65
Total	100	100	100	100	100	100	100

Note: 'S1', 'S2', and so on represent 'Segment 1', Segment 2', and so on.

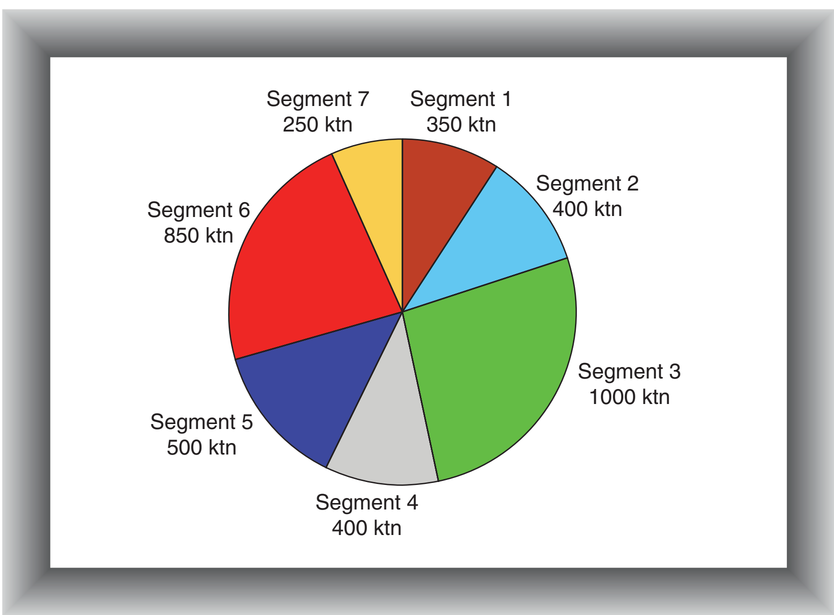

Figure 8.8 The volume attributed to each segment for the case study
Note: The quantities are kilotonnes (ktn) of fertilizers.

(*Continued*)

The reality was that the segmentation team had not given profiling sufficient thought and attention. Fortunately, however, most of the segments by their very nature narrowed down the possible range of farms that would be found within them. This shortfall, therefore, was easily surmountable for Agrofertilizer Supplies.

At a later date, once the findings and implications with respect to a new marketing strategy had been presented, the segmentation team, working alongside the sales force and assisted by a simple series of questions about the farm and the farmer's buying practices, began to allocate farmers to segments, concentrating first on the customers of Agrofertilizer Supplies.

The only item now remaining on the checklist was company compatibility.

Although presenting different offers in the market was not new to the company (after all, it already had two brands), rigorously following this approach for a larger number of segments looked too difficult, particularly as the company had, in fact, largely dismissed its two brand strategy on the grounds of its ability to deliver any commercial advantage, and its belief that the farmers could see through it anyway. The reality here, however, was that the *company* did not like running with a two brand strategy. Research for Agrofertilizer Supplies' segmentation project found that farmers clearly differentiated between the two brands, seeing them targeted at different requirements. To convince the company of this fact, tapes made during some of the group discussions with farmers were played at a sales and marketing conference, attended by senior executives from across the company. They 'heard', but it was still going to prove difficult.

The next difficulty originated from the product-focused structure of the company. What was being called for now was a segment-focused structure at the 'front end', in other words, at the customer-facing end of the business. Critically, the 'power' of the product managers looked to be under threat. Segment managers would begin to control the external marketing activity of the business and start specifying the product requirements, with the product managers focusing on the crucial link that is required between marketing and production. This was *not* acceptable! Not immediately, anyway.

The majority of staff in Agrofertilizer Supplies, however, signed up to the conclusions enthusiastically. This included staff in one of the most critical links with the marketplace, the sales force.

In a matter of only a few months, after a very successful test of the conclusions in the marketplace with a new product targeted at one of the segments, the company took its leap of faith.

The *market* had won!

Case study conclusion

As was mentioned in Chapter 4 when first introducing the case study, although Agrofertilizer Supplies is based on a real company, certain facts have been modified for reasons of commercial confidentiality and to assist in demonstrating the process in practice. This has enabled us to bring into this case study observations made in the many other segmentation projects with which we have been involved.

The status of the project for Agrofertilizer Supplies at the end of this first phase of the segmentation process is summarized in Figure 8.9. This figure also shows the formal titles given to each of the segments by Agrofertilizer Supplies. Each title represents the best overall description for their particular segment.

Although the segmentation team took this project through the steps featured in Chapters 9 and 10 before putting together their marketing objectives and strategies, we shall have to leave Agrofertilizer Supplies at this point. However, the output from these next steps, a segment portfolio, can be found towards the end of Chapter 10 in Figure 10.5.

A more detailed look at 'Agrofertilizer Supplies' as it really was, including how the customer insights gained from the segmentation project contributed to a new and highly successful marketing strategy, can be found at www.marketsegmentation.co.uk.

Further examples

Example 8.1

The first example for this chapter is a case study, written by a company that has applied segmentation to their business. This appears in Chapter 15.

Example 8.2

For the next example we take a further look at profiling.

Identifying which customers are to be found in the concluding segments, along with the ability, or even willingness, of companies to structure themselves around segments, are the two most frequent problems companies have with the checklist.

Whereas in one recent case in the distribution sector the company carrying out the project completely overlooked the need to collect profiling information, in most instances where profiling is a problem, it is because the information collected was not extensive enough. This is because it is difficult at the outset of a project to know what profiling information will enable you to distinguish between segments. The only solution when the project has reached this far in the process is to go back and investigate further.

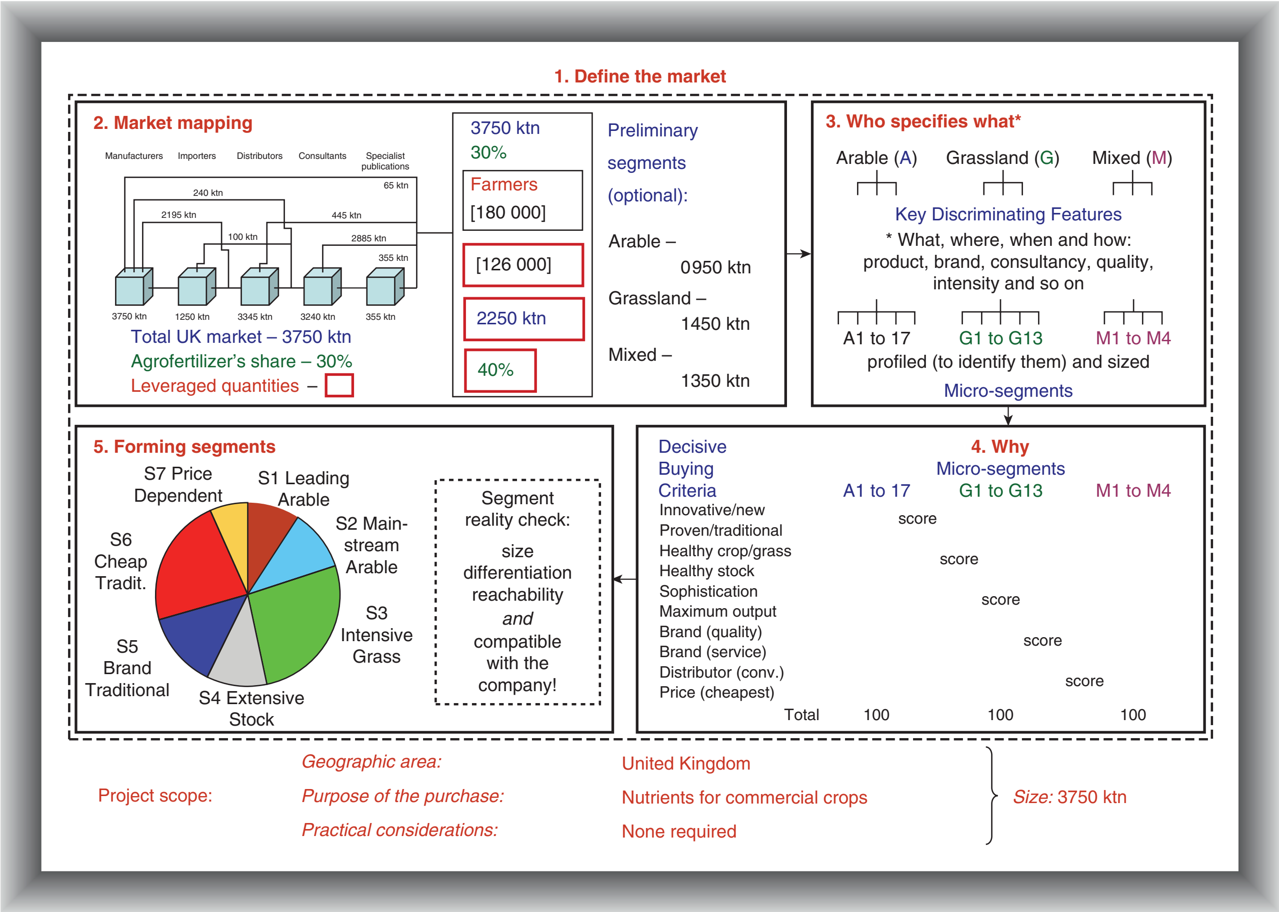

Figure 8.9 The segmentation process – Steps 1 to 5

It may, however, be the case that a segment does consist of all types of customers, from all walks of life, with absolutely nothing that can be used to easily distinguish them from any other customer, and for whom even the proposition they are looking for is unusable as a means of isolating them. Thus far, this has only been encountered once.

Some years ago an airline wished to investigate whether a 'segment' existed that consisted of customers with a fear of flying. It was considered at the time that an improved offer could be put together to better meet their requirements! A research project was commissioned and reported back. There was certainly a group of customers who did have a fear of flying. The difficulty was, however, that they did not fly in any particular class, did not watch any particular programmes or read any particular papers, they did not come from any particular socio-economic group, were not of any particular age group, neither were they from any particular part of the country, and so on.

The research project did, however, establish what their real needs-based buying requirements were. Unfortunately, only Scotty on the Starship *Enterprise* had the technology!

For a more down to earth project, Table 8.12 presents a summary of demographic profiles for the concluding segments in a study of the USA's historical romance novel market.

Table 8.12 Segment demographics of the historical romance novel market (USA)

Demographic	***Segment 1 (Movers and shakers)***	***Segment 2 (Isolated readers)***	***Segment 3 (Young swingers)***	***Segment 4 (Laggards)***
Age	Average age: 31–40	Average age: 41–50	Average age: 30 and under	Average age: over 50 years
Children	One or no children	At least one child	Most have no children	Most have grown-up children
Education	High school education	High school education	One-third have college degree	Least education
Employment and income	Most employed; family income of $20,000	Half are employed; family income of $20,000	Most employed; income less than $20,000	More unemployed; lowest income

Source: Schnaars, S.P. and Schiffman, L.G. (1984). 'An application of segmentation design based on a hybrid of canonical correlation and simple crosstabulation'. *Journal of the Academy of Marketing Science*, 12 (Fall), 187.

Example 8.3

Finally, we take a further look at the issue of company compatibility.

With respect to the difficulty companies may have in focusing onto the concluding segments, the most productive approach is to anticipate this problem at the very beginning of the project and start pre-empting it at an early stage. It is often by involving a wider audience in the project, through actively seeking their contribution and sharing with them the project's progress from the earliest stages, that difficulties associated with the 'mindset' of the business have a good chance of being overcome. This should be one of the key responsibilities of the segmentation team, who should be kept regularly informed of progress by the core group conducting the detailed work (see Chapter 2).

In planning the launch of a segmentation project, a number of companies have held an opening workshop attended by a cross-section of key personnel in their company. The objective of the workshop being to obtain the enthusiasm and support of the participants for the project, as well as preparing them for the possibility that the outcome may require some internal and external changes if the company is to become truly customer focused. Briefings held beforehand have identified specific issues to be addressed in the workshop, the areas of questioning to be expected and, on some occasions, the individuals to focus on and engage during the workshop. These individuals highlighted either because they are key to the success of the project and/or because they are likely to provide the stiffest resistance to it.

Other project teams have drawn up lists of key influencers in the company, attached a member of the team to each of them to 'account manage' them, and then worked out for each key influencer their strengths, weaknesses, opportunities and threats with respect to the segmentation project. This would then be followed by a plan of engagement to both obtain and retain their support.

With segmentation being such a strategically critical issue, initiatives along these lines can never be regarded as 'over the top'.

Organizational issues in market segmentation are looked at in Chapter 14.

With an enthusiastic following across the business, and, through regular feedback, no big surprises, even structural changes that may be required can be moved from the 'cannot be done' box into the 'leave it with me' category.

■ Exercises

Exercise 8.1

Considering the resource flexibility of your company, along with any technical considerations which could impact on the company's ability to tailor its propositions:

1. How large would a segment need to be for it to be seen as an economically attractive group of customers?
2. How many segment-specific strategies could your company effectively manage at any one time?

Consider the same questions with respect to your two main competitors.

If, as best as you can determine, either one or both of your two main competitors would require a lower threshold for economic viability and/or could handle a greater number of segment-specific strategies:

3. What are the factors that enable them to do this?
4. What would your company need to do in order to match or exceed their capabilities?

Involve colleagues in your deliberations on the above, especially question 4.

Exercise 8.2

One of the greatest challenges a company faces with an approach to segmentation that is different to the one they have been used to is its ability to focus on these new segments structurally, culturally, in its management information systems and in its decision-making processes.

Consider what the top five challenges would be in your company to effectively implement a segment-focused approach to its business. Note them down, with the most difficult appearing first and the least difficult appearing last.

For each of these internal challenges, identify the 'owner', in other words, the key individual who controls this part of the company's operation, and develop a short series of actions that would be required to obtain their enthusiastic support for incorporating a new segmented approach into their area of responsibility.

Now add a new name at the top of the list, namely the chief executive, assuming the chief executive has not already appeared, and develop a short series of actions that would be required to win their support, as without it there will be little progress elsewhere in the company.

Exercise 8.3

This chapter has principally focused on the actions required to form segments, and an exercise based on these actions requires completion of the steps that precede it in the process. The final exercise, therefore, is to apply the process to the market being covered by your project and then take the micro-segments you develop through the clustering sequence contained in this chapter.

Tables 8.13–8.18 are a series of worksheets appropriate to this step. Make as many copies of these worksheets as you need.

Table 8.13 Worksheet – recording clusters/segments, their DBCs, profiling characteristics and size

Market DBCs			***Clusters/Segments***							
Profiling										
Category	***Group***	***Specification***								
Acquisition routes										
		Size								

Note: The worksheet in Table 8.14 can be used for completing the profiling details in the above table. If you are also using this step as an opportunity to add KDF details to each segment, structure this information along the same lines as that for recording the profiling details, and add this to the above table. The worksheet in Table 8.15 can be used for compiling the KDF details.

Table 8.14 Worksheet – calculating the profiling characteristics for a segment

Segment: ***size:***		***Profiling group:*** ***Profiling specifications***				
Micro-segments	***and their size***	***vol/val***	***vol/val***	***vol/val***	***vol/val***	***vol/val***
Total						
Segment %	100%					

Note: For a selected profiling group, distribute each micro-segment's volume or value total between its applicable profiling specifications and add up the total for each specification. Either enter this total on Table 8.13, or recalculate it as a percentage of the segment as a whole and enter this percentage on the table. A worked example appeared in Table 8.9.

Table 8.15 Worksheet – calculating the KDF details for a segment

Segment: ***size:***		***Key discriminating features***				
Micro-segments	***and their size***	***vol/val***	***vol/val***	***vol/val***	***vol/val***	***vol/val***
Total						
Segment %	100%					

Note: Enter each micro-segment's volume or value total to its applicable KDFs and add up the total for each KDF. Either enter this total on the table created to complement Table 8.13, or recalculate it as a percentage of the segment as a whole and enter this percentage on the table.

Table 8.16 Worksheet – calculating the difference between micro-segments/clusters

Market DBCs	*Micro-segments and DBC scores*		*Difference between scores*	*Difference squared*	*Square root of total difference*
	(a)	*(b)*	*(a) − (b)*		√
					–
					–
					–
					–
					–
					–
					–
Total	100	100	–		–

Table 8.17 Worksheet – calculating weighted average DBC scores for a cluster

	Micro-segment/ cluster	*Volume/ value*	*DBC score × weight*	*Micro-segment/ cluster*	*Volume/ value*	*DBC score × weight*	*New cluster (CL1)*
							Size:
	Weight: %			***Weight: %***			***100%***
Market DBCs	***DBC score (a)***	***Weight (b)***	***(a) × (b) (e)***	***DBC score (c)***	***Weight (d)***	***(c) × (d) (f)***	***DBC score (e) + (f)***
Total	100	–		100	–		100

Table 8.18 Worksheet – cluster run record

Cluster run no:					
Cluster generated CL . . .		***Cluster generated*** CL . . .		***Cluster generated*** CL . . .	
Micro-segments/clusters contained in each new cluster, and size					
Micro/CL	***Size***	***Micro/CL***	***Size***	***Micro/CL***	***Size***
Total		***Total***		***Total***	

References

Everitt, B.S. (1993) *Cluster Analysis*. Oxford: Heinemann Educational.

Schnaars, S.P. and Schiffman, L.G. (1984) 'An application of segmentation design based on a hybrid of canonical correlation and simple cross-tabulation'. *Journal of the Academy of Marketing Science*, 12 (Fall), 187.

9 Determining the attractiveness of market segments

Summary

It is neither essential, nor always desirable, to serve every segment in the market. The financial and managerial resources of the company need to be focused into those segments that provide the greatest opportunities for the organization to achieve its objectives. This chapter looks at how a company determines segment attractiveness and is the sixth step in the segmentation process, as illustrated in Figure 9.1.

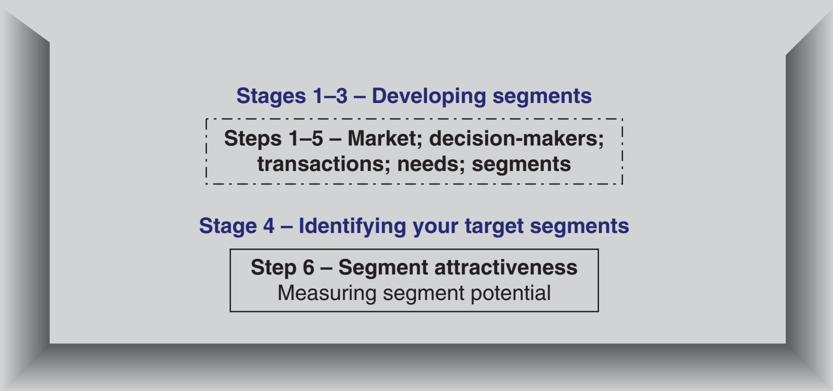

Figure 9.1 The segmentation process – Step 6

This step requires an objective assessment of segment attractiveness using data *external* to the organization. The criteria themselves will, of course, be determined by the organization carrying out the exercise, but it is important to remember that the criteria should be *independent* of the organization's position in its segments. As one of these criteria is likely to be the size of the segments, it is essential that you have access to all the current data available that can help you establish, or at least derive informed estimates of, their size by the end of the chosen time period, which is usually three years ahead. The reason for such a lengthy period is that you are interested in *sustainable* competitive advantage, not just the short-termism that comes with looking only one year ahead.

Segment attractiveness on its own as a basis for allocating scarce resources can, however, be misleading and needs to be balanced with the company's competitive position in each segment before any segment-specific strategies are developed. Assessing the company's competitiveness by segment is looked at in the next step.

(*Continued*)

This chapter is organized as follows:

- A discussion about portfolio analysis
- An introduction to ’segment attractiveness’ and an overview of the steps it involves
- Defining the time period for segment attractiveness
- A brief review of the team for this phase of the project
- Factors to consider in segment attractiveness
- How to indicate the relative importance of each factor
- Defining the parameters for each factor so that segment potential can be gauged
- How to evaluate the attractiveness of segments
- Transferring the results on to a portfolio matrix
- A brief discussion as to why the results may not be as expected
- A review of this step in the segmentation process
- Examples
- Exercises further to help you with segment attractiveness

Portfolio analysis

Portfolio analysis, for the purposes of this book, is simply a means of assessing a number of different segments, first of all according to the potential of each in terms of achieving an organization’s objectives, and second according to the organization’s ability to take advantage of the identified opportunities.

Definition: A portfolio plots markets, segments or products using at least a two-dimensional matrix in order to balance growth, cash flow and risk.

The idea of a **portfolio** is for a company to meet its objectives by balancing sales growth, cash flow and risk. As individual segments grow or shrink, then the overall nature of the company’s portfolio will change. It is, therefore, essential that the whole portfolio is reviewed regularly and that an active policy towards the move into new segments and the exiting of old segments is pursued.

Widely referred to as the ’directional policy matrix’ (DPM), portfolio analysis offers a detailed framework which can be used to classify possible competitive environments and their strategy requirements. It uses several indicators to measure the dimensions of ’segment attractiveness’ on the one hand, and ‘company competitiveness’ on the other. These indicators can be altered by management to suit the operating conditions of particular markets.

The purpose of the matrix is to diagnose an organization's strategy options in relation to the two composite dimensions outlined above.

However, before describing in detail how to use the directional policy matrix, it is worth considering its antecedents.

The Boston Matrix

Portfolio analysis initially came out of the work begun in the 1960s by the Boston Consulting Group. It has had a profound effect on the way management think about their market and their activity within it.

There are basically two parts to the thinking behind the work of the Boston Consulting Group. One is concerned with *market share* and the other with *market growth*, which we would translate into *segment share* and *segment growth*. These are brought together into a simple matrix, which has important implications for the firm, especially in respect of *cash flow*. Cash flow is a key determinant of a company's ability to develop its segment portfolio.

The **Boston Matrix** can be used to classify a firm's position in each segment found in the market according to their cash usage and their cash generation along the two dimensions described above, namely relative segment share and rate of segment growth. Segment share is used because it is an indicator of the segment's ability to generate cash; segment growth is used because it is an indicator of the segment's cash requirements. The measure of segment share used is the company's share *relative* to that of the largest competitor, thereby indicating the degree of dominance enjoyed by the company in the segment. This is summarized in Figure 9.2.

Definition:
The Boston Matrix classifies a firm's products according to their cash usage and their cash generation using market growth and relative market share to categorize them in the form of a box matrix. For the purposes of this book it has been adapted to classify a market's segments.

The somewhat picturesque labels attached to each of the four categories give some indication of the prospects for the company in each quadrant. Thus, the 'question mark' is a segment in which the company does not have a dominant position and, therefore, a high cash flow, though it may have had such a position in the past. It will be a high user of cash because it is a growth segment. This is also sometimes referred to as a 'wildcat'.

The 'star' is probably a newish segment in which the company has achieved a high share and which is probably more or less self-financing in cash terms.

The 'cash cows' are segments where there is little additional growth, but a lot of stability, in which the company has a leading position. These are excellent generators of cash and tend to use little because of the state of the segment.

'Dogs' often have little future and can be a cash drain on the company. They are probably segments the company should exit, although it is often very difficult to leave 'old friends'.

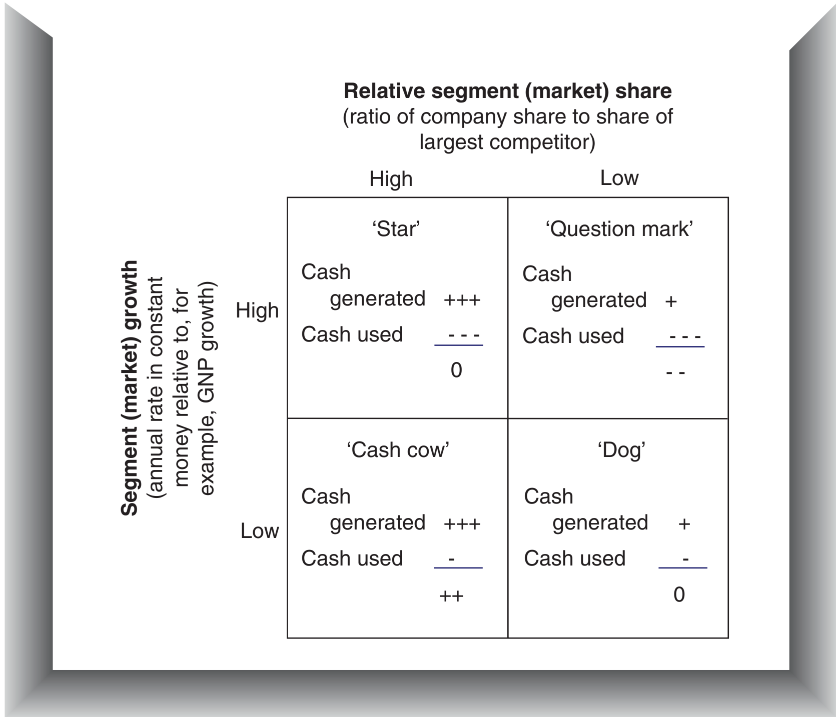

Figure 9.2
The Boston Matrix
Note: Although 'high' is positioned on the left of the horizontal axis it can, if you prefer, be placed on the right. The definition of high relative segment share is taken to be a ratio of one or greater than one. The cut-off point for high, as opposed to low, segment growth should be defined according to the prevailing circumstances in the market being segmented. As well as being a positive figure there is no reason why the dividing line on the vertical axis cannot be zero, or even a minus figure.

The art of managing segments as a portfolio now becomes a lot clearer. What we should be seeking to do is to use the surplus cash generated by the 'cash cows' to invest in our 'stars' and to invest in a selected number of 'question marks'.

General Electric/McKinsey Matrix

The approach of the Boston Consulting Group is, however, fairly criticized because of its dependence on two single factors, namely relative segment share and segment growth. To overcome this difficulty, and to provide a more flexible approach, General Electric (GE) and McKinsey jointly developed a multi-factor approach using the same fundamental ideas as the Boston Consulting Group.

The GE/McKinsey approach uses *industry attractiveness* and *business strengths* as the two main axes, and builds up these dimensions from a number of variables. When applying this to segments, the first (vertical) axis is relabelled *segment attractiveness*. We have also relabelled the horizontal axis, *relative company competitiveness*. Using these variables, and some scheme for weighting them according to their importance, segments are classified into one of nine cells in a 3 × 3 matrix. Thus, the same purpose is served as in the Boston Matrix (namely, comparing investment opportunities among segments) but with the difference that multiple criteria are used. These criteria vary according to circumstances, but generally include some, or all, of those shown in Figure 9.3.

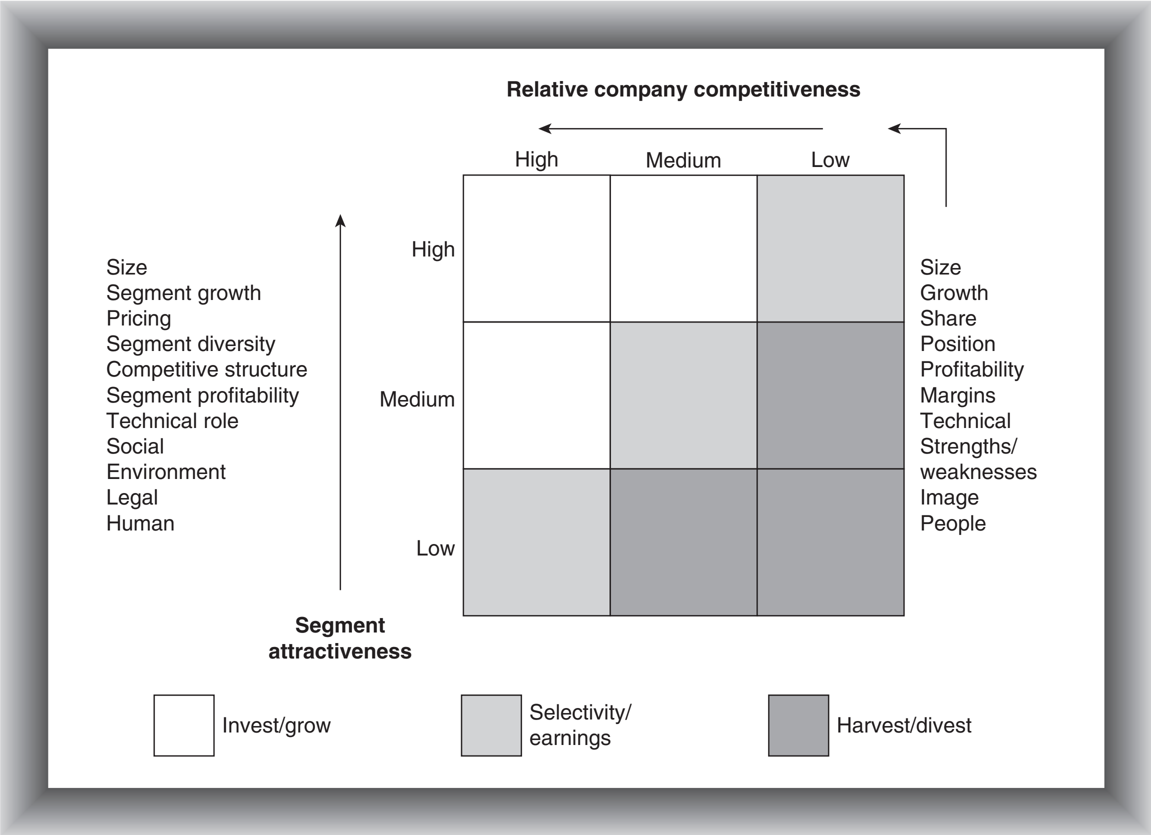

Figure 9.3 The GE/McKinsey Matrix
Note: Although 'high' is positioned on the left of the horizontal axis it can, if you prefer, be placed on the right.

It is not necessary, however, to use a nine-box matrix, and many managers prefer to use a four-box matrix similar to the Boston box, while using the GE/McKinsey definitions for the axes. This is the preferred methodology of the authors as it seems to be more easily understood by, and useful to, practising managers.

The four-box matrix is shown in Figure 9.4. Here, the circles represent sales into a segment, with each circle being proportional to that segment's contribution to turnover. The position of each segment on the matrix is determined by its attractiveness and the company's competitive position within it.

The difference in this case is that, rather than using only two variables, the criteria which are used for each axis are totally relevant and specific to each company using the matrix. It shows:

- segments categorized on a scale of attractiveness to the company;
- the company's relative strengths in each of these segments;
- the relative importance of each segment to the company.

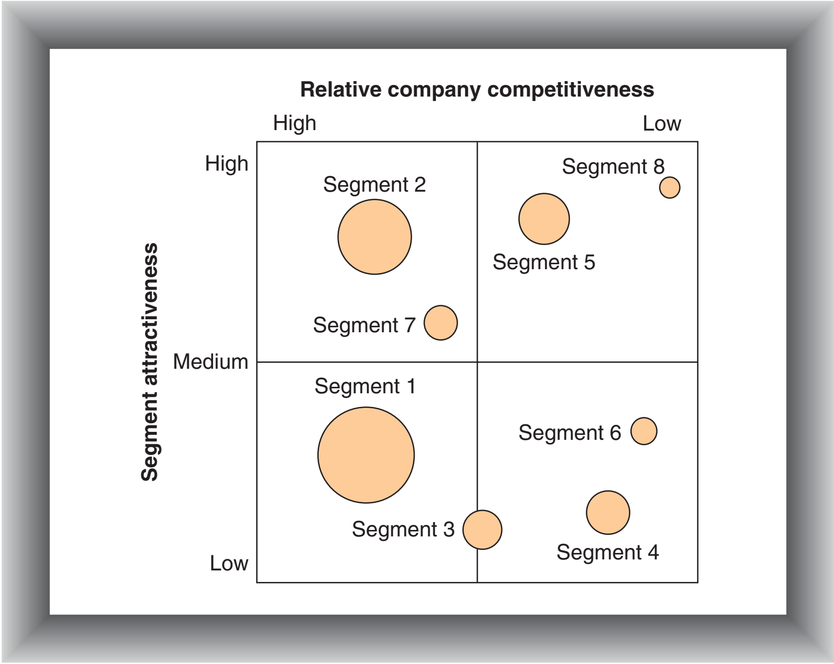

Figure 9.4
The McDonald four-box DPM
Source: McDonald, M. and Wilson, H. (2011) *Marketing Plans: How to Prepare Them, How to Use Them, 7th Edn*. Chichester: John Wiley & Sons Ltd.
Note: Although 'high' is positioned on the left of the horizontal axis it can, if you prefer, be placed on the right.

An example of an actual segment portfolio directional policy matrix is presented in Figure 9.5. The procedures contained in this chapter and Chapter 10 will equip you to produce your own directional policy matrix.

For a more detailed discussion of portfolio analysis, readers are referred to McDonald and Wilson (2011), Chapter 5.

Segment attractiveness

Definition: Segment attractiveness is a measure of the potential of a segment to yield growth in sales and profits.

Segment attractiveness is a measure of the *potential* of a segment to yield growth in sales and profits. It is important to stress that this should be an objective assessment of segment attractiveness using data *external* to the organization. The criteria themselves will, of course, be determined by the organization carrying out the exercise and will be relevant to the objectives the organization is trying to achieve, but the criteria should be *independent* of the organization's position in its segments.

Put another way; imagine you have a measuring instrument, something like a thermometer, which measures segment attractiveness rather than temperature. The higher the reading, the more attractive the segment. The instrument is shown in Figure 9.6. Estimate the position on the scale *each* of your segments would record (should such an instrument exist) and make a note of it.

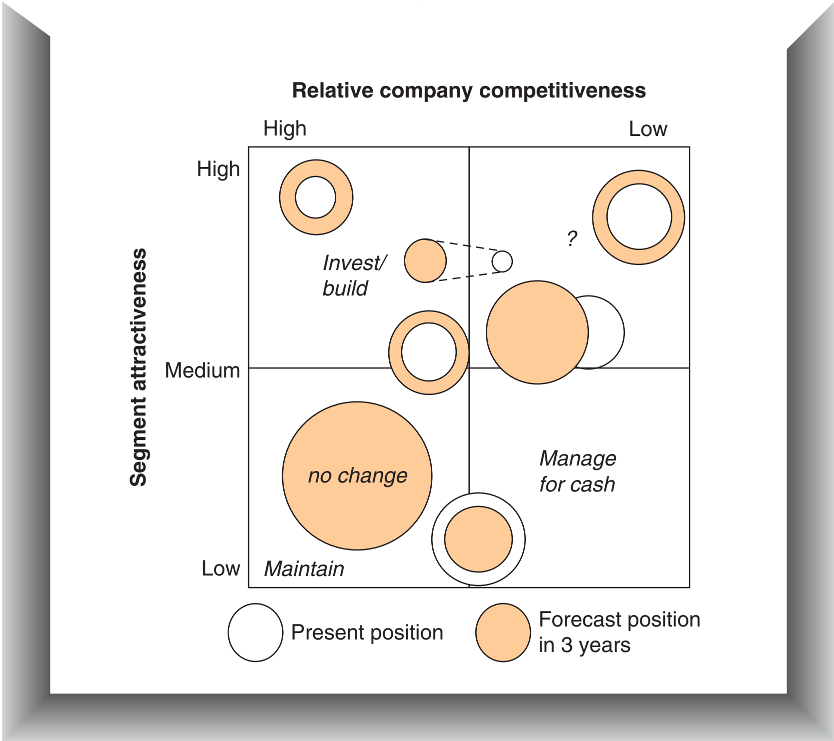

Figure 9.5 Directional policy matrix for a portfolio of segments
Note: Segment attractiveness has only been calculated for the final year. Relative company competitiveness has been calculated for both the current year and the final year.

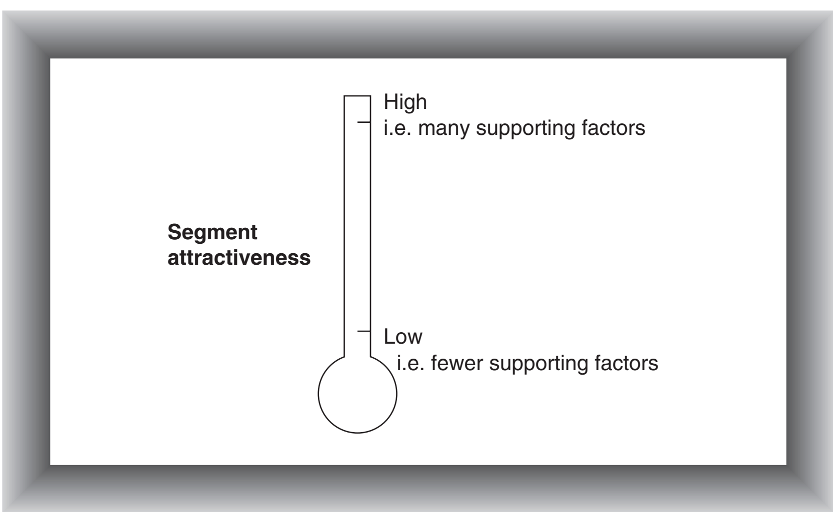

Figure 9.6 Measuring segment attractiveness

The procedure to follow when determining segment attractiveness can be summarized as follows:

1. List the factors you wish to consider in comparing the attractiveness of your segments – these will generally fall under the headings of 'growth rate', 'accessible segment size' and 'profit potential'.

2. For each of the factors, weight their relative importance to each other according to your own particular requirements by distributing 100 points between them.
3. Define the high, medium and low parameters for each of the factors selected, where very high scores 10 and very low scores zero.
4. Take one of the segments and, based on the parameters, determine its score for each factor. Multiply these individual scores by the weight that has been given to its respective factor and divide by 100, then add all these together to arrive at a total between zero and 10. Repeat for each segment.

Precisely how this is done is a matter of management judgement, but it is important to follow three golden rules:

1. Never do this in isolation.
2. Make sure your key colleagues are in agreement over the factors, weightings and parameters to be used.
3. Whenever quantitative information, or techniques such as market research, is available, it should be used in preference to opinions, no matter how well founded these opinions might be.

Marketing insight

In the absence of market and/or company data, informed estimates are perfectly valid. Absolute precision in your calculations of attractiveness is not required. What you need to ensure is that by the end of this step the position of each segment *relative* to the other segments along the attractiveness axis is approximately right.

Before looking at each of the segment attractiveness steps in turn, consideration should be given to defining the time period being scored and to the team that should be involved at this stage of your segmentation project.

Time horizon

Prior to commencing the analysis of segment attractiveness, it is important to define the time period being scored. Three years is recommended. A segment that is attractive today will not automatically be equally attractive in the future. A particular change that can occur is the size of segments. Some segments could have shrunk in size by the end of the time period, while others, including any anticipated new segments, could have increased in size, and therefore increased their attractiveness. It is essential that you have access to all current data available to help determine (or at least derive informed estimates of) both the size of the segments by the end of the time period and the size of your presence within them, which will help you in the next chapter.

To this end, you will require details about any changes to current products/services and details about any new products/services your current policies plan to introduce during the time period, along with any intentions with respect to pricing, promotion and place (and all other relevant 'Ps').

Although it is easier and quicker to determine how attractive each segment will be at the end of the planning period only (Year 3), it can be quite useful to assess attractiveness at two points in time; today (Year 0) and in Year 3. This gives the resulting portfolio matrix a visual indication of each segment's dynamics. The directional policy matrix presented in Figure 9.5 has segment attractiveness calculated only for the final year. In such circumstances, segments can only move horizontally – that is, along the same level of attractiveness – with their direction of movement determined by your own company's activity within them (and therefore your company's changing relative business strength within each segment).

Segment attractiveness could be calculated for both today and the end of your planning period, though it is easier and quicker to carry out only the calculations for the final year.

This chapter covers both options and therefore looks at determining segment attractiveness for the end of the planning period, which we will assume to be Year 3, and for today (Year 0). Segment attractiveness in Year 3 is defined as a measure of the *potential* of a segment to yield growth in sales and profits during the next three years (that is $t0$ to $t+3$, where t represents time), with Year 0 representing the current attractiveness of a segment based on the past three years (that is $t-3$ to $t0$).

Segmentation team

To ensure that the appropriateness of the selected attractiveness criteria is high and that the scoring is realistic, it is recommended that the same cross-functional team involved in developing the segments should continue with this second phase of the segmentation project, which involves both the current step and the step that follows it. This mix will continue to encourage the challenging of traditional views during their discussions. There will also be the continuing need for a core group of two to three individuals to carry out the detailed work, the core group reporting back to the full team for consultation, comment and guidance, just as they did during the previous phase of the project.

Circumstances may also be such that the continuing presence of an outsider to act as a facilitator for the process and to continue offering an objective and alternative viewpoint to the discussion could still be warranted.

Defining segment attractiveness factors

Here, you should list the factors you wish to consider in comparing the attractiveness of your segments. The criteria must be specific to the market and must not be changed for different segments in the same market. This will be a combination of a number of factors, though they can usually be summarized under three headings.

1. **Growth rate** – Average annual forecast growth rate of revenue spent by that segment (percentage growth of 2009 over 2008, *plus* percentage growth of 2010 over 2009, *plus* percentage growth of 2011 over 2010, with the total divided by three: in other words, the number of years being looked at). If preferred, compound average growth rate could be used. Clearly, in determining segment growth rates, you will need to take into account the supportiveness (or otherwise) of the overall business environment.

2. **Accessible segment size** – An attractive segment is not only large, it also has to be accessed. One way of calculating this is to estimate the total revenue of the segment during the selected time span, *less* revenue impossible to access, *regardless of investment made*. Alternatively, total segment size can be used, which is the most frequent method, as it does not involve any managerial judgement to be made that could distort the true picture. This latter method is the method advised here.

3. **Profit potential** – This is much more difficult to deal with and will vary considerably, according to segment. For example, Porter's Five Forces model (1985) could be used to estimate the profit potential of a segment, as illustrated in the example appearing in Table 9.1. Although the factors for this table are taken from Porter (1985), the table itself, and the methodology shown, were devised by the authors.

   Alternatively, a combination of these and market-specific factors could be used. In the case of the market for pharmaceuticals, for example, the sub-factors could be those appearing in Table 9.2.

   These are clearly a proxy for profit potential. Each is weighted according to its importance. The weights add up to 100 in order to give a *profit potential factor score*, as in the Porter's Five Forces example (Table 9.1).

Naturally, growth, size and profit will not encapsulate the requirements of all organizations. For example, in the case of an orchestra, artistic satisfaction may be an important consideration. In another case,

Table 9.1 Porter's Five Forces model

Profit potential sub-factors	*Sub-factor weight (total 100)*	*Segment rating 10 = Low 0 = High*	*Weighted factor score (weight × rating) ÷ 100*
1. Intensity of competition	50		
2. Threat of substitutes	5		
3. Threat of new entrants	5		
4. Power of suppliers	10		
5. Power of customers	30		
		Profit potential factor score	

Table 9.2 Profit potential sub-factors in the market for pharmaceuticals

Sub-factors	***Weight (total 100)***	***Rating High Medium Low***	***Weighted factor score***
Unmet medical needs (efficacy)	30		
Unmet medical needs (safety)	25		
Unmet medical needs (convenience)	15		
Price potential	10		
Competitive intensity	10		
Cost of market entry	10		
		Profit potential factor score	

social considerations could be important. In yet another, seasonality may be crucial.

It is possible, then, to add another heading, such as 'risk' or 'other' to the three headings listed earlier. In general, however, it should be possible to reduce it to just the three main ones, with sub-factors incorporated into these, as shown.

The specific criteria to be used will require the approval of key executives, but a generalized list of possible factors contributing to segment attractiveness (from McDonald and Wilson, 2011) is shown below. It is advisable to use no more than an overall total of five or six factors, otherwise the exercise becomes too complex and loses its focus.

It is advisable to use no more than five or six factors for segment attractiveness, otherwise the calculations become too complex and lose focus.

Segment factors

Size (money, units or both)

Growth rate per year

Sensitivity to price, service features and external factors

Cyclicality

Seasonality

Bargaining power of upstream suppliers

Bargaining power of downstream suppliers

Competition

Types of competitors

Degree of concentration

Changes in type and mix

Entries and exits

Changes in share

Substitution by new technology

Degrees and types of integration

Financial and economic factors

Contribution margins

Leveraging factors, such as economies of scale and experience

Barriers to entry or exit (financial and non-financial)

Capacity utilization

Technological factors

Maturity and volatility

Complexity

Differentiation

Patents and copyrights

Manufacturing process technology required

Socio-political factors

Social attitudes and trends

Laws and government agency regulations

Influence with pressure groups and government representatives

Human factors, such as unionization and community acceptance

A worksheet for listing segment attractiveness factors, along with the other data required for calculating segment attractiveness scores, appears as Table 9.15 in the Exercises section of this chapter.

Weighting segment attractiveness factors

For each of the factors for segment attractiveness, weight their relative importance to each other according to your own particular requirements by distributing 100 points between them.

Given that the overall aim of a company is usually represented in a profit figure, and that profit is a function of:

$$\text{Segment size} \times \text{Margin} \times \text{Growth}$$

it would be reasonable to expect a weighting against each of the attractiveness factor headings listed earlier in this chapter to be along the lines shown in Table 9.3.

An even higher weighting for growth could be understandable in some circumstances (in which case, the corresponding weightings for the

Factors	*Example weight*
Growth rate	40
Accessible segment size	20
Profit potential	40
Total	100

Table 9.3
Example weightings of segment size, margin and growth

Table 9.4 Weighting segment attractiveness factors

Segment attractiveness factors	*Weight*
1. Volume growth potential	25
2. Profit potential	25
3. Potential segment size (volume/value)	15
4. Vulnerability	15
5. Competitive intensity	10
6. Cyclicality	10
Total	100

Note: The simplest way of administering the distribution of weights is first to arrange the attractiveness factors in a descending order of importance, score the most important out of 100 and then score each of the others relative to this score. Reset them back to 100 by adding up all the individual scores, divide each individual score by this total and multiply the answer by 100. The weightings given to each factor is a matter of management judgement.

others should be reduced). These factors could then be combined with market-specific factors, resulting in a table along the lines shown in Table 9.4.

It is important to note that the segment attractiveness factors and their weightings for the market being evaluated cannot change while constructing the directional policy matrix. Once agreed, under no circumstances should they be changed, otherwise the attractiveness of your segments is not being evaluated against common criteria and the matrix will become meaningless.

Segment attractiveness factors and their weightings for the market being evaluated cannot change while constructing the directional policy matrix.

Defining the parameters for each segment attractiveness factor

You now need to determine high, medium and low parameters for each of the factors selected so that the potential of each segment can be gauged, where very high scores 10 and very low scores zero. The precise scores given to the parameters are a matter of management judgement. An example is given in Table 9.5.

Table 9.5 Parameters and their scores for the segment attractiveness factors

Segment attractiveness factors	*Parameters*		
	High (10–7)	*Medium (6–4)*	*Low (3–0)*
Growth	GNP +2.5%	GNP	GNP −2.5%
Profitability	>15%	10–15%	<10%
Size	>£5m	£1m–£5m	<£1m
Vulnerability	Low	Medium	High
Competitive intensity	Low	Medium	High
Cyclicality	Low	Medium	High

Note: 'GNP' refers to gross national product.
Parameters described as 'low', 'medium' or 'high' should be associated with a measurable definition to avoid subjective interpretation. For example, the parameters for competitive intensity could be based on the number of competitors in each segment.

Table 9.6 Segment attractiveness evaluation (Year 3)

Attractiveness factors	*Weight*	*Segment 1*		*Segment 2*		*Segment 3*	
		Score	*Total*	*Score*	*Total*	*Score*	*Total*
Growth	25	6	1.5	5	1.25	10	2.5
Profitability	25	9	2.25	4	1.0	8	2.0
Size	15	6	0.9	5	0.75	8	1.2
Vulnerability	15	5	0.75	6	0.9	6	0.9
Competition	10	8	0.8	8	0.8	4	0.4
Cyclicality	10	2.5	0.25	3	0.3	2.5	0.25
Total	100		6.45		5.0		7.25

Scoring the segments

A reminder: Absolute precision in your calculations of attractiveness is not required. What you need to ensure is that the position of each segment *relative* to the other segments along the attractiveness axis is approximately right.

For each of the concluding segments arrived at in Step 5, you can now establish how attractive each is to your business as follows. Take one of the segments and, based on the parameters, determine its score for each factor, ensuring that it is an objective assessment based on data *external* to the organization. Next, multiply these individual scores by the weight that has been given to its respective factor and divide by 100, then add all these together to arrive at a total between zero and 10. This sequence is then repeated for each segment. A worked example of this quantitative approach to evaluation is given in Table 9.6.

In this example, an overall attractiveness score of 7.25 out of a possible maximum score of 10.0 places Segment 3 in the highly attractive category for Year 3.

A worksheet for listing segment attractiveness factors, their weights and parameters, and for calculating the segment attractiveness scores, appears as Table 9.15 in the Exercises section of this chapter.

It should be noted that if, in carrying out Steps 1 to 5, you concluded that the market had fewer than five segments, there is little point in using the directional policy matrix.

Plotting the position of segments on the portfolio matrix

Transpose the results of your segment attractiveness evaluation on to the matrix, writing the segments on the left of the matrix. Still using the matrix, draw a dotted line horizontally across from each segment, as shown in Figure 9.7.

A worksheet for plotting segments on the portfolio matrix appears as Table 10.11 in the Exercises section of Chapter 10.

In considering the position of each segment on the 'attractiveness' axis at some earlier point in time (say, Year 0), it is important to remember that they can only move vertically *if* the matrix also shows their level of attractiveness for a future period. This implies carrying out one set of calculations for a future period (say, in three years' time, as in Figure 9.7) based on your forecasts using the agreed segment attractiveness factors, in order to locate segments on the vertical axis for Year 3, then carrying out another set of calculations for the present time (Year 0) using the same segment attractiveness factors. A reworked Table 9.6 illustrating the position of each segment in Year 0 appears in Table 9.7.

The present (Year 0) sees a change in the attractiveness of the three segments, with Segment 1 in the leading position, rather than second

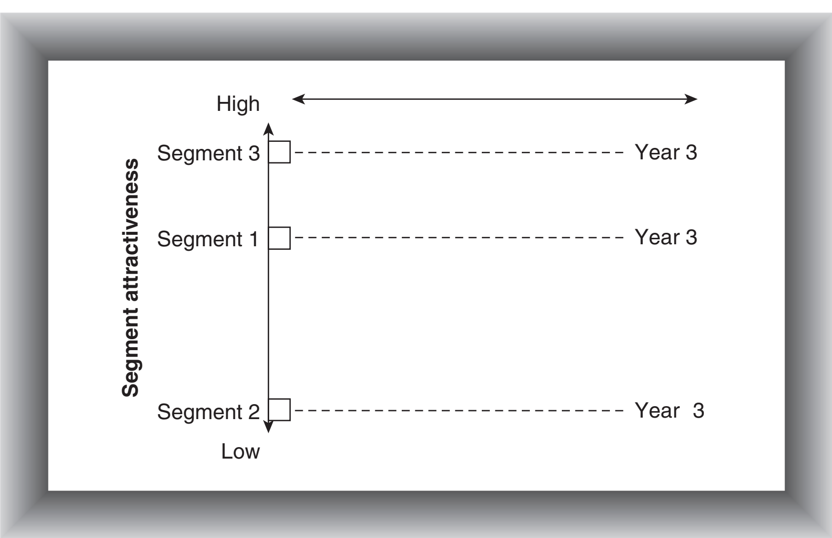

Figure 9.7
Plotting segments on the portfolio matrix according to their attractiveness (Year 3)

place, and Segment 3 in third position, rather than first place. Clearly, therefore, during the period of the plan, the attractiveness of Segments 1 and 2 deteriorates while the attractiveness of Segment 3 improves, and improves to such an extent that it topples Segment 1 from its leading position. By comparing Tables 9.7 and 9.6 it can be seen that the principal changes are concerned with 'growth' and 'profitability'. The positions of the segments for Year 0 can now be transposed on to the matrix, as in Figure 9.8.

It has to be said that, in practice, it is quicker and easier to carry out only the calculations for the final year of the planning period, in which case the circles on the directional policy matrix can only move horizontally with changes to your company's relative strength in each segment.

It is worth repeating that, once agreed, under no circumstances should segment attractiveness factors be changed, otherwise the attractiveness

Table 9.7 Segment attractiveness evaluation (Year 0)

		Segment 1		*Segment 2*		*Segment 3*	
Attractiveness factors	***Weight***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***
Growth	25	10	2.5	7	1.75	8	2.0
Profitability	25	8	2.0	8	2.0	6	1.5
Size	15	5	0.75	7	1.05	6	0.9
Vulnerability	15	6	0.9	4	0.6	7	1.05
Competition	10	6	0.6	7	0.7	5	0.5
Cyclicality	10	2.5	0.25	3	0.3	2.5	0.25
Total	100		7.0		6.4		6.2

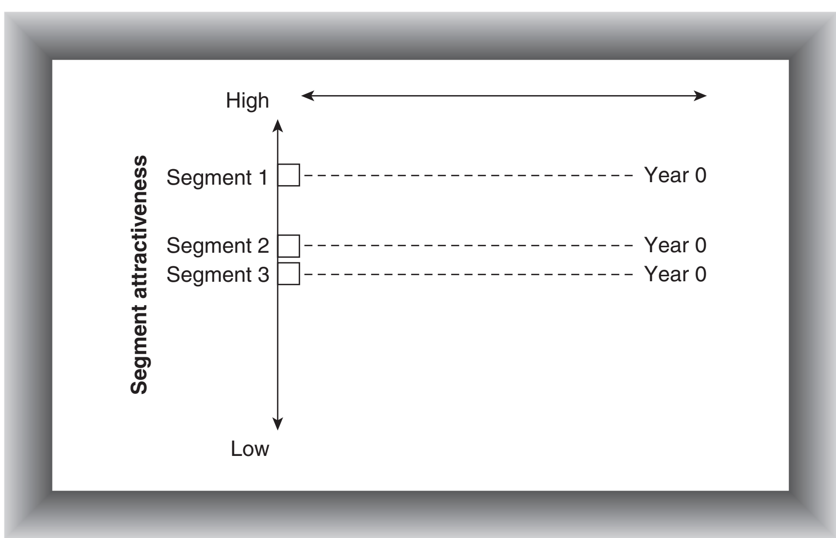

Figure 9.8
Plotting segments on the portfolio matrix according to their attractiveness at the beginning of the planning period (Year 0)

of your segments is not being evaluated against common criteria and the matrix becomes meaningless. Scores, however, are specific to each segment.

It is also worth stressing that segments positioned in the lower half of the matrix should *not* be treated as unattractive. All this means is that they are relatively less attractive than segments positioned in the top half of the matrix. In addition, it should not be forgotten that the cash generated from those segments in the lower half of the matrix (particularly the lower left quadrant) will be an important contribution to the investment required in those segments appearing in the top half of the matrix.

Segments positioned in the lower half of the matrix should *not* be treated as unattractive. All this means is that they are relatively less attractive than segments positioned in the top half of the matrix.

In the examples shown in Tables 9.6 and 9.7, it can be seen that for all three segments, none of them have a weighted attractiveness score lower than 5.0. If the vertical axis was scaled from zero to 10, this would put all three segments in the 'highly attractive' zone. Should you have only three segments, which is unlikely, this would obviously be a nonsense. To overcome this problem, it is suggested that the scale on the attractiveness axis is established along the following lines:

1. Take the lowest score and round it down to the next whole number to define the point of origin (which would be 4.0 in our example).
2. Take the highest score and round it up to the next whole number to define the highest point (which would be 8.0 in our example).

This will always ensure a spread, which is, of course, the whole point of using the device in the first place. Table 9.8 shows a more likely spread of weighted attractiveness scores.

When the final result is not what you expected

The first time managers try using the directional policy matrix, they frequently find that the points of intersection from the two axes for their individual segments do not come out where expected. One possible reason for this is a misunderstanding concerning the use of segment attractiveness factors. Please remember, you will be most concerned about the *potential* for *growth in volume*, *growth in profit*, and so on for your company in each of your segments. For example, even if a segment is mature (or even in decline), if the *potential* is there for your company to grow in this mature segment, then it would obviously be more attractive than one in which there was little or no potential for you to grow (as would be the case, for example, if you already had a high share in a segment). Likewise, even if a segment is currently very profitable for your company, if there were little or no *potential* for profit growth, this segment might be considered less attractive than one which was currently not so profitable to your company, but which offered good *potential* for profit growth.

Table 9.8 The range of weighted attractiveness scores in a market with nine segments

		Segment 1		Segment 2		Segment 3	
Attractiveness factors	***Weight***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***
Profitability	35	8	2.8	9	3.15	6	2.1
Growth	30	3	0.9	4	1.2	4	1.2
Size	20	3	0.6	5	1	5	1
Competition	15	9	1.35	5	0.75	7	1.05
Total	100		5.65		6.1		5.35
		Segment 4		***Segment 5***		***Segment 6***	
Attractiveness factors	***Weight***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***
Profitability	35	7	2.45	7	2.45	5	1.75
Growth	30	7	2.1	8	2.4	2	0.6
Size	20	4	0.8	6	1.2	2	0.4
Competition	15	8	1.2	7	1.05	5	0.75
Total	100		6.55		7.1		3.5
		Segment 7		***Segment 8***		***Segment 9***	
Attractiveness factors	***Weight***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***
Profitability	35	5	1.75	2	0.7	3	1.05
Growth	30	3	0.9	1	0.3	5	1.5
Size	20	9	1.8	2	0.4	2	0.4
Competition	15	2	0.3	2	0.3	8	1.2
Total	100		4.75		1.7		4.15

As a closing comment, it is worth remembering that in some markets, certain segments have to be served even though they may be unattractive to the business. This can be because the company requires the volume they represent for reasons related to production economics, or it needs to be serving these segments in order for the company to be a credible player in other, more attractive, segments. An example of the latter may be a large customer in an attractive segment that has a subsidiary in another, less attractive segment.

Process check

Before committing resources to any particular segment, it is important to measure the potential of a segment to yield growth in sales and profits, and this, the sixth step in the segmentation process, provides guidelines on how to determine segment attractiveness. This on its own, however, is insufficient for making investment decisions, as it is important that the company also assesses its competitive strength in each segment before making any commitments. Company competitiveness by segment is looked at in the next chapter.

Because both the attractiveness of segments and the company's competitive position in each of them will be transposed on to a 'directional policy matrix' (DPM), we began with a review of portfolio analysis. This review covered the Boston Matrix, the GE/McKinsey Matrix and the McDonald four-box directional policy matrix. The latter matrix is used in the segmentation process.

We then took a detailed look at segment attractiveness, which we opened with a brief review of the steps it involves, along with three golden rules we suggest you follow when working through these steps. Briefly these golden rules were: never do this alone; it requires agreement with key colleagues; and, whenever available, use quantitative information in preference to opinion. We pointed out that in the absence of market and/or company data, informed estimates were perfectly valid as absolute precision in the calculations of attractiveness was not required. What you need to ensure is that by the end of this step the position of each segment *relative* to the other segments along the attractiveness axis is approximately right.

Suggestions were then made as to the time period you should consider scoring and the team to work with.

The detailed sections for determining attractiveness began with a discussion about the factors you may wish to consider when comparing the attractiveness of your segments and pointed out that these tend to fall under three headings, namely, 'growth rate', 'accessible segment size' and 'profit potential'. We then moved on to how each of these factors should be given weightings to indicate their relative importance to each other for your company, and pointed out that the segment attractiveness factors and their weightings for the market being evaluated cannot change while constructing the directional policy matrix.

So that the potential of each segment can be gauged, the next step we detailed looked at giving high, medium and low parameters to each of the factors selected, with very high scoring 10 and very low scoring zero. With all the factors agreed, weighted and their parameters established, we went on to present the routine for calculating segment attractiveness scores.

We then illustrated how the segment attractiveness evaluation is transposed on to the matrix using the vertical axis and discussed the possibility of showing both the present as well as the forecast position of segments on the matrix. We pointed out that the scale of this axis should be adjusted to ensure that it allows a spread of segments between the point of origin and the highest point, but also made the point that segments located in the lower half of the matrix should *not* be treated as unattractive. They are better thought of as being relatively less attractive than segments positioned in the top half of the matrix.

Finally we put forward a possible reason why the results may not be what you expected.

Examples

Example 9.1

The first example is of a company that preferred to consider the present, rather than forecast the future, the reason for this being the difficulties they foresaw with predicting future changes.

To arrive at the attractiveness of segments in their market, this company used growth and return on sales as the factors, weighted 35 and 65, respectively. Not surprisingly, this resulted in all the high-profit segments receiving high attractiveness scores and all the low-profit segments receiving low attractiveness scores. The chief executive, however, was not satisfied with this analysis as the company was under pressure from the financial institutions to achieve growth in business and profits because, over the last few years, these had both remained static. A look into the future was clearly essential.

The factors were therefore changed so that they now encapsulated *potential* for growth and profits over the next three years. Using their most informed estimates of what these might be for each of the segments the attractiveness scores were recalculated. The result was quite dramatic in that the resulting attractiveness positions of the segments now showed most of the high-profit segments of today at the lower end of the scale in three years' time, since few of them were growth segments and the company already had a high share in most of them.

The chief executive could now see opportunities for the company to meet the demands of its shareholders.

Example 9.2

The second example concerns a clothing manufacturer who had completed a segmentation project in one of its markets and identified five distinct segments. One of these segments stood out as being extremely attractive in that, while it accounted for approaching 20% of the population in the market, it accounted for over 35% of the sales. For the company in question, it did not matter how they cut the attractiveness factors, this segment always came out on top. As it was also a segment in which they had very little presence, the opportunity this presented them with was very tempting.

In just under a year, the company was ready to launch a new range of clothes targeted at this segment.

It was a disaster.

The segment had specific requirements with respect to certain style-related attributes of the clothing, as well as to the positioning associated with the brand appearing on the label. They also had a very clear preference with respect to the type of distribution outlet they felt comfortable in buying their clothes from. Although all three of these criteria had been understood by the company, the company was very entrenched in a style of clothing they were renowned for, which did not have the attributes this segment was looking for, they had a very strong brand name associated with this style which they felt compelled to associate with every garment they produced, and the company only ever dealt with a type of distribution outlet the segment in question rarely, if ever, visited.

The segment was certainly attractive, but what the company had failed to assess was their capability in meeting the needs of this segment and, therefore, be seen by the customers it represented as a potential competitor for their business. In other words, they had failed to assess their relative competitive strength for this segment.

The lesson from this example is that segment attractiveness cannot be looked at in isolation and must be seen alongside relative company competitiveness before decisions are made about which segments a company is to target. Company competitiveness is looked at in the next chapter.

■ Exercises

Exercise 9.1

Table 9.9 contains details about five segments in a particular market. The information categories are those that will be used to determine segment attractiveness.

Table 9.10 contains the importance weightings of these segment attractiveness factors along with their scores using the parameters of high, medium and low.

With the above in mind, see if you can complete the segment attractiveness scoring for Segment 1 in Table 9.11. Alternatively, take a copy of the worksheet in Table 9.15 and use this for Exercise 9.1.

Table 9.9 Segment details for Exercise 9.1

	Segment attractiveness factors				
Segments	***Segment size (£ millions)***	***Growth (%)***	***Competitive intensity***	***Profitability %***	***Vulnerability***
Segment 1	20	12	Low	17	Low
Segment 2	120	2	High	<10	High
Segment 3	20	11	Low	20	Medium
Segment 4	80	9	Medium	14	Medium
Segment 5	100	6	Medium	11	High

Table 9.10
Parameters and their scores for the segment attractiveness factors in Exercise 9.1

Segment attractiveness factors	*Weight (total 100)*	*Parameters*		
		High (10–7)	*Medium (6–3)*	*Low (2–0)*
Segment size	15	>100	33–100	<33
Growth	25	>10%	5–9%	<5%
Competitive intensity	15	Low	Medium	High
Profitability	30	>15%	10–15%	<10%
Vulnerability	15	Low	Medium	High

Table 9.11
Attractiveness factor scores for Segment 1 in Exercise 9.1

Segment attractiveness factors	*Weight*	*Score*	*Total*
Segment size	×15	1	= 0.15
Growth	×25		=
Competitive intensity	×15		=
Profitability	×30		=
Vulnerability	×15		=
		Total	

Table 9.12
Attractiveness factor score ranges for Segment 1 in Exercise 9.1

Segment attractiveness factors	*Weight*	*Score*	*Total*
Segment size	×15	1	= 0.15
Growth	×25	(7–10)	= (1.75–2.5)
Competitive intensity	×15	(7–10)	= (1.05–1.5)
Profitability	×30	(7–10)	= (2.10–3.0)
Vulnerability	×15	(7–10)	= (1.05–1.5)
		Total	(6.10–8.65)

You can check if your answer is correct by looking at Table 9.12 and comparing your result with that appearing in this table. You will note that there has to be an element of judgement in the scoring, but as long as you are consistent, the conclusions will not be affected.

As it is important to be clear about how the total segment attractiveness score is calculated, Table 9.13 presents a second opportunity to work this through, but, on this occasion, for Segment 2. You can check your answers by looking at Table 9.14.

Segment attractiveness factors	*Weight*	*Score*	*Total*
Segment size	×15	10	= 1.5
Growth	×25		=
Competitive intensity	×15		=
Profitability	×30		=
Vulnerability	×15		=
		Total	

Table 9.13 Attractiveness factor scores for Segment 2 in Exercise 9.1

Segment attractiveness factors	*Weight*	*Score*	*Total*
Segment size	×15	(7–10)	= (1.05–1.5)
Growth	×25	(1–2)	= (0.25–0.5)
Competitive intensity	×15	(1–2)	= (0.15–0.3)
Profitability	×30	(1–2)	= (0.30–0.6)
Vulnerability	×15	(1–2)	= (0.15–0.3)
		Total	(1.90–3.2)

Table 9.14 Attractiveness factor score ranges for Segment 2 in Exercise 9.1

To complete the picture, the attractiveness score for Segment 3 works out at 8.05, for Segment 4 it comes to 5.55 and for Segment 5 it comes to 4.15. If you have not worked out a score for Segment 2, assume it to be 2.35.

With all the scores to hand, the segments can now be positioned on the attractiveness axis of a portfolio matrix. This has already been completed for Segments 3 and 5 in Figure 10.10 which can be found in the Exercises section of the next chapter. Alternatively, take a copy of the portfolio matrix worksheet which also appears in the Exercises section of the next chapter, establish a scale and position the segments on the vertical axis.

Exercise 9.2

Develop a set of criteria for judging segment attractiveness in your company and develop a scoring and weighting system for these criteria. A copy of Table 9.15 can be used for this exercise. Do not forget the three golden rules: never do this alone; obtain agreement from key colleagues; and use quantitative information in preference to opinion, whenever this is available.

Now calculate the attractiveness scores for each of the segments developed in your project and locate their position on the vertical axis of a portfolio matrix. A copy of the portfolio matrix worksheet in the Exercises section of Chapter 10 can be used for this.

Table 9.15 Worksheet – calculating segment attractiveness

Description	***Description***
Segment 1:	Segment 4:
Segment 2:	Segment 5:
Segment 3:	

Segment attractiveness factors	***Weight***	***Parameters***			***Segment 1***		***Segment 2***		***Segment 3***		***Segment 4***		***Segment 5***	
		High 10–7	***Med 6–4***	***Low 3–0***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***
Total	100				***Total***		***Total***		***Total***		***Total***		***Total***	

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10 Assessing company competitiveness and the portfolio matrix

Summary

To complement the analysis of segment attractiveness, it is essential that the company assesses how well equipped it is to deal with each segment before finally deciding where to focus its financial and managerial resources. However, no matter how 'fit' your company may be in meeting the needs of a segment, customers will make their choice based on which of the competing companies is, in their view, the 'fittest'. It is, therefore, the company's *relative* competitiveness that has to be balanced with segment attractiveness in order to determine where the greatest realizable opportunities are to be found for the organization.

Assessing relative competitiveness and balancing it with segment attractiveness is looked at in this chapter. It is the seventh and final step in the segmentation process, as illustrated in Figure 10.1.

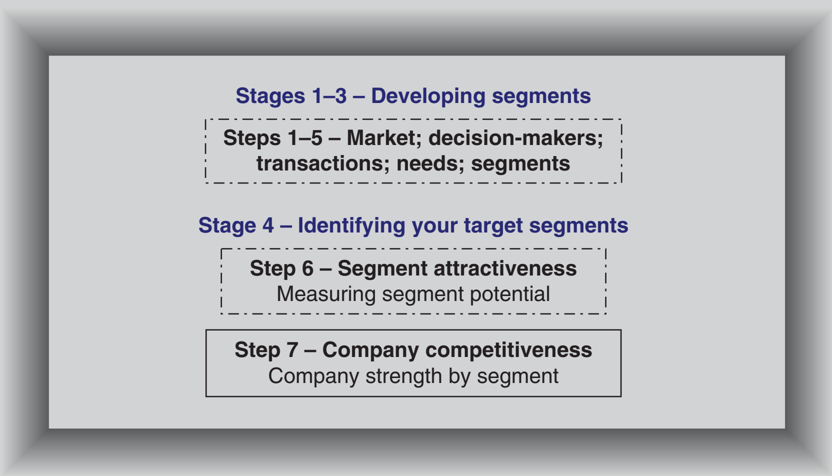

Figure 10.1 The segmentation process – Step 7

In order to arrive at a realistic assessment of company strengths, it is necessary to look at the performance of companies in terms of how it is *perceived* by customers in relation to the needs they are seeking to satisfy. This step, therefore, requires 'perceived' performance as opposed to 'true' performance to be measured.

(*Continued*)

A term we briefly referred to in Chapter 7 and use more extensively in this chapter is 'critical success factors' (CSFs). This refers to the constituents of an offer that enable companies to deliver the benefits customers are seeking. Critical success factors therefore describe for the company the relevant product, price, promotion and place requirements (and all other relevant 'Ps').

This chapter is organized as follows:

- An introduction to 'company competitiveness' and an overview of the steps it involves
- Defining the time period for company competitiveness
- Factors to consider in company competitiveness for each segment
- The weightings to be allocated to these factors
- Defining the parameters for competitiveness so that company strengths can be gauged
- How to evaluate the competitiveness scores for your company and your competitors in each segment
- Transferring the results on to a portfolio matrix and illustrating the size of each segment along with your share
- How different time periods and different strategic assumptions for your company and your competitors can be used to produce a directional policy matrix (DPM)
- A review of this, the final step in the segmentation process
- Examples of segment portfolios
- Exercises further to help you with relative company competitiveness

Company competitiveness

Definition: Company competitiveness is a measure of an organization's actual strengths in each segment (in other words, the degree to which it can take advantage of a segment opportunity).

Company competitiveness, for the purposes of this book, is a measure of an organization's *actual* strengths in each segment, in other words, the degree to which it can take advantage of a segment opportunity. Thus, it is an objective assessment of an organization's ability to satisfy segment needs relative to competitors.

The procedure to follow when assessing company competitiveness can be summarized as follows:

1. For each segment, list the needs they are seeking to satisfy – these, along with 'price', were identified in Step 5 as their decisive buying criteria (DBCs) – and note the constituents of the offer required to deliver each of the buying criteria successfully (many of which will be aligned to the segment's key discriminating features (KDFs)).
2. Associate a weight with each of the buying criteria that reflects its relative importance (and, therefore, the relative importance of what

is required to deliver it) to the segment. This was also identified in Step 5, though where the relative importance of a segment's buying criteria remains expressed as symbols, they now need to be expressed numerically and 100 points distributed between them.

3. Set the parameters for competitiveness to 'highly competitive' scoring from 10 down to seven, 'competitive' from six down to four and 'uncompetitive' from three down to zero – these are fixed and do not change.
4. Take one of the segments and, in considering the constituents of the offer required to deliver each of its buying criteria, separately score your own company's and your main competitors' performance for each of these criteria based on the parameters for competitiveness *as perceived by the customers in the segment*. Multiply the individual scores by their respective weight and divide by 100, then add all these together to arrive at a total between zero and 10 for each company.
5. Now assess for the segment your own company's competitiveness relative to the competition by dividing your company's total weighted score by the highest total weighted score of the competitors, expressing the result as a ratio (your company:best competitor).

Repeat the above steps until the company's relative competitiveness scores have been calculated for each segment.

A key emphasis in the above summary, and a golden rule for assessing company competitiveness, is that the performance of each company included in the analysis is *as perceived by the segment*. Therefore, 'perceived' performance should be used in preference to 'true' performance, even when there are discrepancies between them. To this golden rule can be added the three put forward in the previous chapter for determining segment attractiveness as they still apply:

A golden rule for assessing company competitiveness is that the performance of each company is *as perceived by the segment*.

1. Never do this in isolation.
2. Make sure your key colleagues are in agreement.
3. Whenever quantitative information, or techniques such as market research, is available, it should be used in preference to opinions, no matter how well founded these opinions might be.

Marketing insight

In the absence of market data, informed estimates are perfectly valid, though you may wish to verify these given that competitiveness is assessed purely from the customers' perspective. Absolute precision in your calculations of competitiveness is not required. What you need to ensure is that the position of each segment on the competitiveness axis is approximately right.

Time horizon

The choice of time period to be scored is clearly linked to the decisions on time periods made in the previous chapter, this being either today (Year 0) or at the end of the planning period, with three years being the recommended time horizon.

It is suggested that the calculations for company competitiveness should first be carried out for the start of the planning period (Year 0). This enables you to establish a fixed position on the portfolio matrix for your company in each segment against which the forecast outcome of alternative strategies and assumptions for the planning period can be seen when plotted on to the directional policy matrix (DPM). If you have only calculated segment attractiveness for a single year, the impact of any changes in your company's activities will only move segments horizontally – that is, along the same level of attractiveness. However, if you have determined segment attractiveness for both the start and end of the planning period, any changes to your company's relative competitive strength will see segments move both horizontally as their attractiveness changes and vertically as your relative competitive strength changes. This is shown on Figure 10.6 which appears later in this chapter.

Competitiveness factors

These factors will be principally a combination of an organization's relative strengths versus competitors in connection with *customer-facing* needs in each segment, namely those that are required by the customer. These were identified in Step 5 as the segment's decisive buying criteria, with each concluding segment having its own importance values for the decisive buying criteria identified for the market, which, you will recall, also included 'price'. To win the business in any particular segment, therefore, the company has to be relatively more *successful* than its competitors in matching up to the segment's buying criteria.

Definition reminder: Critical success factors are the constituents of an offer that enable companies to deliver the benefits customers are seeking.

This 'success' is in relation to the constituents of the offer required to deliver each of the buying criteria and these are frequently referred to as '**critical success factors**' (CSFs); this is the term most often found in marketing text books and papers when describing the business strengths/competitiveness axis of a portfolio matrix. For example, delivering to the customers in a segment the perception that they are being 'innovative' may require a company to be seen at the forefront of product development, for its outlets and channels to be the most modern and for its promotional activity to adopt, if not pioneer, the latest techniques, and so on. Assessing competitiveness related to the buying criterion of being 'innovative', therefore, will require an assessment of a company's performance with respect to all the appropriate constituents of 'innovation' as perceived by the segment. There may, of course, be only a single critical success factor required to deliver a buying criterion rather than several.

As will be apparent from the preceding paragraph, many of the critical success factors will be aligned to each segment's key discriminating features. Therefore, if you have not already consolidated these features for each segment, now is the time to do so. A worksheet to help calculate these details appeared as Table 8.15 in the Exercises section of Chapter 8.

The critical success factor can often be summarized under the following headings[1]:

- product requirements;
- price requirements;
- promotion requirements;
- place (distribution and service) requirements.

In the same way that 'profit' on the segment attractiveness axis can be broken down into a number of sub-headings, so can each of the above be broken down further and analysed, with the sub-headings based on those that are relevant to the segment. For example, in the case of pharmaceuticals, product strengths could be represented by:

- relative product safety;
- relative product convenience;
- relative cost effectiveness.

In your review of how well your company can meet the requirements of each segment, you may well need to consider questions such as:

- Do we have the right products?
- How large is our segment share?
- How well are we known in this segment?
- What image do we have?
- Do we have the right technical skills?
- Can we adapt to change?
- Do we have enough capacity?
- Can we grow?
- How close are we to this segment?

It should be stressed, however, that the answers to these questions should not be confused with customer-facing critical success factors.

[1]As mentioned in Chapter 7, the traditional four Ps of the marketing mix, namely product, price, promotion and place, are sometimes extended into a number of other 'Ps' such as people and processes.

They will only tell you in what ways you have to change to satisfy your customer's needs.

It will be clear that a company's relative strengths in meeting customer-facing needs will be a function of its capabilities in connection with the critical success factors relative to the capabilities of the best competitor. For example, if a depot is necessary in each major town/city for any organization to succeed in any segment, and the company carrying out the analysis does not have this, yet the competition does, then it is likely that this will account for its poor performance under 'customer service'. Likewise, if a major component of 'price' is the cost of feedstock, and it is necessary in some segments to have low prices in order to succeed, any company carrying out the analysis which does not have low feedstock costs, while competitors do, will find that it is this which accounts for its poor performance under 'price'.

Clearly, this type of assessment of a company's capabilities in respect of the critical success factors could be made in order to understand what has to be done in the organization for it to satisfy customer needs better. This assessment, however, is quite separate from the quantification of the competitive strengths/position axis, and its purpose is to translate the analysis into actionable strategies for the relevant functions within the organization, such as production, distribution, purchasing, and so on, as well as sales and marketing. Setting strategies is looked at in Chapter 13.

Weighting the factors

The weightings allocated to the competitiveness factors, namely the decisive buying criteria and their constituent critical success factors, will, of course, be specific to each segment and will reflect the relative importance of the buying criteria to each other as observed for the segment in Step 5. An example is shown in Table 10.1.

Table 10.1 Weighting DBCs and their constituent CSFs

Segment 4		
	Decisive buying criteria and their constituent critical success factors	***Weight***
1.	Delivery reliability: $\geq$95% within 30 minutes of the agreed time	50
2.	Product technical performance: temperature range tolerance	25
3.	Leading edge image: e-business, product materials pioneer	15
4.	Price	10
	Total	100

Table 10.2 Expressing the relative importance of DBCs numerically

Segment 2				
Decisive buying criteria		***DBC value***	***As a number***	***Reworked***
1.	Product technical performance	★ ★ ★ ★ ☆	9	41
2.	Leading edge image	★ ★ ★	6	27
3.	Delivery reliability	★ ★ ☆	5	23
4.	Price	★	2	9
		Total	22	100

In those cases where the relative importance of a segment's buying criteria remain expressed as symbols, such as stars and half-stars, they now need to be expressed numerically and 100 points distributed between them. This requires the following steps to be carried out for each segment:

1. Convert the symbols to numbers with each 'half-star', for example, being equivalent to a single unit, thus '★ ★ ★ ☆' (three and a half stars) is equivalent to 'seven'.
2. Add up the individual numbers to arrive at a total for the segment.
3. Divide each individual number by the total and multiply the answer by 100.

A worked example appears in Table 10.2.

If a segment's buying criteria have each had their importance rated on a scale of, say, one to 10, these can be reworked so that they total 100 by following steps 2 and 3.

Defining the parameters for competitiveness

The parameters for competitiveness are very straightforward, as they are common to all the critical success factors. They consist of:

- highly competitive (which has a score range of 10 down to seven);
- competitive (with a score range of six down to four);
- uncompetitive (scoring from three down to zero).

While we would recommend the above scoring structure for the parameters, they are, however, a matter of management judgement.

Scoring your company and your competitors

Competitiveness scores are as perceived by the customers in the segment.

A reminder: Absolute precision in your calculations of competitiveness is not required. What you need to ensure is that the position of each segment on the competitive axis is approximately right.

For each individual segment, refer to the parameters for competitiveness and score your own company and each of your main competitors out of 10 on each of the decisive buying criteria based on the *customer's perceived assessment* of your performance and theirs with respect to the critical success factors. Next, multiply the individual scores by their respective weight and divide by 100, then add all these together for each company to arrive at a total between zero and 10 as shown in Table 10.3. This calculation should first be carried out for the start of the planning period, namely Year 0. This enables you to establish a fixed position on the portfolio matrix for your company in each segment against which the forecast outcome of alternative strategies and assumptions for the planning period can be seen when plotted on to the directional policy matrix.

From this table it can be seen that:

1. this company is not the segment leader;
2. all competitors score above 5.0.

The problem with this and many similar calculations is that rarely will this method discriminate sufficiently well to indicate the relative strengths of a number of segments in a particular company's market portfolio, and many of the segments for a strategic business unit would appear on the left of the matrix.

Some method is therefore required to prevent all segments appearing on the left of the matrix. This can be achieved by using a ratio, as in the Boston Matrix, which is calculated for each segment by dividing your company's total weighted score by the highest total weighted score of the competitors. This will indicate a company's position relative to the best in the segment.

Table 10.3 Competitive strength evaluation (Year 0)

Segment 4								
			Your company		*Competitor A*		*Competitor B*	
DBCs & CSFs		*Weight*	*Score*	*Total*	*Score*	*Total*	*Score*	*Total*
1.	Delivery	50	6	3.0	9	4.5	4	2.0
2.	Product	25	8	2.0	6	1.5	10	2.5
3.	Image	15	8	1.2	8	1.2	6	0.9
4.	Price	10	5	0.5	6	0.6	3	0.3
	Total	100		6.7		7.8		5.7

Note: The scores are based on the parameters described in the previous section and are as perceived by the segment.

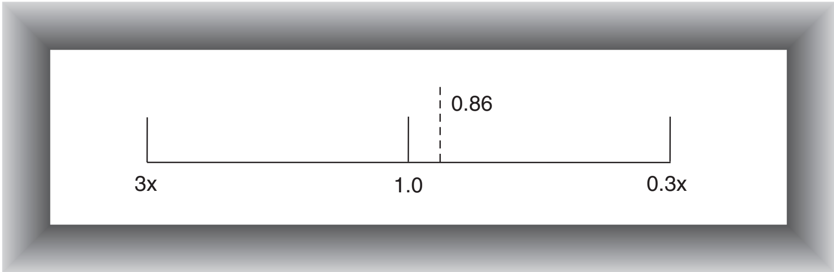

Figure 10.2 Plotting a relative competitive strength score of 0.86
Note: If our company had scored 7.8 and the highest competitor's score had been 6.7 the ratio would work out at 1.16:1.0 and place our organization to the left of the dividing line.

In the example provided, Competitor A is the strongest in the segment so our organization needs to make some improvements. To reflect this, our total weighted score should be expressed as a ratio of Competitor A (the highest total weighted score). Thus,

$$6.7{:}7.8 = 0.86{:}1.0 \ \ (0.86 \ \text{being} \ 6.7 \div 7.8)$$

If we were to plot this on a logarithmic scale on the horizontal axis, this would place our organization to the right of the dividing line as shown in Figure 10.2 (we should make the left-hand extreme point '3×' and start the scale on the right at '0.3×').

A scale of '3×' to '0.3×' has been chosen because such a band is likely to encapsulate most extremes of competitive advantage. If it does not, just change it to suit your own circumstances, for example 10× to 0.1×.

A worksheet which can be used for these various calculations appears as Table 10.10 in the Exercises section of this chapter.

Producing the portfolio matrix

Once you have completed the competitive evaluation for Year 0, you can plot your position for each segment by drawing a vertical line from the relevant point on the horizontal scale, as shown on Figure 10.3, so that it intersects with the appropriate segment's horizontal line (initially from the Year 3 calculations).

A worksheet for plotting segments on the portfolio matrix appears as Table 10.11 in the Exercises section of this chapter.

Now, at the point of intersection for each segment, draw a circle with the radius of each circle proportional to that segment's share of the market being covered by your project, which will be based on your forecasts of size if the attractiveness is for Year 3. (Please note that to be

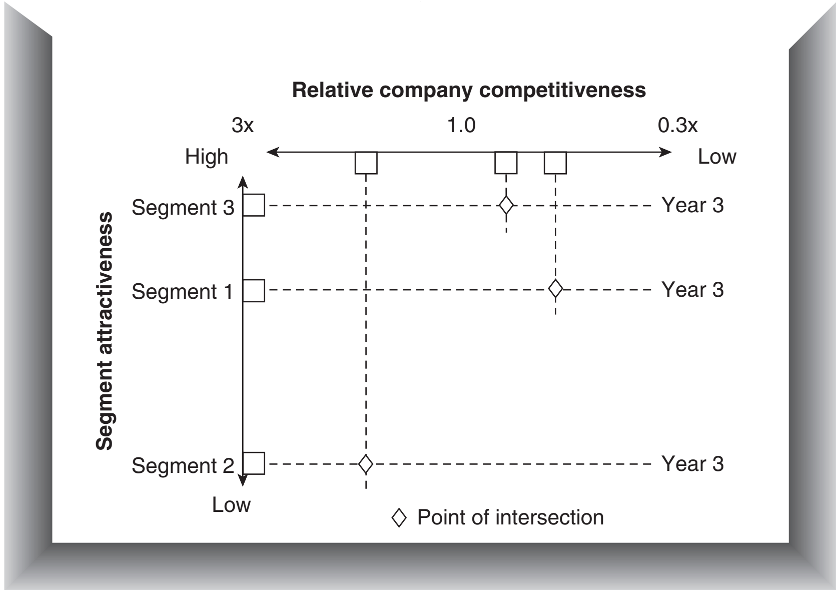

Figure 10.3 Plotting business positions on the portfolio matrix for each segment according to their relative competitive strength
Note: Although 'high' is positioned on the left of the horizontal axis it can, if you prefer, be placed on the right. The three segments on the vertical axis are as they appeared in Figure 9.7 in the previous chapter.

technically correct, the radius of the circle should be the square root of the area occupied by the circle: that is, segment size divided by *pi*, namely 3.14.[2]) This can then be transferred to a four-box matrix with your company's share put as a 'cheese' in each circle, as on Figure 10.4.

Alternatively, your company's own sales into each segment can be used to determine the size of the circle. This can be seen on Figure 10.5 which is the segment portfolio matrix for the case study, Agrofertilizer Supplies. In practice, however, it is advisable to do both and compare them in order to see how closely actual sales match the opportunities.

The purpose of the portfolio matrix is to see how the segments in a market relate to each other in the context of the criteria used. This analysis should indicate whether the portfolio is well balanced or not, and should give a clear indication of any problems.

The directional policy matrix

It is now possible to start being creative in your use of the matrix and redraw your portfolio along a number of alternative lines by, for example:

1. rescoring your relative competitive strength for each segment assuming the company continues with the strategies already in place;

[2]We suggest to only two decimal points!

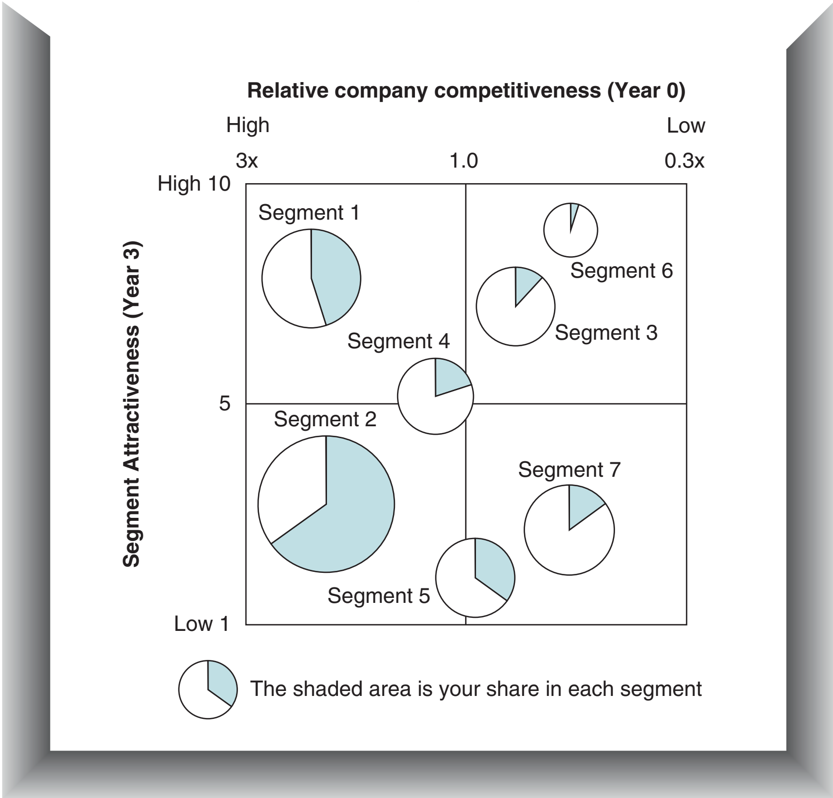

Figure 10.4
The initial segment portfolio matrix

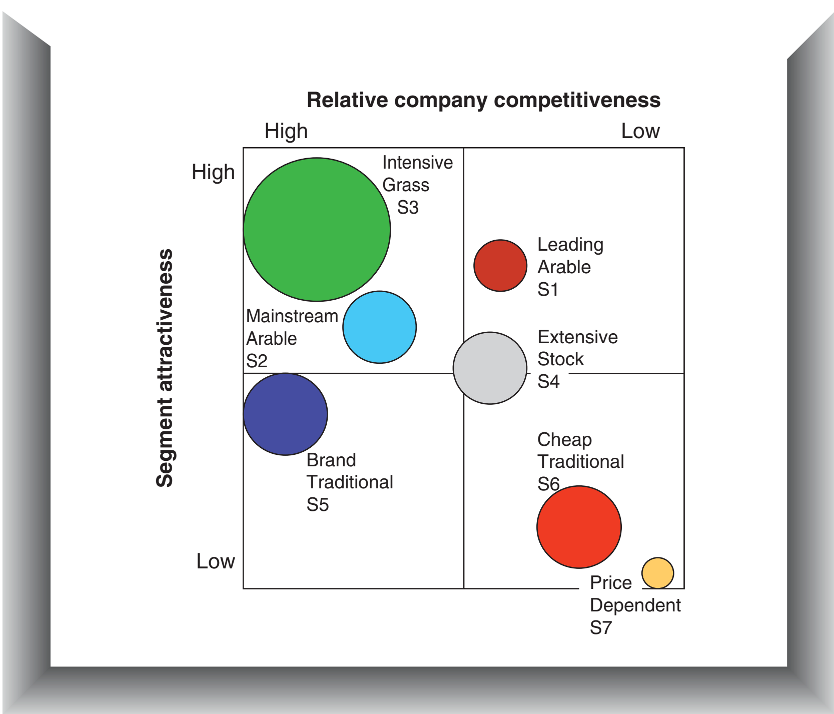

Figure 10.5
The segment portfolio matrix for the case study
Note: 'S5', 'S3', and so on represent 'Segment 5', 'Segment 3', and so on as listed in Chapter 8.

2. rescoring your relative competitive strength for each segment based on some realistic assumptions about your competitors, but assuming your company just stood still;
3. a combination of the above.

Marketing insight

It is also the case that segmentation projects often highlight the need for new strategies to be put in place for particular segments. Rescoring your relative competitive strength for these segments while assuming the company puts these new strategies in place will then illustrate their impact on your segment portfolio. Setting strategies is looked at in Chapter 13.

By including these new locations of the segments on the original portfolio matrix, the resulting matrix will indicate whether your own position is getting worse or better. With the attractiveness scores being kept at Year 3, it will be clear that the circles can only move horizontally along the axis as all that will change is your competitive strength. Alternatively, you could show the position of the segments on the portfolio matrix as they are today, using segment attractiveness for Year 0 and the relative company competitiveness for Year 0, and then redraw the segments to show their attractiveness position in Year 3 along with any of the competition scenarios you have developed for Year 3. In such a case, the circles can move both vertically and horizontally, as is the case in Figure 10.6.

Process check

This, the seventh and final step in the segmentation process, provides guidelines on how to assess relative company competitiveness in each segment. The outcome of this analysis, when balanced with segment attractiveness, can then be used to determine which segments provide the greatest opportunities for the company to achieve its objectives.

We began with a brief review of the steps involved in assessing company competitiveness for each segment. Here we highlighted a particularly important golden rule for assessing your company's performance, namely that it is based on how it is perceived by the customers in a segment, even if this is at odds with what you know to be the 'true' performance. To this we added the golden rules put forward in the previous chapter which briefly were: never do this alone; it requires agreement with key colleagues; and, whenever available, use quantitative information in preference to opinion. We pointed out that in the absence of market data, informed estimates were perfectly valid as absolute precision in the calculations of competitiveness was not required, though we added that you may wish to verify these given that competitiveness is assessed purely from the customers'

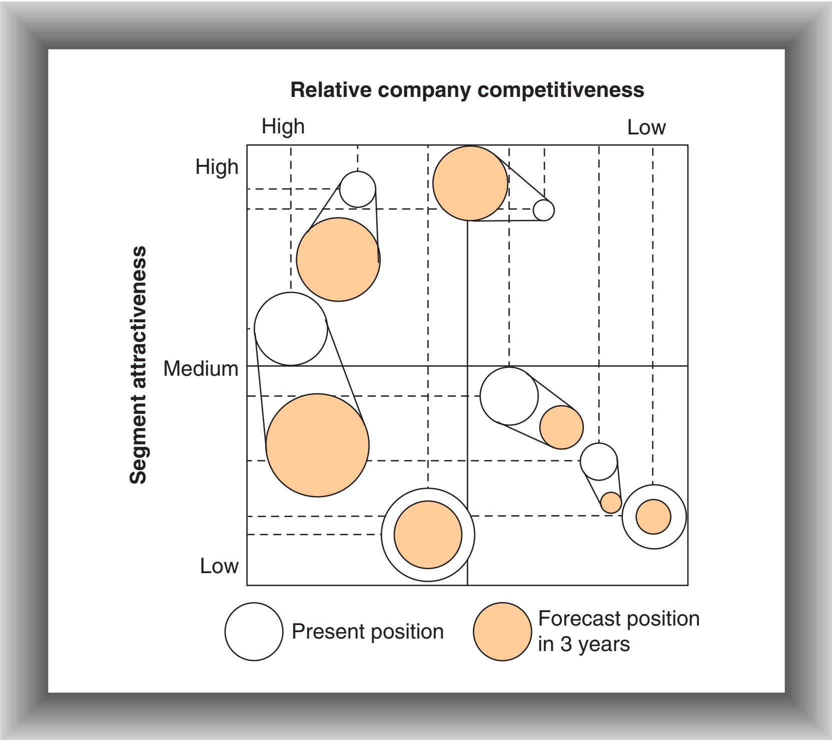

Figure 10.6
The directional policy matrix

perspective. What you need to ensure is that the position of each segment on the competitiveness axis is approximately right.

After a brief review of the time period you should consider, we turned to the competitiveness factors to be included in the evaluation and pointed out that these were directly linked to the decisive buying criteria (DBCs) identified for each segment in Step 5. Here we emphasized that what was actually measured was each company's performance in relation to the constituents of the offer required to deliver each of the buying criteria, frequently referred to as 'critical success factors' (CSFs). We then pointed out that the weightings allocated to the competitiveness factors were those recorded for each segment's buying criteria in Step 5.

Next, we looked at the parameters for measuring a company's competitiveness before illustrating how the weightings and competitiveness scores for each factor were used to calculate the individual competitive strengths of your company and your main competitors in each segment. A simple procedure then followed which converted your company's total weighted score to a relative competitiveness score using the highest total weighted score of the competitors. This calculation, we pointed out, was to prevent all the segments appearing on one side of the portfolio matrix.

We then illustrated how the relative competitiveness evaluation is transposed on to the horizontal axis of the portfolio matrix and how, at the point of intersection with the attractiveness scores for each segment, a circle can be used to depict the size of each segment. We suggested your company's share could be portrayed as a 'cheese' in each circle.

Finally, we went on to illustrate how using different time periods and various assumptions about your company's strategies and those of your competitors could be used to illustrate the dynamics of the segments in your defined market on a directional policy matrix (DPM).

Examples

The art of portfolio management is for a company to balance sales growth, cash flow and risk. Using the picturesque labels associated with the four quadrants of the Boston Matrix (Figure 9.2 in the previous chapter), we should be seeking to use surplus cash generated by 'cash cows' to invest in 'stars' and a selected number of 'question marks'.

Example 10.1

Figure 10.7 shows a well-balanced portfolio. There is one large 'cash cow', two sizeable 'stars', and three emerging segments presenting growth opportunities for the future. There are only two small 'dogs'.

Example 10.2

Figure 10.8 shows a poorly balanced portfolio. The company has no 'cash cows'. There is only one small 'star'. It has three 'question marks' and three 'dogs', one of which is a sizeable segment. There could be cash flow problems with this company.

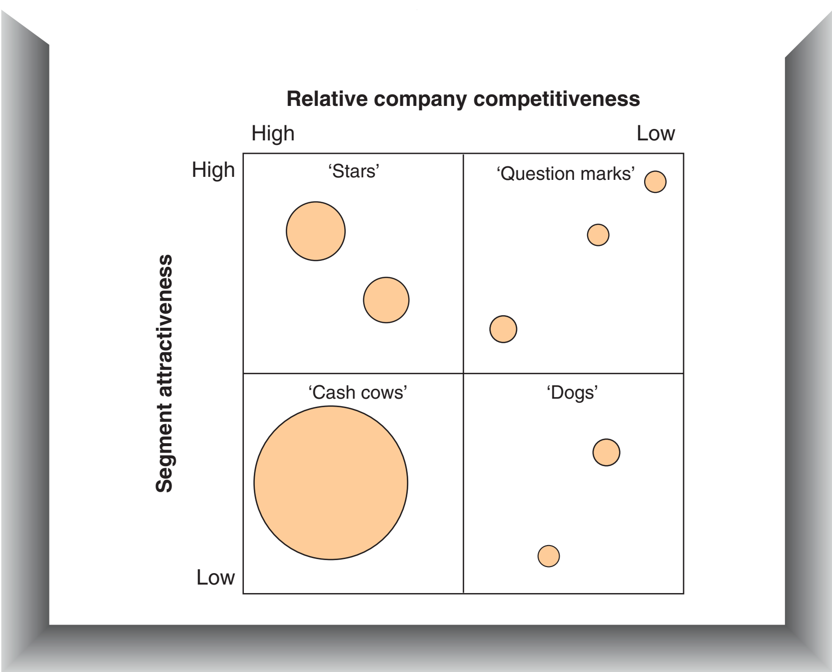

Figure 10.7
Well-balanced portfolio

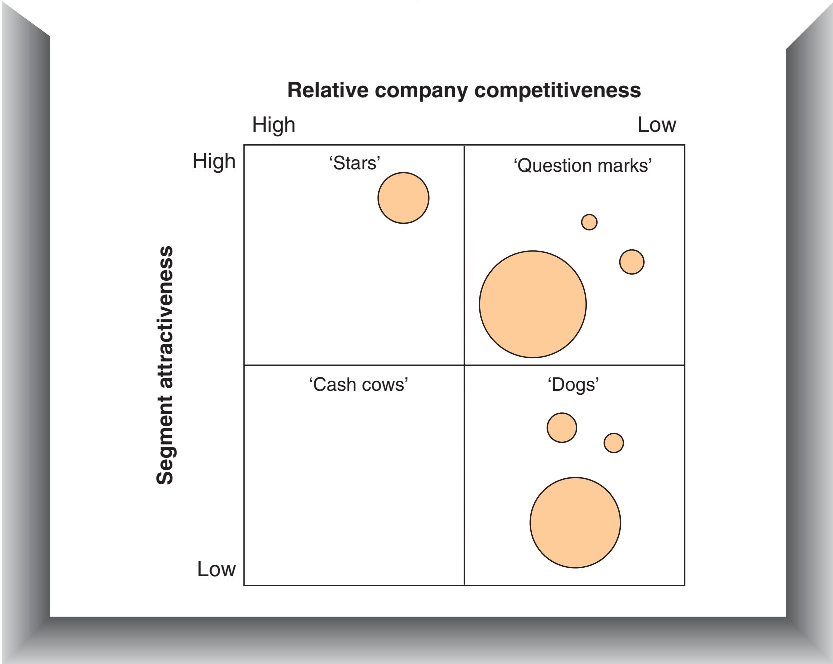

Figure 10.8
Poorly balanced portfolio (1)

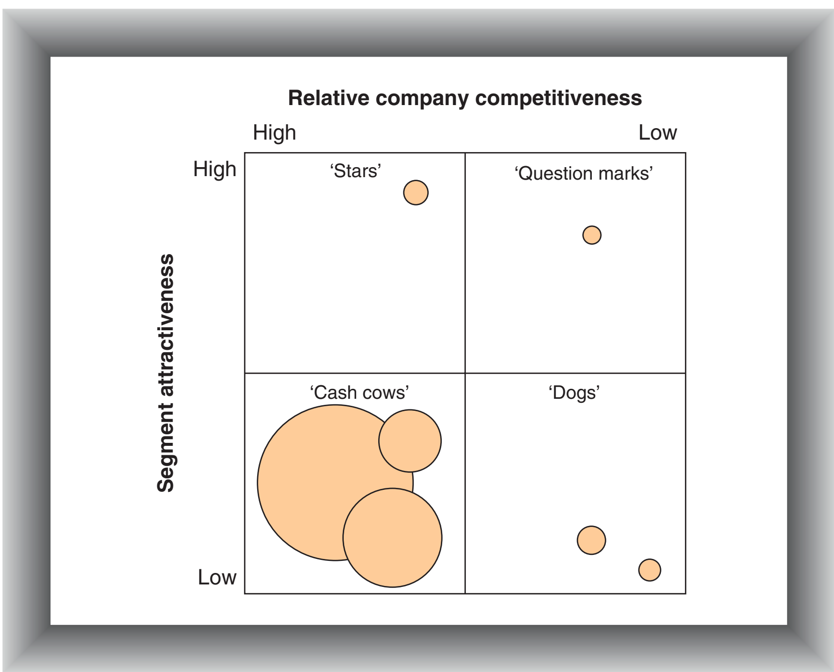

Figure 10.9
Poorly balanced portfolio (2)

Example 10.3

Figure 10.9 also shows a poorly balanced segment portfolio. This company is probably cash rich, with three sizeable 'cash cows'. However, all the danger signs are evident. There is only one small 'star' and one small 'question mark' presenting growth opportunities for the future.

Exercises

Exercise 10.1

Continuing with the segments identified for Exercise 9.1 in the previous chapter, Table 10.4 contains details about Segment 1 which can be used to determine relative competitiveness.

With the above in mind, see if you can complete the relative competitive strength score for Company A with respect to Segment 1 in Table 10.5. Alternatively, take a copy of the worksheet in Table 10.10 and use this for Exercise 10.1. Assume that the parameters being used for competitiveness correspond to the following scores:

- 'High', 10 down to seven;
- 'Medium', six down to four;
- 'Low', three down to zero.

Table 10.4 Competitive strength as perceived by Segment 1 in Exercise 10.1

Market DBCs & CSFs	*Weight (total 100)*	*Company A*	*Best competitor*
Product performance	35	High	Medium
Image with segment	25	High	Medium
Service availability	25	High	Low
Price	15	Medium	High

Note: The parameters for competitiveness are common to all the DBCs and their constituent CSFs.

Table 10.5 Relative competitive strength evaluation for Segment 1 in Exercise 10.1

		Company A		*Best competitor*	
DBCs	*Weight*	*Score*	*Total*	*Score*	*Total*
Product	×35	8	= 2.8	5	= 1.75
Image	×25		=		=
Service	×25		=		=
Price	×15		=		=
		Total		*Total*	
Relative competitive strength of Company A:	1.0				

Table 10.6 Relative competitive strength score ranges for Segment 1 in Exercise 10.1

		Company A		***Best competitor***	
DBCs	***Weight***	***Score***	***Total***	***Score***	***Total***
Product	×35	8	= 2.8	5	= 1.75
Image	×25	(7–10)	= (1.75–2.5)	(4–6)	= (1.0–1.5)
Service	×25	(7–10)	= (1.75–2.5)	(0–3)	= (0.0–0.75)
Price	×15	(4–6)	= (0.6–0.9)	(7–10)	= (1.05–1.5)
		Total	(6.9–8.7)	***Total***	(3.8–5.5)
Relative competitive strength of Company A: (2.29:1.0–1.25:1.0)					

Table 10.7 Competitive strength as perceived by Segment 2 in Exercise 10.1

Market DBCs & CSFs	***Weight (total 100)***	***Company A***	***Best competitor***
Product performance	25	High	Medium
Image with segment	15	Medium	High
Service availability	20	Medium	Medium
Price	40	Low	High

Table 10.8 Relative competitive strength evaluation for Segment 2 in Exercise 10.1

		Company A		***Best competitor***	
DBCs	***Weight***	***Score***	***Total***	***Score***	***Total***
Product	×25	8	= 2.0	5	= 1.25
Image	×15		=		=
Service	×20		=		=
Price	×40		=		=
		Total		***Total***	
Relative competitive strength of Company A: 1.0					

You can check if your answer is correct by looking at Table 10.6.

If you would like the practice, Table 10.7 contains details about Segment 2 which can be used to determine relative competitiveness in Table 10.8. You can check your answers by looking at Table 10.9.

With similar information to hand about the other segments, the relative competitiveness score for Segment 3 works out at 0.49, for Segment 4 it comes to 1.08 and for Segment 5 it comes to 2.02. If you have not worked out a score for Segment 2, assume it to be 0.62.

Table 10.9 Relative competitive strength score ranges for Segment 2 in Exercise 10.1

		Company A		*Best competitor*	
DBCs	***Weight***	***Score***	***Total***	***Score***	***Total***
Product	×25	(7–10)	= (1.75–2.5)	(4–6)	= (1.0–1.5)
Image	×15	(4–6)	= (0.6–0.9)	(7–10)	= (1.05–1.5)
Service	×20	(4–6)	= (0.8–1.2)	(4–6)	= (0.8–1.2)
Price	×40	(0–3)	= (0.0–1.2)	(7–10)	= (2.8–4.0)
		Total	(3.15–5.8)	***Total***	(5.65–8.2)
Relative competitive strength of Company A: (1.03:1.0–0.38:1.0)					

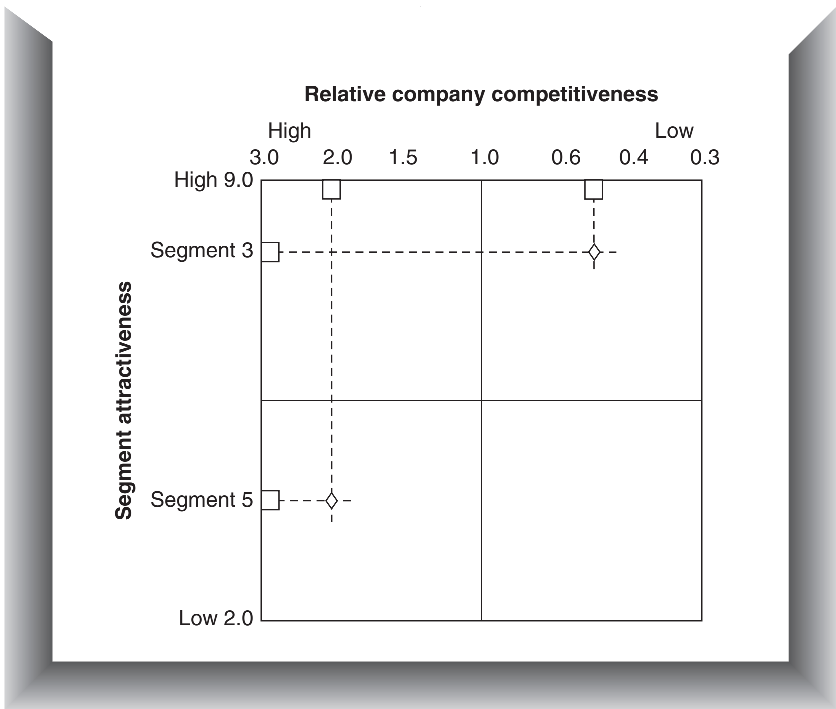

Figure 10.10
Portfolio matrix for Exercises 9.1 and 10.1

With all the scores to hand, the company can now be positioned on the competitiveness axis of a portfolio matrix for each segment. The location of each segment in the matrix can then be established by drawing a vertical line from the relevant point on the competitiveness axis so that it intersects with the appropriate segment's horizontal line drawn from its position on the attractiveness axis. A partially completed portfolio matrix for this exercise showing the positions of Segments 3 and 5 appears in Figure 10.10 to which you can add the remaining segments. Alternatively, take a copy of the worksheet in Figure 10.11 and use this to complete the exercise.

Table 10.10 Worksheet – calculating relative company competitiveness

Market:							
Segment:		***Your company***		***Competitor:***		***Competitor:***	
DBCs and their CSFs	***Weight***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***
Total	100	***Total***		***Total***		***Total***	
Your company's relative competitive strength: 1.0							

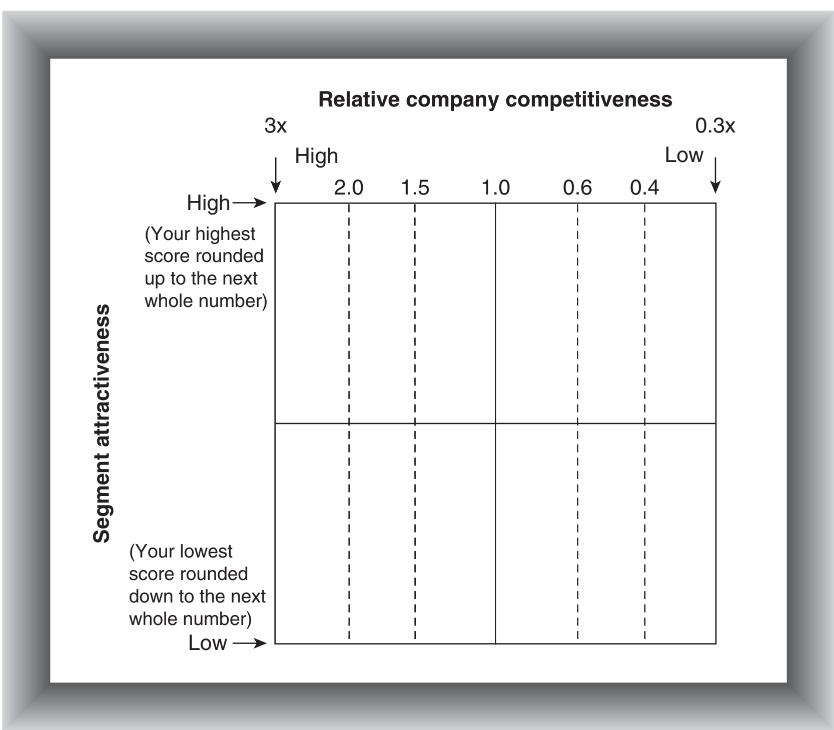

Figure 10.11 Worksheet – portfolio matrix

You will note in Figure 10.10 that, because of the attractiveness scores established in the previous chapter, the scale ranges from 2.0 to 9.0 to ensure a spread of segments on this axis. The range of attractiveness scores is from 2.35 (the assumed score for Segment 2) to a possible maximum score of 8.65 for Segment 1.

The portfolio matrix is almost complete. What remains to be done is to indicate the sales quantity for each of these segments. This is achieved by drawing a circle proportional to the sales quantity at each segment's point of intersection. It is often a matter of trial and error to establish the best basis for drawing these circles. If, for example, the range was from 20 units to 60 units, you may decide that every 20 units is equivalent to 5.0 mm of diameter. This would mean, for example, that 30 units would be shown as 7.5 mm and 50 units as 12.5 mm. If this proved to be too large or too small, then change it to suit the diagram.

Exercise 10.2

For each of the segments developed in your project, assess your performance and that of your main competitor for their decisive buying criteria. Do not forget the principal golden rule: performance is as perceived by the segment, though this may need to be an informed judgement at this stage. In addition, do not forget the other three golden rules: never do this alone; obtain agreement from key colleagues; and use quantitative information in preference to opinion, whenever this is available.

Position your company for each segment on the competitiveness axis of the portfolio matrix you developed for Exercise 9.2 and locate the point of intersection with the appropriate attractiveness score. Now, indicate your current sales for each segment with a circle using an approximate scale of your own choice, making the circle diameter proportional to the sales quantity.

Comment on the current portfolio.

Indicate approximately the size and position of the segments in three years' time and outline the strategies you would pursue to achieve these objectives.

11 Realizing the full potential of market mapping

Summary

In Chapter 5 when we looked at using a market map to both illustrate how a market works and to identify decision-makers, it was pointed out that 'market mapping' as defined and developed by the authors has become an increasingly important part of the toolkit for marketers. Not only can it be used to provide an informative picture of the distribution and value-added chain that exists between final users and suppliers, it can also be used to present your own company's performance on these routes to market and illustrate where your sales and marketing resources are allocated. This provides a useful check when evaluating your sales and marketing strategies, especially when looking at predicted changes to the market's structure and when comparing yourself with your key competitors on where resources are committed.

A reminder: This book refers to those who produce the products or services supplied to a market as 'suppliers'.

This chapter looks at how to capture the above refinements on a market map. You are also at the stage where you can plot your selected segments on to the market map and consider what changes may occur in the market's distribution and value added chain during your chosen planning period. Examples of these more detailed market maps appear at the end of the chapter. A more detailed discussion about the future shape of markets, with particular reference to IT-enabled channels, occurs in the next chapter.

We recommend that Chapters 11 and 12 be read before proceeding to set marketing objectives and strategies, although it is an option to go straight to Chapter 13 if preferred.

This chapter is organized as follows:

- A brief review of marketing mapping in Chapter 5
- Time period for projecting market maps into the future
- Adding company share and quantities to the map, along with the number of companies/customers found at each junction

(*continued*)

- Extending the detail to junction types and introducing segments on to the map
- Noting the quantities decided at each junction type (market leverage)
- Detailed market maps in the tabular form
- A review of the chapter
- Examples of market maps

Enhancing the information on your market map

Definition reminder: A market map defines the distribution and value added chain between final users and suppliers, which takes into account the various buying mechanisms found in a market, including the part played by 'influencers'.

A **'market map'**, you may recall from Chapter 5, defines the distribution and value added chain between final users and suppliers of the products or services included within the scope of your segmentation project. It was also pointed out that this should take into account the various buying mechanisms found in the market, including the part played by 'influencers', even though they may not actually feature in a transaction themselves.

As in Chapter 5, we will focus on the use of diagrams to illustrate the various points made in the text about market maps, but if you find that the diagrammatic approach to market mapping is not to your liking, we also include guidelines for constructing a market map in the tabular form.

Market mapping reviewed

We began by plotting the various stages that occur along the distribution and value added chain between the final users and all the suppliers of the products and services competing with each other in the market being covered by your project. These stages we referred to as 'junctions' and they were represented as cubes on the diagrammatic form of the market map. We then added the particular routes to market the products were sourced through. Then, to ensure that your map presented a complete picture of the specified market, we covered the inclusion of:

A reminder: We use the word 'product' to avoid unnecessary references to 'services', 'not-for-profit services', 'capital goods' and 'retail'. The text is equally relevant to these.

1. contractors or agencies who carry out the work on behalf of the final users and, therefore, appear to 'consume' the product on their behalf;
2. third parties who make the purchase on behalf of the final user, such as parents on behalf of their children or company purchasing departments on behalf of employees;

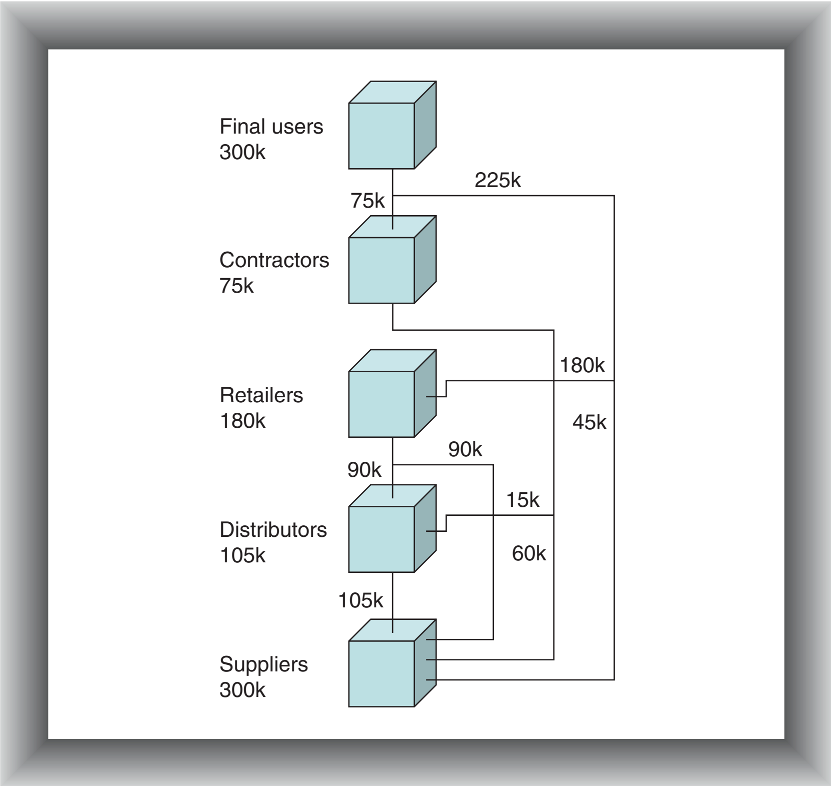

Figure 11.1
Initial quantification of a market map – figures
Note: Using 'Final users' as an example; of the 300k units they consume, 75k are sourced through contractors, and of the 225k sourced elsewhere, 180k are sourced through retailers and 45k direct from the suppliers. In most cases the annual figures for the market would be used. The quantities are thousands (k) of units. The total number of units in this market is 300,000 (300k).

3. purchasing procedures, such as those seen in business-to-business markets;
4. influencers and sources of advice, such as consultants, specialist reports and websites set up to provide user feedback.

Next, we looked at quantifying the market map by initially marking at each junction on the market map and along each route between these junctions a volume or value dealt with by each of them. The market map this resulted in appears in Figure 11.1, a repeat of Figure 5.9 in Chapter 5, with the equivalent map in the tabular form appearing in Table 11.1, a repeat of Table 5.2 in Chapter 5.

It is at this point we pick up market mapping for this chapter. For the diagrammatic form we will, however, revert to using the horizontal format, an option introduced in Chapter 5, and Figure 11.2 re-presents Figure 11.1 using this format.

Looking to the future

Before enhancing the detail contained in your market map, this is an opportune point at which to consider how the market may change

Table 11.1 Initial quantification of a market map in tabular form

Market size: 300k	A Final users	*Sourced through* B Contractors	C Retailers	D Distributors	E Suppliers
A Final users	300k	75k	180k	–	45k
B Contractors		75k	–	15k	60k
C Retailers			180k	90k	90k
D Distributors				105k	105k
E Suppliers					300k

Note: Using 'Retailers' (junction 'C') as an example and reading across the table (left to right); 180k units are sourced through retailers by final users and the retailers in turn source 90k of this 180k through distributors (junction 'D') and the remaining 90k direct from suppliers (junction 'E').

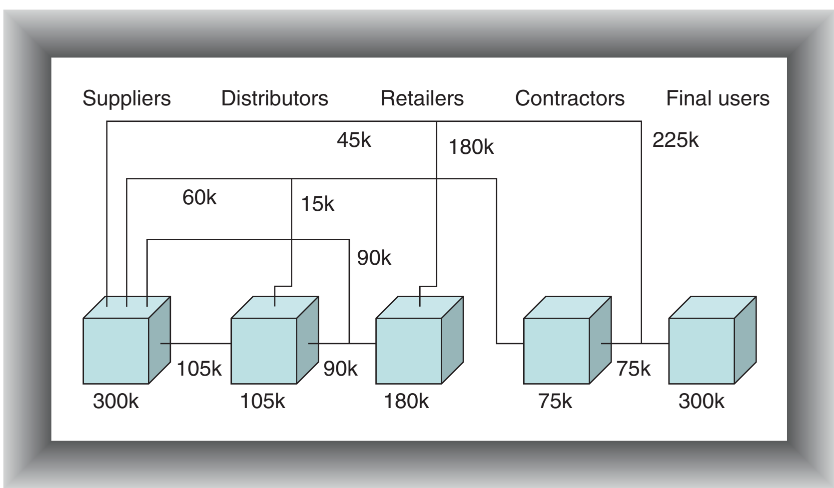

Figure 11.2 Market map in the horizontal format
Note: A reminder: The number of units 'consumed' by the final users usually equates to the number of units entering the market (any surplus being stock). If you follow the routes through the map you will observe that, like the work of an accountant, it all 'balances'. The tabular form of market mapping clearly illustrates this point and Table 11.1 which immediately preceded Figure 11.2 presents Figure 11.2 (and Figure 11.1) in this format.

in the future and redraw the market map as it currently stands to reflect these changes. The end of the time period selected for your portfolio matrix is clearly the most appropriate time horizon for this projection.

Further quantification of the market map

In addition to showing at each junction and along each route the volumes or values dealt with by each of them, note your company's share and, if you choose to, also show what this means in terms of the number of units for your company, as illustrated in Figure 11.3. It is usually easier to do this for the current year in the first instance. As suggested in previous chapters, where figures are not available, make the most informed estimates you can.

As a further addition to the market map, you could also note the number of companies/customers that exist at each junction. For the map in Figure 11.3, this is 23,500 final users, 90 contractors, 434 retailers, 66 distributors and 9 suppliers (these details appear later in Figure 11.5).

From the picture presented in Figure 11.3, we can immediately see that the company in question has a very poor share of direct sales to final users (9%, compared with the company's overall market share of 28%) but clearly has a very good relationship with the contractors, where the company has an overall share of 40%. The company has an even better relationship with contractors when it comes to direct supplies as the company's share of this route to market is 42%. The poor share of

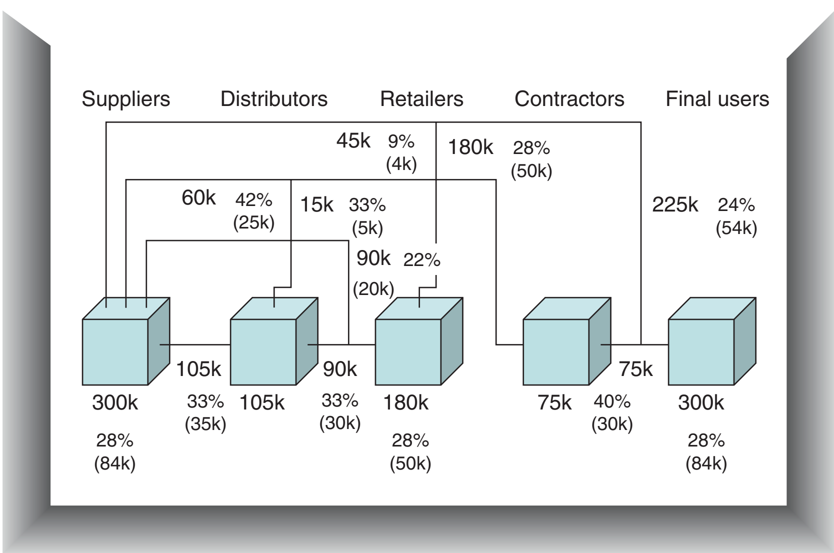

Figure 11.3 Market map with company share and number of units

Key: Using the transaction between 'Retailers' and 'Distributors' as an example; the total number of units that retailers acquire from distributors is 90k, of which your company's share is 33%, which equates to (30k) units.
Note: Of the 84k units produced by the company, 4k go direct to the final users, 25k direct to contractors, 20k direct to retailers and 35k to distributors. Because the company knows that they have around 40% of the units sold through contractors, a total of 30k, of which they supply 25k directly, they have deduced that the remaining 5k must come to the contractors through distributors (the only other source of product for the contractors).

direct sales to final users may be nothing to be too concerned about as these purchases only represent 15% of the market. However, if the redrawn map for the end of the planning period shows that direct purchases by final users were forecast to grow at the expense of purchases through retailers, and this trend was expected to continue, then the company in question could have a serious strategic issue to address.

An initial look at how your company currently allocates its sales and marketing resources between the various junctions and routes to market can be useful at this point. With the picture portrayed in Figure 11.3, it would be interesting to see if this allocation could possibly be related to the company's success with direct supplies to contractors (42% share) compared with its poor performance in direct supplies to retailers (22% share) and its very poor performance in direct supplies to final users (9% share), or if it could be related in any way to the company's better performance with distributors (33% share) compared to its market average share with retailers (28% share). Information about the sales and marketing activities of your key competitors would help in this analysis. It would enable you to determine whether, for example, the poor performance of your company was due to the intense activity of competitors or simply down to the allocation of your own resources not matching up to the importance of certain junctions or routes to market. A further factor could, of course, be weaknesses in your offer compared to that of your competitors.

Extending the detail to junction types

In Chapter 5 we listed for various junctions the different types of companies/customers found there. What has now been developed for the 'top line' picture of the market can be extended to the junction types. Once again, it is usually easier to do this for the current year in the first instance.

The first stage for adding this detail is to redraw the market map so that it now shows the various routes to market between the junction types. However, for the junction(s) you have segmented, you can now replace the original junction types with segments and introduce into the map all the outlet and channel details you have pulled together for each of them. But rather than having each segment as a separate junction type, we suggest you list the segments on which you intend to focus your financial and managerial resources as separate junction types and group together the other segments at the appropriate junction on the map.

Marketing insight

You may find that for particularly critical and/or complex parts of your map it often helps if the detail for these areas is captured in a separate diagram or table away from the composite map in order to emphasize their importance and/or portray them more clearly.

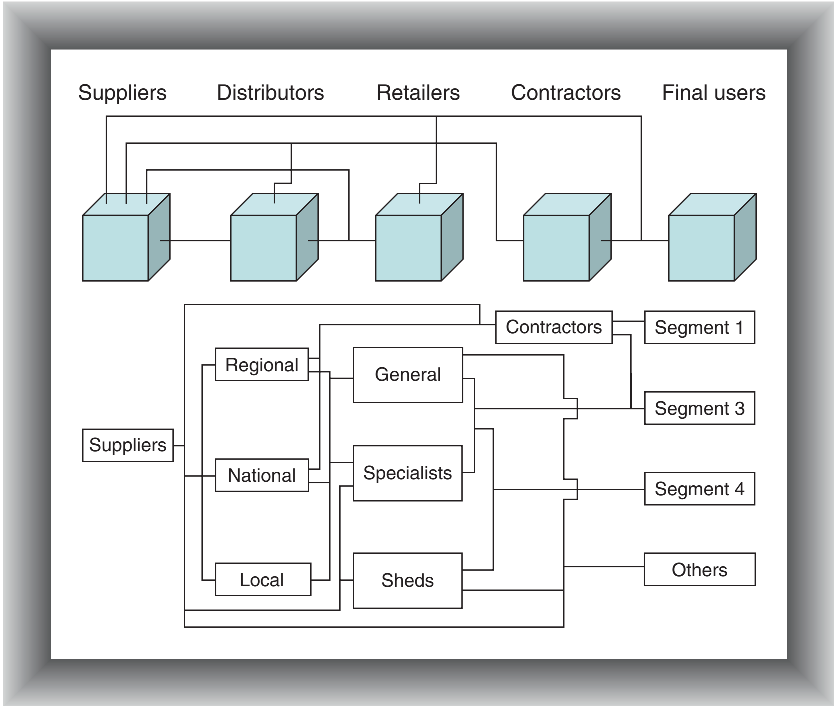

Figure 11.4 Market map with the routes between junction types
Note: Segments 1, 3 and 4 represent the segments on which the company intends to focus its resources. The remaining segments are represented by 'Others'. The junction types for retailers and distributors are those that were listed in Chapter 5 (Figure 5.10). Further details could be included in this map such as listing the suppliers individually or by their junction types, as appears in Table 11.4 later in this chapter, or just separating out your company, and adding the different methods used by the segments to contact the businesses they source their product from (though this may benefit from being presented as a separate diagram or table).

Figure 11.4 illustrates this first stage in extending the detail to junction types and has replaced the original junction types listed for the final users in Chapter 5 (Figure 5.10) with three individual segments and one which covers all the other segments identified among the final users.

If it improves the clarity of your market map you could, of course, produce separate maps for each of your target segments.

The information already contained in the map appearing in Figure 11.4 is much more helpful than the 'top line' picture appearing in Figure 11.3. We can now see where the various segments source their product from and it is a useful visual presentation of the distribution relationship between retailers, distributors and the suppliers of the product.

Your market map is now at the stage where the details added to the top line picture in Figure 11.3 can be extended to the map appearing in Figure 11.4 by including the quantities dealt with by each junction type, your company's share and what this means in terms of the number

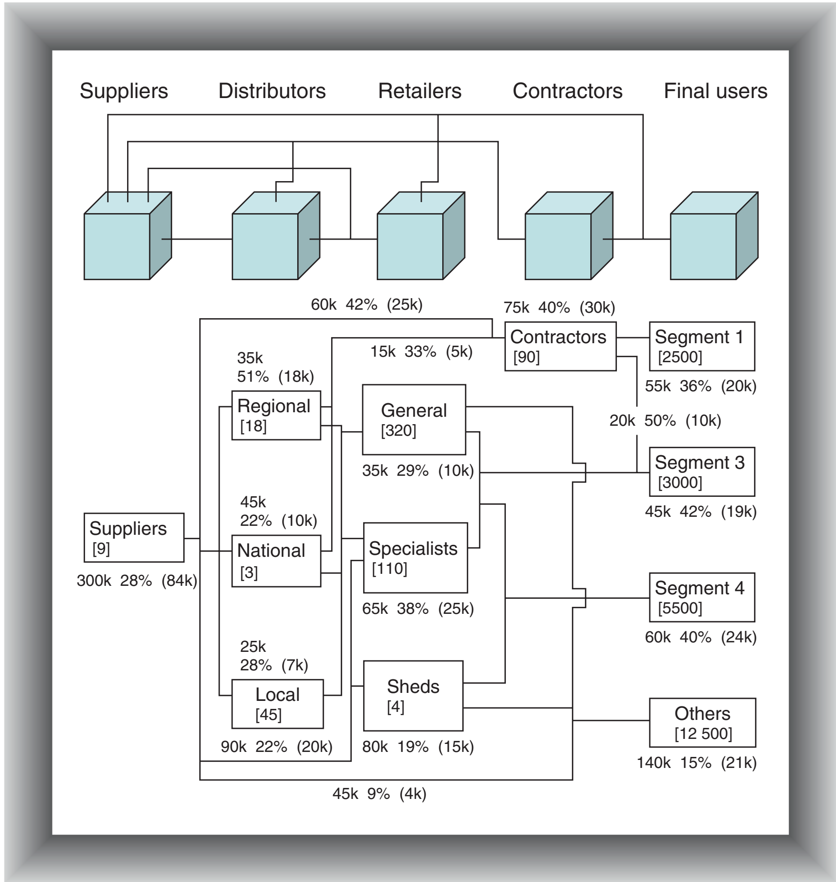

Figure 11.5
Detailed quantification of a market map
Key: Using 'Specialists' as an example; the total number of companies/customers found here is [110] and the total quantity of units they handle is 65k of which your company's share is 38% which equates to (25k) units.
Note: Figures for the routes to market between each of the segments and the retailer junction taken as a whole appear in Table 11.3 later in this chapter with figures for all the routes to market, such as between Segment 4 and all three retailers, appearing in Table 11.4.

of units for your company. This detail could also be added to the various routes to market appearing on your market map. This is illustrated in Figure 11.5, again using informed estimates if necessary. The number of companies/customers at each junction type is also included in this figure.

Marketing insight

At this level of detail, using separate diagrams for particularly critical parts of the map and/or for each of your target segments could prove helpful. You could also consider focusing this level of detail in the first instance on the junction you have segmented and their immediate sources of the product. The detail for the other junctions would then be developed later when considering your plans for these companies/customers.

Redrawing the map in Figure 11.5 for the end of the planning period and taking a more detailed look at how your company currently allocates its sales and marketing resources between the various junction types and routes to market, along with any equivalent information (or

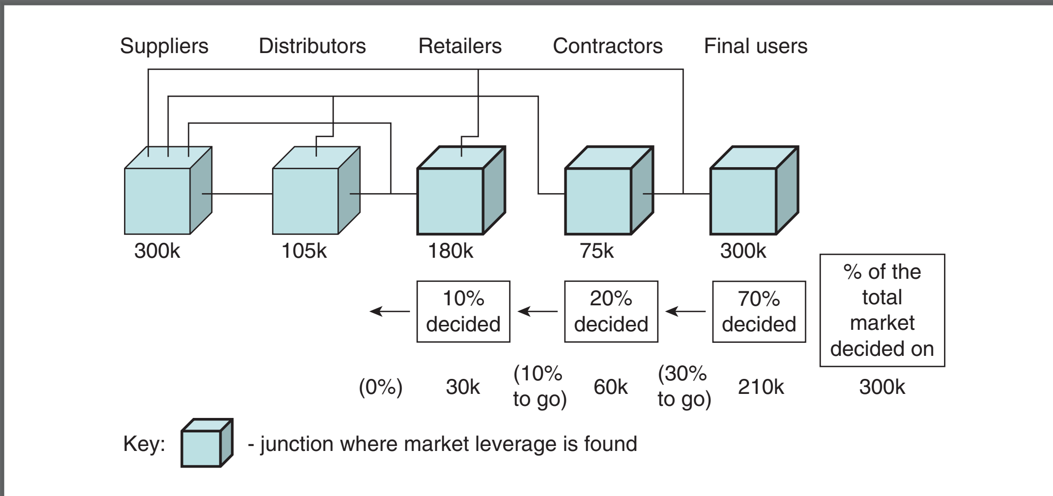

Figure 11.6 Market leverage points on a market map

informed estimates) about the activities of your competitors, would provide some very informative insights at this point. Even more interesting would be to look at this in relation to where decisions are made in the market, which we look at next.

Adding market leverage to junction types

You will recall that we use the term 'market leverage point' to refer to a junction where decisions are made about which competing product or service will be purchased. For the market map we have been working with in this chapter, the distribution of market leverage between the junctions as it appeared in Chapter 5 (Figure 5.12) is re-presented in Figure 11.6 using the horizontal format.

This information could now be usefully extended to the junction types (where they have been identified) along with an indication of your company's share of the quantities decided on at each market leverage point, as illustrated in Figure 11.7. As before, make the most informed estimates you can of these figures if they are not known. You should be able to refine these figures from any follow-up work generated by your segmentation project.

Marketing insight

In addition to showing the amounts decided on at each junction type you may also wish to note the amounts influenced by various junction types. Your market map would then illustrate the full role of each junction type in the market.

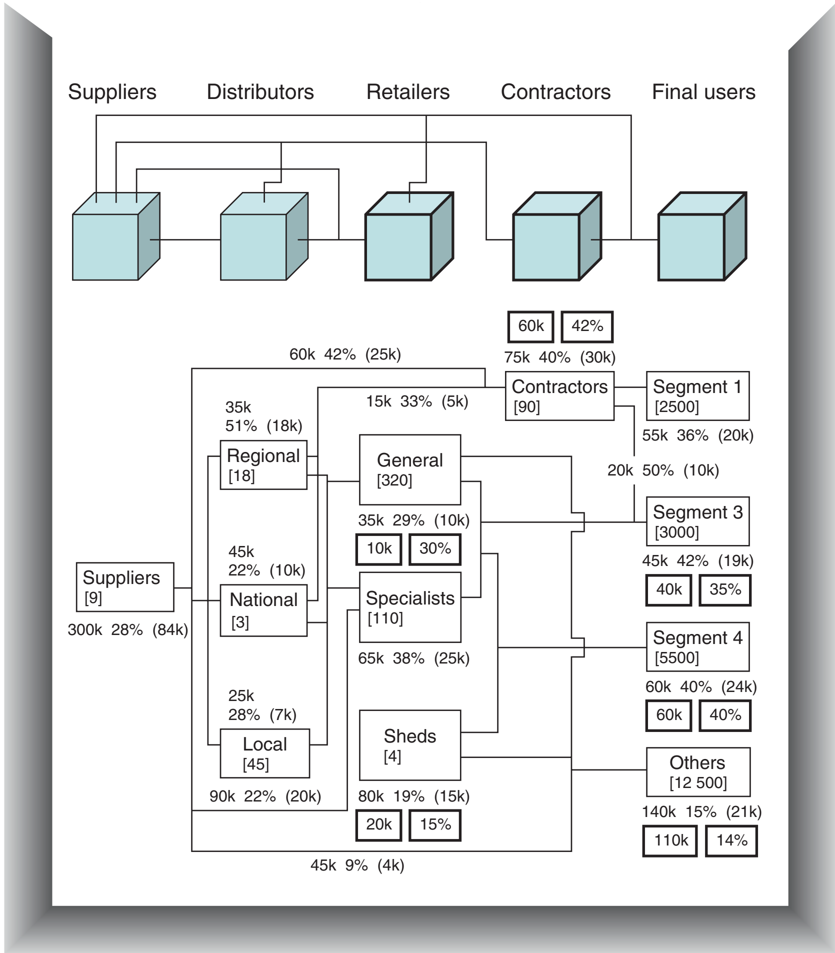

Figure 11.7
Detailed quantification of a market map with leverage points
Key: Using 'Segment 3' as an example; the quantity decided on by the companies/customers found at this junction type is $\boxed{40k}$ and your company's share of this quantity is $\boxed{35\%}$.

As a further refinement to the market map presented in Figure 11.7, you could also note the number of companies/customers with leverage in each of the segments that have been listed. This could, of course, be extended to other junction types where there is leverage but, as is likely to be the case for contractors and retailers in Figure 11.7, on some occasions they make the decision and on other occasions they have to respond to the decision made by their customers. In such instances only a total number as a whole can be recorded.

Marketing insight

Showing the current allocation of the company's resources on this detailed market map, along with the sales and marketing activities of your key competitors, and then analysing the company's position in the market, is an exercise companies obtain a lot of value from, as is then projecting what this detailed market map could look like at the end of your planning period.

From the picture appearing in Figure 11.7 we could conclude that:

- Focusing resources into Segment 1 (accounting for 18% of the market) would appear questionable, as this segment delegates all their decisions to contractors. The company's share in this segment is, therefore, down to the decisions made by contractors.
- Segment 3 (15% of the market) decide on 90% of the product they use and clearly justify having sales and marketing resources expended on them, which is probably what the company does, seeing as it has a healthy 35% share of the product decided on by this segment. It would also be fair to assume that a competitive proposition is contributing to that success. The 10% this segment does not decide on is, in fact, delegated to contractors which, given what is shown about contractors, clearly accounts for the company's overall share of this segment being 42%.
- All the customers in Segment 4 decide on what product is to be bought and, once again, the company appears to give these customers a fair amount of attention, including a competitive proposition, as they enjoy a very strong 40% share of this segment's business.
- The company's share in the remaining segments is, however, relatively low at 15% compared to its overall share of 28%. On the face of it this should be of concern to the company as these segments account for 47% of the market (140k out of 300k) and for 25% of the company's sales (21k out of 84k), but this would very much depend on such items as profitability and future growth.
- A particular weakness for the company appears to be in direct sales to final users, as they only have a 9% share of this business, all of which will be decided on by these final users. This may be because the company has a poor infrastructure for direct sales because it is a very weak performance compared to what the company appears capable of achieving. As pointed out earlier in this chapter, how concerned the company should be with this situation would depend on whether direct purchases by final users were expected to grow in the future.
- The company's position with contractors is very healthy, as noted earlier, and it is interesting that when the contractors are deciding on what product is to be bought, the company's share actually increases. Committing resources to contractors and ensuring you retain a competitive edge clearly makes sense as they are responsible for 20% of what is bought (60k units), and it is a strategy the company appears to be pursuing.
- Turning to the retailers, it is clear that the company has a generally good relationship with the general retailers (they give the company 30% of what they decide on) but something is not quite right with the Sheds (their equivalent percentage is down to 15) but, fortunately, the Sheds only decide on 7% of what is bought in the market. But that is the position of the Sheds today. Whether this is a concern or not would really depend on what was forecast to happen in the future.

When reviewing the allocation of resources with respect to Figure 11.7, it should clearly be kept in mind that, despite the retailers only accounting for 10% of what is decided on in this market, it would clearly be wrong to assess the resources expended on them purely on this basis as they provide an important role in distributing the product to the final users (handling 60% of the total product in the market). The question to consider is how much inconvenience would, for example, Segment 4 tolerate before abandoning their preferred brand? Likewise, the distributors play an important role in the market as they handle 35% of the total.

Considering all of the above with respect to the future structure of the market would make a critical contribution to the company's thinking while developing their sales and marketing strategies for the next few years.

Detailed market maps in tabular form

If you prefer to present your market maps in tabular form, Table 11.2 presents the market map in Figure 11.3 using this format.

To extend the detail to junction types along the lines appearing in Figure 11.5 requires all the junctions that need to source the product to have a row for each of their junction types. This would result in, for example, a total of three rows appearing for retailers with 'General' retailers coded 'CA', 'Specialists' coded 'CB' and 'Sheds' coded as 'CC'. This expanded table could then accommodate the details appearing in Figure 11.5 as illustrated in Table 11.3 (which, as you will notice,

Table 11.2 Market map with company share and number of units in tabular form

		Sourced through			
Market size: 300k	A Final users	B Contractors	C Retailers	D Distributors	E Suppliers
A Final users	300k 28% (84k)	75k 40% (30k)	180k 28% (50k)	–	45k 9% (4k)
B Contractors		75k 40% (30k)	–	15k 33% (5k)	60k 42% (25k)
C Retailers			180k 28% (50k)	90k 33% (30k)	90k 22% (20k)
D Distributors				105k 33% (35k)	105k 33% (35k)
E Suppliers					300k 28% (84k)

Key: Using 'Contractors' as an example; the number of units that are sourced through them is 75k of which your company's share is 40%, which equates to (30k) units.

Note: As a further addition, you could also note the number of customers that exist at each junction – 23,500 final users, 90 contractors, 434 retailers, 66 distributors and 9 suppliers.

contains more details on the routes to market for the individual segments than appeared in Figure 11.5).

The leverage information contained in Figure 11.7 can be added to the 'grid squares' in Table 11.3 containing the totals for each junction type. Alternatively, insert an extra column for market leverage next to the list of junction types and use this for recording the leverage information.

To further extend the detail so that it covers all the routes to market, such as between Segment 3 and the two types of retailers they source product through and between 'General' retailers and all three distributors, requires all the junctions the product is sourced through to

Table 11.3 Detailed quantification of a market map in tabular form

		Sourced through			
Market size: 300k	A Segments	B Contractors	C Retailers	D Distributors	E Suppliers
AA Segment 1	55k 36% (20k)	55k 36% (20k)	–	–	–
AB Segment 3	45k 42% (19k)	20k 50% (10k)	25k 36% (9k)	–	–
AC Segment 4	60k 40% (24k)	–	60k 40% (24k)	–	–
AD Others	140k 15% (21k)	–	95k 18% (17k)	–	45k 9% (4k)
BA Contractors		75k 40% (30k)	–	15k 33% (5k)	60k 42% (25k)
CA General			35k 29% (10k)	35k 29% (10k)	–
CB Specialists			65k 38% (25k)	55k 36% (20k)	10k 50% (5k)
CC Sheds			80k 19% (15k)	–	80k 19% (15k)
DA Regional				35k 51% (18k)	35k 51% (18k)
DB National				45k 22% (10k)	45k 22% (10k)
DC Local				25k 28% (7k)	25k 28% (7k)
EA–EC Suppliers					300k 28% (84k)

Note: Details on the product sourced by each of the segments from the retailer junction appears in this table. This was not included in Figure 11.5, though it could quite easily have been. Additional rows are not required at the supplier junction because this junction is the final source of the product.

Table 11.4 Fully detailed quantification of a market map in tabular form

Market size: 300k	A Final users	***Sourced through***									
		B Contractors	C Retailers			D Distributors			E Suppliers		
	AA–AD Segments	BA Contractors	CA General	CB Specialist	CC Sheds	DA Regional	DB National	DC Local	EA 'Big 3'	EB Regional	EC Other
AA Segment 1	55k 36% (20k)	55k 36% (20k)	–	–	–	–	–	–	–	–	–
AB Segment 3	45k 42% (19k)	20k 50% (10k)	3k 67% (2k)	22k 32% (7k)	–	–	–	–	–	–	–
AC Segment 4	60k 40% (24k)	–	7k 29% (2k)	43k 42% (18k)	10k 40% (4k)	–	–	–	–	–	–
AD Others	140k 15% (21k)	–	25k 24% (6k)	–	70k 16% (11k)	–	–	–	25k 16% (4k)	20k –	–
BA Contractors		75k 40% (30k)	–	–	–	5k 60% (3k)	10k 20% (2k)	–	45k 56% (25k)	15k –	–
CA General			35k 29% (10k)			7k 71% (5k)	10k 30% (3k)	18k 11% (2k)	–	–	–
CB Specialist				65k 38% (25k)		23k 43% (10k)	25k 20% (5k)	7k 71% (5k)	10k 50% (5k)	–	–
CC Sheds					80k 19% (15k)	–	–	–	65k 23% (15k)	15k –	–
DA Regional						35k 51% (18k)			25k 72% (18k)	5k –	5k –
DB National							45k 22% (10k)		40k 25% (10k)	–	5k –
DC Local								25k 28% (7k)	15k 47% (7k)	5k –	5k –
EA–EC Suppliers	300k 28% (84k)								225k 37% (84k)	60k –	15k –

Note: The company whose share is being measured on this map is one of the 'Big 3' who, between them, supply 75% of the market.

have a column for each of their junction types, including the suppliers if you choose to extend the detail to them. This would result in, for example, a total of three columns appearing for distributors, with each distributor type coded the same as it was in Table 11.3. This fully detailed quantification of a market map in the tabular form appears in Table 11.4.

Leverage information can be added to Table 11.4 in the 'grid squares' as for Table 11.3 or by adding an extra column along the lines already described.

Chapter 11 review

This chapter provides guidelines on how the information on the market map developed as part of the segmentation process can be enhanced, as market maps are a very strong visual device for illustrating your own company's performance and resource allocation in the market. They can also be used to illustrate the activities of competitors in the market and be redrawn to present the predicted structure of the market at the end of your planning period.

We began with a brief review of the market maps developed in Chapter 5 and suggested that the first enhancement could be the inclusion of your company's share of business at each of the various stages ('junctions') and routes along the map, with a further addition at each junction of the number of companies/customers that are found there.

Next, we moved on to extending this detail to the different types of companies/customers found at each of these junctions, pointing out that it would now be appropriate to introduce segments into the map and include all the outlet and channel details that have been pulled together for each segment.

The final enhancement we put forward was the addition of decision-making information ('market leverage') for the different types of companies/customers on the map. We also pointed out that showing the company's allocation of resources on this detailed market map, along with those of your competitors, and projecting this picture into the future was an extremely valuable exercise.

Throughout the chapter we noted that informed estimates would probably be required for a number of these enhancements, though many could probably be refined at a later date using insights gained from any follow-up work generated by the segmentation project.

Examples

The following are a selection of market maps pulled together by various companies as part of their segmentation projects. The level of information they contain is varied. All have been edited for reasons of commercial confidentiality.

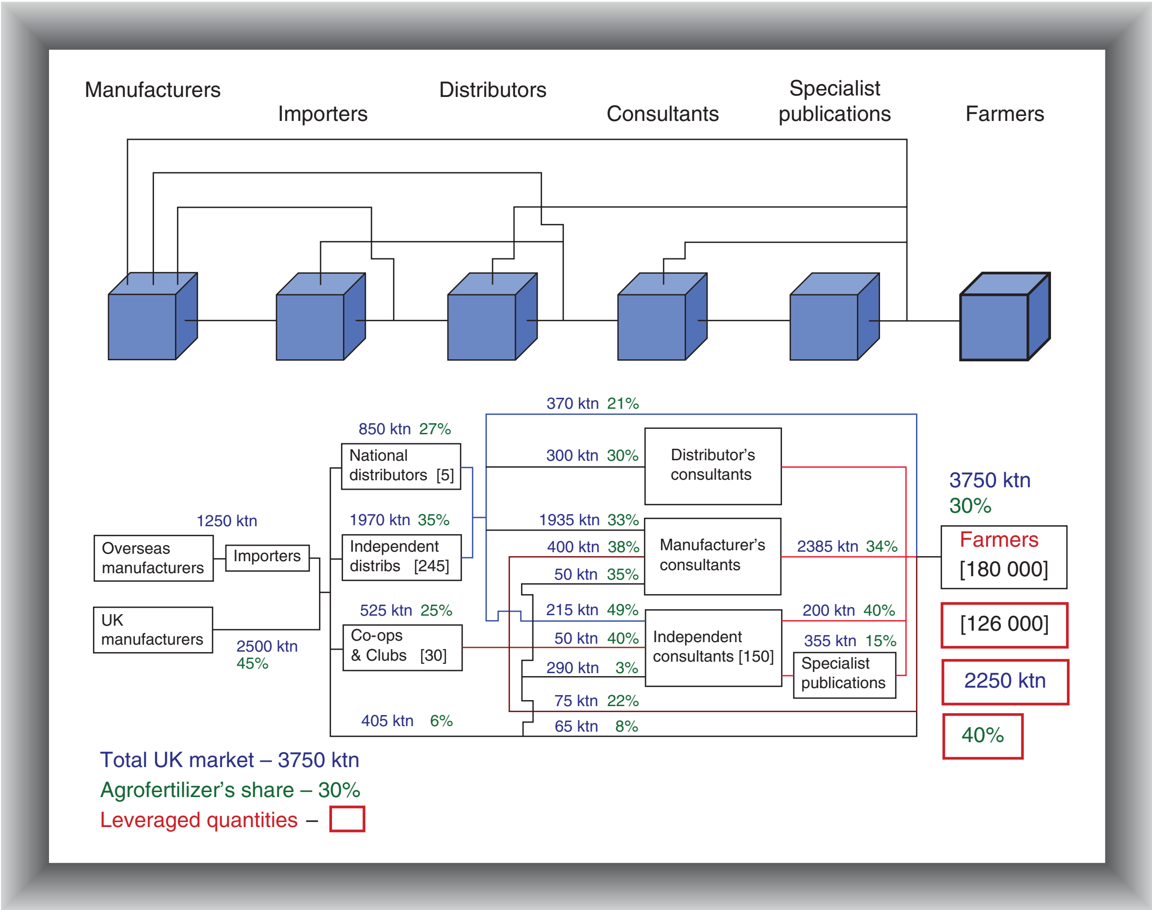

Figure 11.8 Detailed market map example – Agrofertilizer Supplies
Note: Only the leverage figures for the final users are illustrated on this market map, which also includes an estimate of the number of farmers who decide on which fertilizer will be bought [126,000]. The quantities are kilotonnes (ktn) of fertilizers.

Example 11.1

The example in Figure 11.8 is for the case study, Agrofertilizer Supplies.

Example 11.2

Figure 11.9 is for a market whose needs are currently met through the use of very expensive, specialized technical equipment. This equipment is found both in large companies and in specialist, smaller companies. It is a development of the map in Chapter 5, Figure 5.20, and now has the technicians and final users separated into two distinct junctions whereas they were originally combined into one junction.

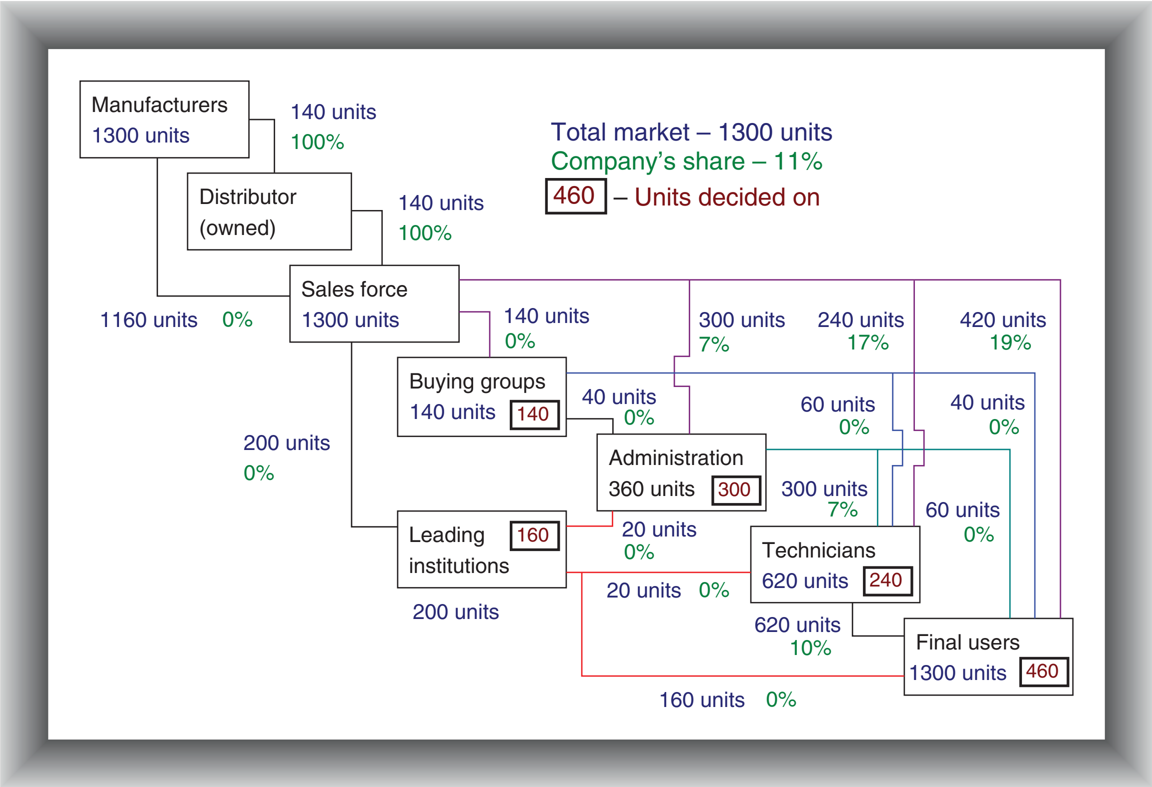

Figure 11.9 Detailed market map example – specialized technical equipment
Note: The quantities, expressed as units, are pieces of equipment bought.

Example 11.3

The next example, Figure 11.10, is an extract from the market map developed by a company supplying a particular type of equipment for use in offices. The purpose of this extract was to illustrate the discrepancy between the company's established routes to market and the routes to market used by the final users.

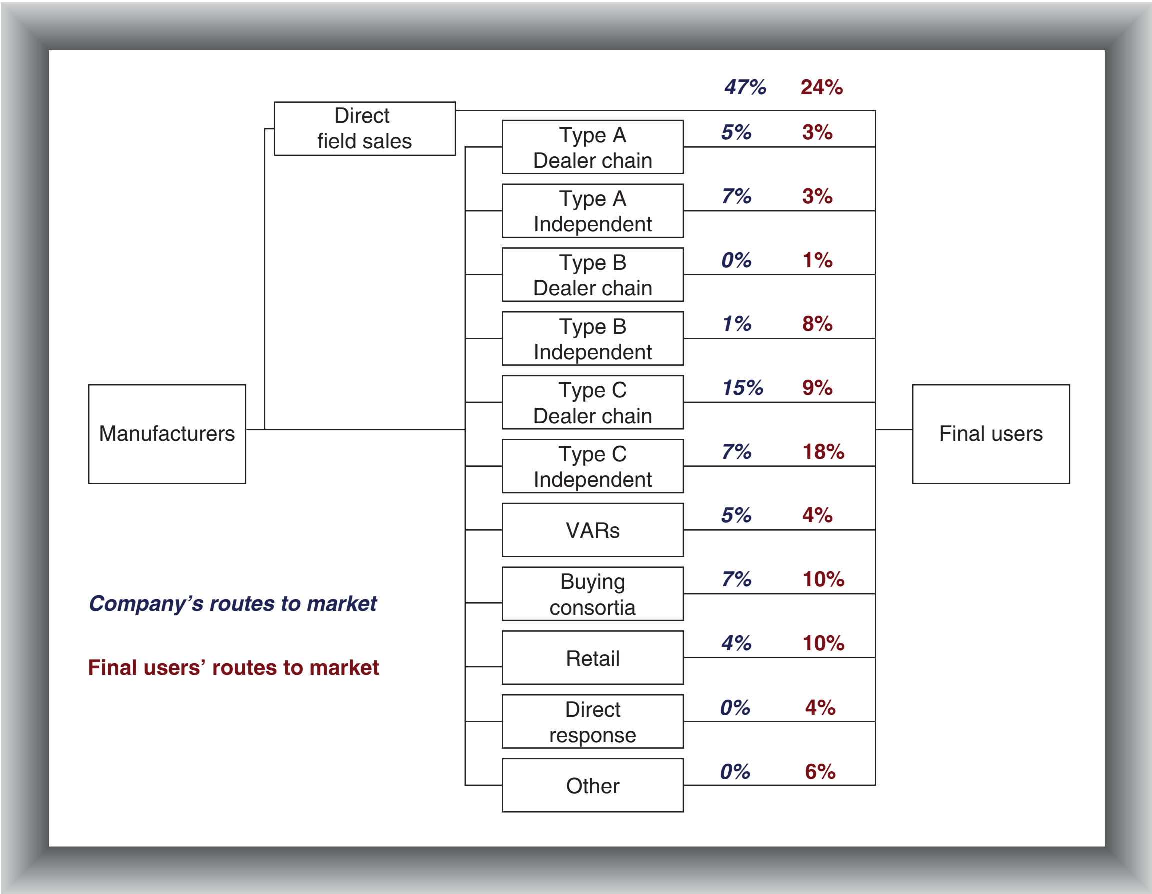

Figure 11.10 Detailed market map example – comparing a company's routes to market with the routes used by the final users

Note: The impact of this finding on the company's distribution policy was substantial, with a major switch of resources from direct field sales to a number of other routes to market, with a particular emphasis given to direct purchases which were forecast to grow rapidly.

Example 11.4

The final example in Table 11.5 is for a company manufacturing items that are installed both in commercial and domestic premises. This company preferred to use the tabular format and their first look at the map for their market appeared in Chapter 5, Table 5.3. The two percentages shown in each grid square relate to the market shares held by the company's two brands sold in this particular market. The first of these percentages relate to their premium brand which had an overall share in the market of 41%. The company's second and less expensive brand had a further 17% share of the market.

Table 11.5 Detailed market map example in tabular form – items installed in premises

Market size: 3275	A Final users	*Sourced through*										
		B Consult.	C Installers				D Distributors				E Suppliers	
	AA – AC Types	BA Consult.	CA In-house	CB National f	CC Local ind	CD Contract.	DA National	DB Large ind	DC Small ind	DD Sheds	EA Domestic	EB Importers
AA Residential	2015 40% 18%	–	–	220	1235	515	–	–	–	45	–	–
AB Public	720 43% 16%	30	125	30	235	300	–	–	–	–	–	–
AC Comm'l	540 44% 16%	300	–	30	180	30	–	–	–	–	–	–
BA Consult.		330 44% 16%	30	20	100	180	–	–	–	–	–	–
CA In-house			155 42% 17%				75	80	–	–	–	–
CB National f.				300 50% 18%			190	110	–	–	–	–
CC Local ind.					1750 37% 15%		670	855	225	–	–	–
CD Contract.						1025 48% 17%	610	290	125	–	–	–
DA National							1545 70% 21%				1545	–
DB Large ind.								1335 18% 13%			995	340
DC Small ind.									350 11% 4%		175	175
DD Sheds										45 0% 0%	–	45
EA–EB Suppliers	3275 41% 17%										2715 49% 21%	560 –

Key: 'Comm'l' – Commercial; 'Consult' – Consultants; 'In-house' – In-house engineering; 'National f' – National fitters; 'Local ind' – Local independents; Contract. – Contractors; 'Large ind' – Large independent; 'Small ind' – Small independent; 'Domestic' – Domestic manufacturers.

Note: In addition to information about their own brands, the company also had information about the brands of their domestic competitors, though this information was limited to transactions by the distributors. This, however, enabled them to draw up a further table which illustrated sales by brand through the different types of distributors. The quantities are in thousands of units. The first percentage in each grid square relates to the company's premium brand, the second percentage relates to their less expensive brand.

12 Predicting channel transformation

Summary

We live in a time of rapid innovation. Companies have had to learn, and some still need to learn, how to move beyond the continuous, minor innovations at which they are expert towards the step-change innovations now demanded by the business environment.

While product innovation continues apace, with the internet giving many opportunities for providing digitizable products and surrounding services remotely, we believe that a dominant business theme of the next 10 years, as it has been over the last 10 years, will be innovation in the route to market – the channels by which the customer is communicated with the product delivered. New technologies are forecast to revolutionize both the 'new age' channels, such as Web, e-mail, text and mobile voice, and the 'traditional' channels of face-to-face and landline voice. Increasing bandwidth, common messaging standards and enhanced network capability for the mobile customer are already contributing to this. Companies such as Direct Line, First Direct, easyJet, eBay, Amazon and IBM all compete by exploiting IT-enabled remote channels to add value, reduce costs, or both.

A reminder: Because there is not a general consensus on the distinction between customers and consumers, this book subsumes both under the title of 'customer'.

How organizations should respond to the opportunities and threats of these IT-enabled channels and use them to build profitable customer relationships, is the subject of this chapter.[1] Having segmented the market and understood customer needs, we now need to consider such questions as which channels to use for what segments, and how different channels should work together to meet customer needs. A channel strategy will only succeed if it takes into account the needs of the segment it is designed to serve.

This chapter is organized as follows:

- An overview of the process for multichannel strategy formulation
- A discussion about the possible configurations of future market maps

(*Continued*)

[1]The authors are grateful for the substantial contributions of Professors Elizabeth Daniel, Hugh Wilson, John Ward and Adrian Payne to this thinking on planning for IT-enabled channels.

- Matching channels to the different stages of the customer's purchasing process
- How to assess the value of alternative channels against the needs of different segments
- Channel options and selecting between channel possibilities
- A review of some of the issues that may need to be addressed for the successful implementation of new channel tactics
- A review of the chapter
- Exercises further to help you with future market mapping

Multichannel strategy formulation

The dotcom euphoria and associated stock market bubble of the twentieth century, fuelled by the conviction that 'clicks' would readily replace 'bricks', could not carry on indefinitely, and it duly collapsed early in 2000. With it, the prevailing attitude towards channel innovations using this high-profile channel also seemed to change.

Marketing insight

The 'just do it' rhetoric of first-mover advantage, internet years and the new economy in 1999 was supplemented by a rediscovery of the language of profit, customer satisfaction and return on investment, and a recognition of the need to safeguard hard-won brand values from being diluted by rushed channel initiatives.

We face similar challenges today in the second decade of the twenty-first century. A raft of new channels such as YouTube, iPhone and social networking sites, such as Facebook and Twitter, are encouraging marketers once again to make knee-jerk reactions in response.

If the stagnating dangers of planning based on extrapolation of the past are not to be replaced by fashion-led, highly expensive channel experiments, some kind of synthesis is needed, in a process which endeavours to allow for channel creativity and which is applied flexibly and without dogmatism.

Definition: Multichannel is the use of a number of routes to market, in an integrated fashion, to provide access to an organization for the customer.

In this chapter, we will address this need by working through a process for '**multichannel**' strategy formulation, shown in Figure 12.1. The following sections describe each stage in the process, and present diagnostic tools for performing the stage.

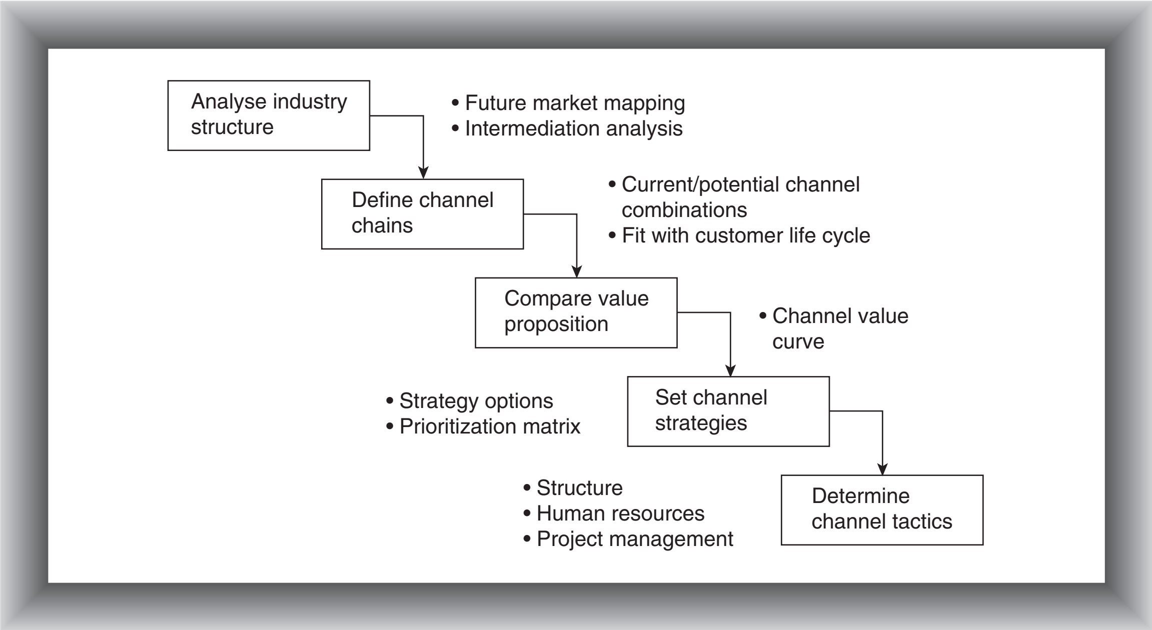

Figure 12.1 A process for multichannel strategy formulation

The process outlined in Figure 12.1 draws extensively on existing planning processes and tools, but differs from them particularly in the following respects:

1. **The emphasis on evolving industry structures:** Many planning methods skip from an understanding of the industry's current structure, perhaps supplemented with political, economic, sociological and technological (PEST) analysis and lists of opportunities and threats, to the issue of how the organization should position itself within that structure. Our industry structure analysis stage adds the important step of predicting how the industry structure itself is likely to be changed as a result of channel initiatives, quite independently of what position the planning organization takes towards potential new channels.
2. **The analysis of how channels combine to serve customers through their life cycle:** Rather than simply looking up the relevant chapter of a marketing textbook corresponding to 'the channels we use in our industry', we advocate a creative analysis of how channels might be combined to add customer value, via the channel chain technique.
3. **The adaptation of competitive strength analysis to the problem of channel choice:** Our 'channel value curve' provides an intuitively sensible 'acid test' as to whether a channel innovation will, in fact, succeed.
4. **The adaptation of the directional policy matrix to the evaluation of business models:** Often it is not competitors who compete, but business models. Yet talk about business models can become an

excuse for woolly thinking and endless losses. The variant on traditional prioritization matrices we outline allows the right business model to be chosen to best meet the channel needs of customers as well as the organization's objectives.

Future market mapping: analysing industry structure

There is little point in making decisions on what channels to use until the future shape of the whole industry has been considered.

There is clearly little point in making decisions on what channels to use until the future shape of the whole industry has been considered. Therefore, once a market map of the current market structure has been developed, it is necessary to consider what factors are likely to change the flow of goods and services through this map. E-commerce is clearly one such major factor.

Any analysis of forces affecting industry competition often proves very useful for generating ideas on what changes might occur. With respect to this, Wilson *et al.* (2008) identify three strategic criteria that could require changes to the channel strategy of a business:

1. The need to reduce the cost to serve customers, more often than not triggered by competition from new or renewed competitors.
2. The recognition that improved customer experience is an important driver of revenue growth and channel strategy has a significant impact on this experience.
3. The most appropriate channel model to extend or sustain access to your chosen target segments has changed.

Epitomizing the first of these three criteria is the entry of low-cost carriers into the airline industry such as easyJet and Southwest. Their direct sales models forced many traditional carriers to move to a similar model, as well as adopt other lower-cost strategies in check-in and marketing. These innovative new entrants changed the whole value equation of the airline industry causing many customers to question the real value of the fares they were used to paying.

Improved customer experience, the second of the three strategic criteria, is one of the principal reasons why banks, automotive companies and utilities are investing in integrating their channels in order to create a more timely and seamless service through outlets, telephone, the Web and third parties. Such investment does not always result in lower costs, but the improvement in customer experience fuels revenue growth and reduces competitive vulnerability. The ideal, of course, is to improve customer experience *and* reduce costs, an outcome often seen in the service sector and public sector where this has been achieved by e-enabled services in local and central government. The direct sales model adopted by Dell not only enabled the company to offer PCs at a lower cost compared to the competition but also enabled it to offer tailored specifications which enhanced the customer experience.

The third strategic criteria, namely to extend or sustain access to your chosen target segments, is, of course, the basic reason for having a channel strategy in the first place. All too often, however, the established channel model falls out of alignment with the distribution and value added chains now operating in the market and with the trends that are already in place. We saw in Chapter 11, Figure 11.10, how one company's routes to market had fallen behind changes in the way customers operated. This required a major shift in the company's resources from direct field sales to other, previously neglected routes to market. Numerous retailers, banks and insurance companies have had to adopt new channel strategies in order to retain access with their chosen target segments, as have industrial, technological and business services organizations.

The purpose of analysing the forces affecting your industry is, however, to anticipate new competition or a significant consumer shift and then adopt a pre-emptive channel strategy to counter these changes. For example, to avoid the possible erosion of share in its highest-value segment, the cash-rich and time-poor family, Tesco added a web-based home-delivered shopping service to its mainstream large-space chain, the first UK supermarket to do so. This target segment now makes extensive use of the Tesco.com channel.

The ideas that come out of this analysis of how the industry is changing can be fed into a redrawn future market map.

We saw in Chapter 5 how to annotate a current market map with flows of goods and services and made the point that one of the four principal components of a market map is the inclusion of information sources. As Evans and Wurster (1997) pointed out, physical and information flows together represent the value added by each step in the chain. We can then consider whether these components of value can be better provided by a different configuration of the map.

A reminder: The four principal components of a market map are final users, the channel, suppliers and sources of information.

E-commerce has already unbundled the car dealer's role, and one possible way in which the car dealer's role might further become unbundled in future, for example, is shown in Figure 12.2.

Recent innovations such as direct car sales by manufacturers, and sales by web-based intermediaries such as Autobytel (a subsidiary of Inchcape PLC), have begun to experiment with these kinds of changes. Which of these experiments proves permanent is, of course, another issue; but drawing market maps of this sort can help a management team flesh out the possible options and identify the relevant opportunities and threats.

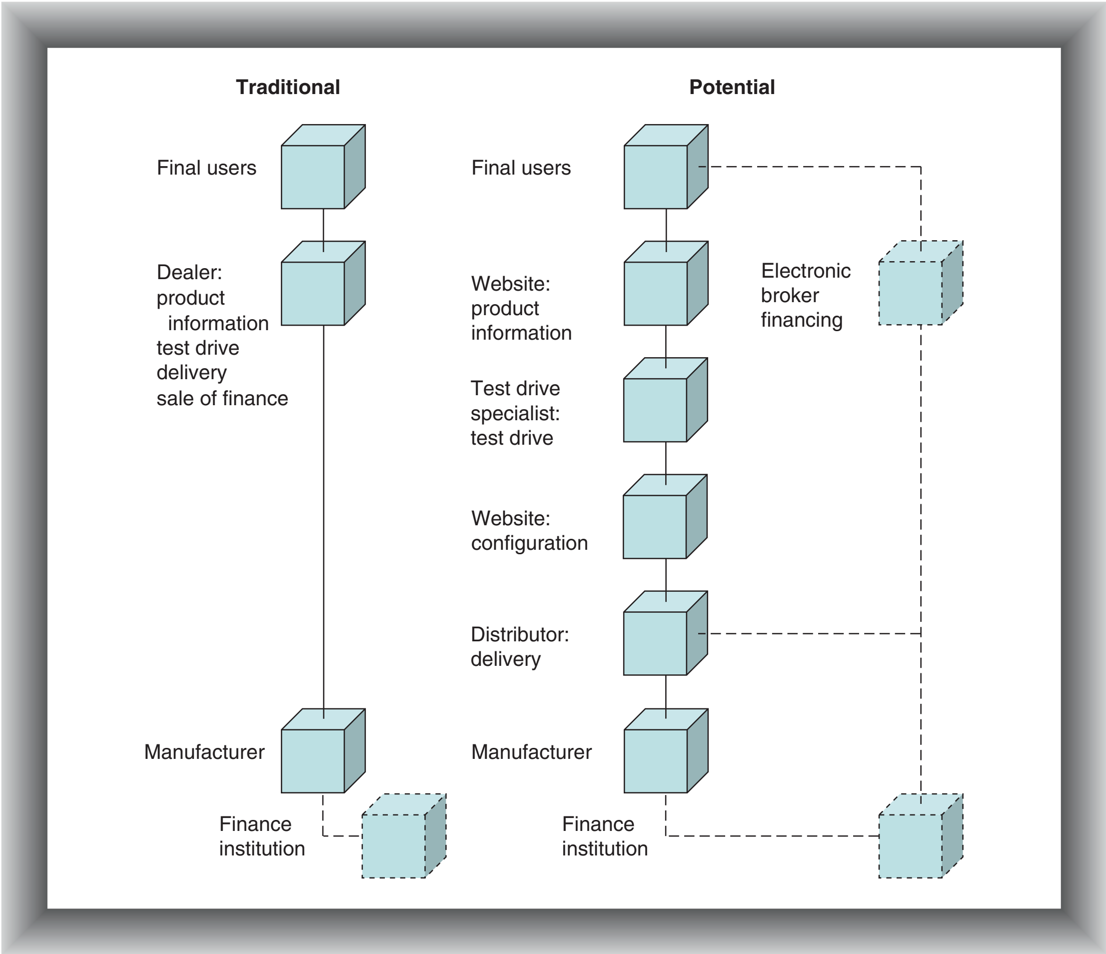

Figure 12.2 Traditional and potential market maps in car retailing and related financing

New channels

There are five main ways in which the market map can be reconfigured:

1. **Substitute/reconfigured products**. A new channel may enable the underlying customer need to be satisfied in a different way ('substitute products'). E-mail and text messaging, for example, can substitute for physical post, providing a threat to paper manufacturers, stationers and post offices, while online distance learning and e-book reading devices provide a challenge to book publishers. Or customer needs may be bundled into different product configurations ('reconfigured products'). To illustrate, the newspaper is a bundled product providing job advertisements, weather information, news, person-to-person advertisements, and so on for a bundled price. It is now competing with internet services which either simply offer one of these components – such as customer auction sites – or in other cases, combine some aspect of the value provided by newspapers with other types of value – an example being portals. A portal such as Yahoo! meets some of the needs met by a newspaper, such as the day's news, and acts as a gateway to others, such as weather and auction sites, while also

satisfying further needs not covered by the newspaper through the ability to search the Web. It can be seen that reconfigured products add complexity to the planning process, as two market maps from different industries may 'collide' and need to be considered together.

2. **Disintermediation**. As with other IT-enabled channels such as call centres, e-commerce can enable a link to be removed from the market map, by removing intermediaries whose primary function of information or content transfer can be more effectively performed by other means. Examples are telephone and internet banking; direct purchase from clothes manufacturers via websites; online music downloads; and the bypassing of sales agents and distributors by some consumer goods manufacturers who are selling direct to retailers.

Definition: Disintermediation is the bypassing of an agent, distributor, or other intermediary with a direct sales channel.

3. **Reintermediation**. In some cases, a previous intermediary is replaced by a new online intermediary, rather than bypassed, or an intermediary appears between two types of organization which previously dealt with each other directly. Online sites which automatically search for the cheapest car insurance are competing with telephone-based brokers, which in turn caused the demise of the Automobile Association's high-street shops in the UK. In some industries, business-to-business exchanges, or e-hubs, are linking retailers to manufacturers. General Electric's TPN Register provided an early successful example of an online marketplace between suppliers, on the one hand, and General Electric and its partners, on the other. Healthcare portals are a further example, forming influential intermediaries between manufacturers of products with health claims and customers.

Definition: Reintermediation is the introduction of an electronic marketplace or other intermediary between customers and suppliers who previously traded directly.

4. **Partial channel substitution.** This forms a halfway house towards disintermediation, in which an intermediary's role is reduced but not eliminated, through some of its value being provided remotely by the supplier to the intermediary's customer. Websites such as those of car manufacturers may build a brand and provide customer information while pointing customers to traditional outlets for actual purchase. This is the model adopted by a card manufacturer in its relationship with retailers, where its website is supplementing its agent network rather than replacing it. Similarly, a drinks manufacturer is using data gleaned from its information exchange with distributors to promote directly to retailers, providing 'pull-through' demand which the distributors perceive as of mutual benefit.
5. **Media switching/addition.** Finally, the organizations which form the various steps in the chain to the final user may remain the same, but communication between them may be partially or fully switched from one medium to another. The many examples of this, the simplest type of transformation of the market map, include First Direct's addition of text messaging to its internet and telephone services, Dell's addition of the internet (and, more recently, retailers) to its other means of communicating with customers, and electronic components distributor RS Components, which has similarly added a web channel to its dominant telephone sales model, while still selling to the same customers. In the public sector, the filing of certain statutory returns in the UK is on course to being fully switched from paper to online filing.

Predicting what reintermediation will occur is particularly difficult, as the possibilities are numerous. Will a given relationship – say, between confectioners, tobacconists and newsagents (CTN) stores and the manufacturers of the goods they sell – be a direct one? If so, will the shops buy from a range of suppliers' websites, or will the suppliers respond to tender requests provided electronically by shops? Or will there be a new intermediary acting as a marketplace between the two? As shown in Table 12.1, the various possibilities can be placed in an approximate order, from suppliers' websites (such as Japan Airlines, which puts out open invitations to tender to suppliers), at one extreme, to vendors' websites (such as *Harvard Business Review* (HBR), which provides an online version at a cost) at the other.

Neutral marketplaces are midway between the two. An example is an auction site, which is tied neither to the buyer nor the seller. Somewhat closer to the vendors are intermediaries such as Broadspeed, which passes on leads to a local car dealer. A more buyer-oriented intermediary we have already referred to is TPN Register: set up by a consortium of buyers, it acts to ensure that they gain low prices through economies of scale, as well as gaining efficiencies in processing costs.

Which type of intermediary becomes the dominant trading mechanism depends on the number of vendors and buyers, and their relative power.

Which of these possibilities becomes the dominant trading mechanism in a given relationship depends on the number of vendors and buyers, and their relative power.

Table 12.1
Types of intermediaries

Website ownership	***Intermediary type***	***Examples***
Vendor controlled	Vendor website	Ernst & Young, HBR
Vendor oriented	Vendor-run community	Cambridge Information Network
	Consortium distributor	thetrainline
	Vendor's agent	Chemdex
	Lead generator	Broadspeed
	Audience broker	DoubleClick
Neutral	Market maker	eBay, FastParts, Priceline
	Shop	RS Components, Blackwell's
	Mall	msn.com
Buyer oriented	Purchaser's agent	CompareNet
	Purchasing aggregator	TPN Register, Covisint
Buyer controlled	Buyer website	Japan Airlines

Marketing insight

Where there are few buyers and many suppliers, or buyer power is great, the market will tend towards either individual buyer websites or buyer-oriented intermediaries such as the Covisint exchange set up by several car manufacturers. Conversely, a small number of suppliers selling to large numbers of customers will have the power to control the market through their own websites, or through supplier-oriented consortia.

Large numbers of both suppliers and buyers will tend to use a neutral marketplace to reduce the search and transaction costs of both parties, though a supplier with a particularly strong brand and/or product differentiation, such as *Harvard Business Review* or the medical journal *The Lancet*, may choose not to participate in such marketplaces.

Reconfiguring the market map

To reconfigure the market map, therefore, we need to consider the potential effect of each of our five broad changes in turn. In each case, we need to:

1. sketch the effect of the change on the market map, indicating who will now provide the various aspects of value previously received by the final user;
2. consider whether the value received by the final user, in benefits minus costs, is greater with the new structure (for each segment);
3. if the effect is positive for some segments, incorporate the transformation in a revised market map.

Whether we regard the effect on customer value as positive depends on the organization's positioning within the relevant market. In terms of Michael Porter's (1985) three generic strategies (low cost, differentiation or niche), this will imply:

- for low-cost strategies, an approximate parity needs to be ensured on non-price buying criteria, while beating the competition on price;
- for differentiation strategies, excellence needs to be ensured on one or more value-related criteria, while ensuring approximate parity on others;
- for niche strategies, strength needs to be high on criteria important to the target niches.

Table 12.2 contains some additional questions for disintermediation, partial channel substitution and media switching/addition.

This process may seem complicated, but in practice it is possible to develop a good enough future market map in a couple of workshops. A simplified example from a UK groceries company is shown in Figure 12.3.

Table 12.2 Evaluating potential changes to the market map/value chain

Type of reconfiguration	*Additional questions*
Disintermediation	Does the removal of an intermediary improve physical flows? If so, can information flows or other value-adding services provided by the intermediary be as effectively handled by others in the chain? Can the flow improvements be translated into enhanced value for the final users?
Partial channel substitution	Does the addition of an internet or mobile communication channel improve information flows (for example, cheaper or more appropriately timed communication with the customer)? Can the relationship with the intermediary be redefined to deliver mutual benefit?
Media switching/addition	Within the current structure, can the internet or text messaging reduce costs or add value for some communications?

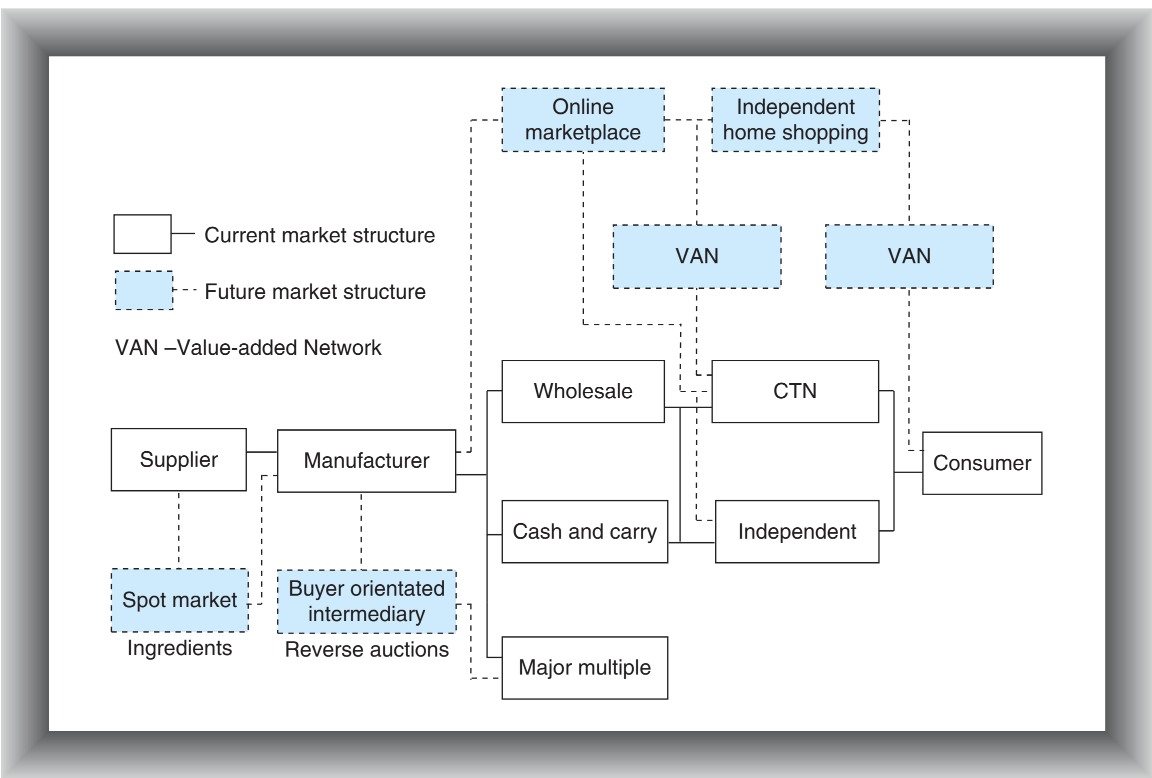

Figure 12.3 Reconfiguring the value map – groceries

The current market structure, represented by the unshaded boxes, involves manufacturers reaching customers via a combination of the major multiple supermarkets, independent stores and confectioners, tobacconists and newsagents (CTN) stores. Our analysis suggests that because the major multiples are few in number and hold considerable buying power, their relationship with manufacturers will either continue to be a direct one, using purchasing systems dictated by the multiples, or will be mediated by a buyer-oriented intermediary, as shown in the potential future structure represented by the shaded boxes.

The many-to-many relationship between manufacturers and independents or confectioners, tobacconists and newsagents, though, needs a more neutral intermediary, such as is provided currently by wholesalers. We predict a similarly neutral online intermediary succeeding here, either through a new entrant start-up or through media addition by a wholesaler. Likewise, the relationship between manufacturers and suppliers is likely to include a neutral spot market for commodity ingredients. These predictions appear consistent with industry developments to date.

Towards a future market map in financial services

An example of a possible reconfigured market map is given for retail financial services in Figure 12.4. Although this does not go as far as a fully completed future market map, the shaded annotations suggest ways in which the map might change in the future as a result of e-commerce.

Predicted changes include:

1. **Fund managers go direct.** Fund managers may find that e-commerce makes it easier to sell their products directly to customers. The simplification and transparency of pricing being encouraged throughout the industry should help customers feel more comfortable buying products directly: in fact they may prefer this route since they will not be swayed by an agent who is receiving a large commission for their advice. The ability for fund managers to present clear and easy-to-understand information about their products and their performance online should encourage such direct sales.
2. **The customer becomes the configurer.** Using e-commerce, customers may be able to configure their own investment products from suppliers. Currently this would be time consuming and configurers have the significant amount of regulatory knowledge which is necessary to undertake this function. However, e-commerce applications that contain this regulatory knowledge as ‘rules’ could allow customers to undertake this function themselves.
3. **There is a blurring of industry and customer information.** Currently information provided to agents and other professional advisers in the market is quite distinct from that provided to customers. The former is more detailed and may require specialist knowledge to understand. However, there are already signs of the distinction blurring, with insurance exchanges that have traditionally been wholesale or trade exchanges now providing e-commerce routes to the final users.
4. **Affinity groups may become trusted portals.** Customers in the online world may ‘join’ communities of interest, such as ThirdAge.com,

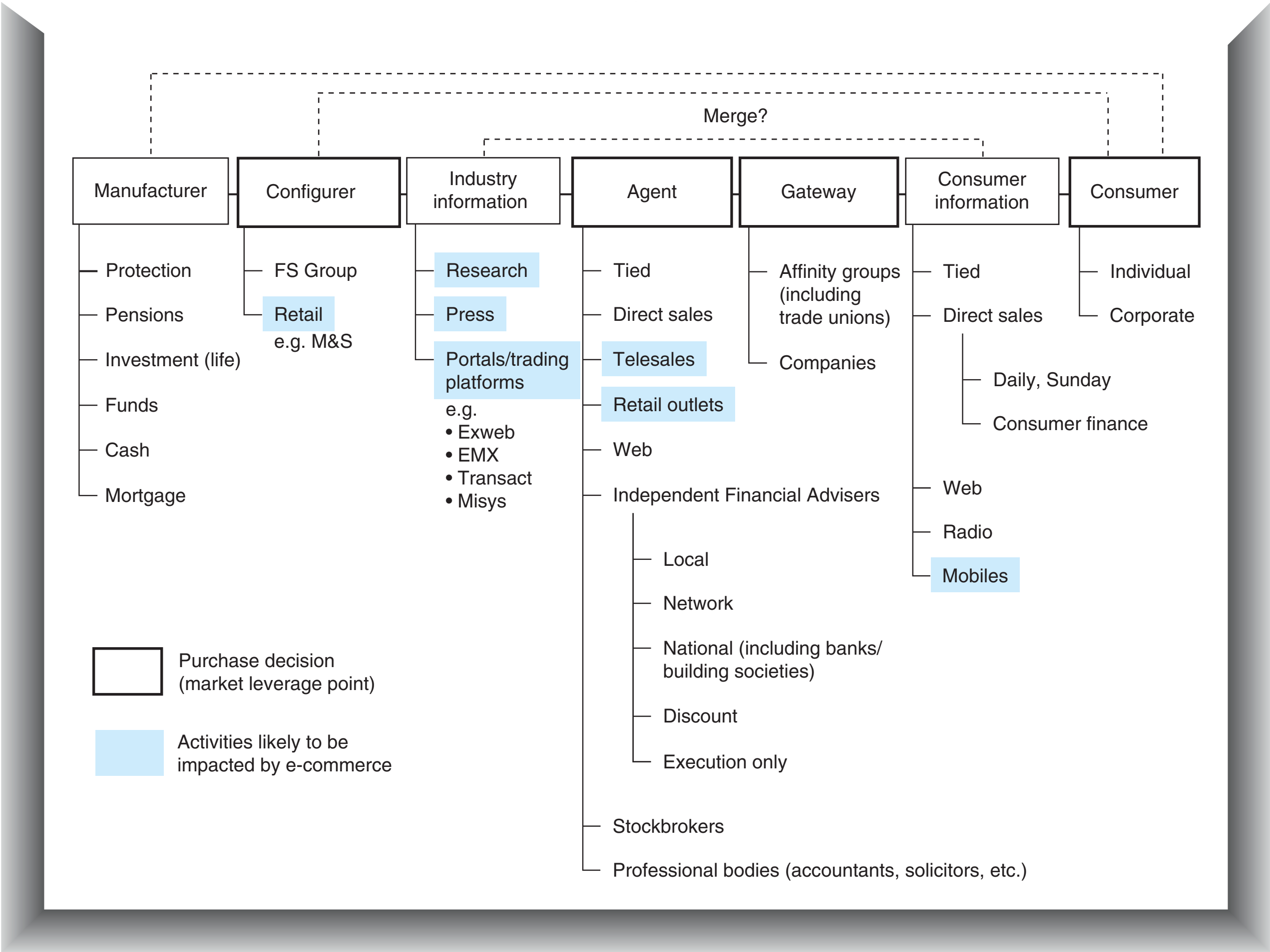

Figure 12.4 Long-term investment – future market

a community for the 'baby boomers' (those born between 1946 and 1964). These communities may be the route that many choose to buy goods and services online.

5. **There is a 'dumbing down' of advice.** Currently many people wishing to buy investment products turn to a trained, regulated financial adviser. With e-commerce a rise of electronic agents offering advice is likely. These will be rule-based algorithms that base product recommendations on the answers to a few simple questions. However, there is a chance that such systems are oversimple and will miss subtleties in the client's situation, and hence result in the wrong product being bought.

6. **E-commerce results in greater product switching.** The ease of purchasing products via e-commerce, particularly with interactive TV that provides for flow-through sales, may lead to greater impulse buying and hence greater switching when a customer realizes that they have bought an unsuitable product. While sophisticated customers may gain, others could lose financially if they withdraw prematurely from products aimed at long-term investment. This is not only unsatisfactory for customers but also for suppliers since they will face a significant administrative burden which they will need to streamline in order to cope. 'Cooling off' periods for distance and online sales during which customers have an unconditional right to cancel a contract have been introduced to protect customers from such losses.

7. **E-commerce may cause cycles in customers' buying patterns.** In the short term, many online customers may be tempted to buy direct from manufacturers. However, after time they may find that they made the wrong decision, have made a lot of money and now want to protect it or are suffering from information overload. These factors will cause them to go back to using advisers in their investment decisions.

   Another factor resulting in a cyclic approach to financial advice is that of market conditions. Advice is often seen as less important in a rapidly growing bull market, since anyone can invest and make money. However, as markets begin to slow down, or drop significantly as they did during 2008 and the first few months of 2009, customers' confidence is reduced and they return to sound sources of advice.

8. **Smaller players are more nimble.** Evidence of this in the investments market is already being seen with small independent financial advisers (IFAs) adopting e-commerce services ahead of larger chains.

9. **E-commerce encourages customers to serve themselves, but does not remove face-to-face contact.** By encouraging customers to use online services that require them to register changes of address, or bank details or premium amount, the agent or manufacturer is outsourcing some of the administrative burden to the customer. However, many customers will continue to wish to combine electronic communication with face-to-face contact with advisers in a branch or other outlet, particularly for more complex products or when needing support.

Similar effects of e-commerce are already occurring in other markets.

Whatever the specifics for your own industry, it is clearly sensible to come to a view on the future shape of the market before taking decisions on which channels to use for what purposes. Exercise 12.1 at the end of this chapter suggests some steps for doing this in your own organization.

Multichannel integration: channel chains

In many markets, customers do not use a single channel. Rather, they use a number of channels in combination to meet their needs at different stages of their relationship with the supplier.

Channel chain analysis involves describing which channels are used at which stages of the purchasing process.

Once the future shape of the industry structure has been predicted, we can combine this with what we already know about each segment and the channels they currently use. Here, though, there is a complicating factor. In many markets, customers do not use a single channel. Rather, they use a number of channels in combination to meet their needs at different stages of their relationship with the supplier. To represent the current channel use, we therefore suggest the use of a simple but effective tool, channel chain analysis, which we illustrate in Figure 12.5.

Channel chain analysis involves describing which channels are used at which stages of the purchasing process. We have suggested what these stages might be on the left of the diagram, but you can use whatever stages make most sense in your industry. The channels used to accomplish the stage are listed against each stage. The channel used for one stage will often affect which channel is likely to be used at the next stage, so the relevant boxes are joined with a line.

To briefly explain each stage:

- **Initiate dialogue** covers prospecting and customer awareness, with dialogue being initiated by either party.
- **Exchange information** covers the provision and gathering of information about products and of each party; we need to learn as much about the customer as the customer needs to learn about our products.
- **Commit** refers to customers making their choice and companies closing the sale.
- **Exchange value** covers delivery and after-sales services, often an inherent part of the value being delivered.

A stage not included in the above could be ‘negotiate/tailor’ positioned between ‘exchange information’ and ‘commit’. This would capture a two-way process which may involve us modifying our offer in order to better meet the customer’s needs. A further additional stage could be ‘recognize exchange potential’ which is when both parties recognize that one needs the other prior to any dialogue. One final stage could be ‘monitor’ which would track customer behaviour and experience after receipt of the product at the end of the process. All three of these stages are included in Figures 12.7 and 12.8 which appear later in this section.

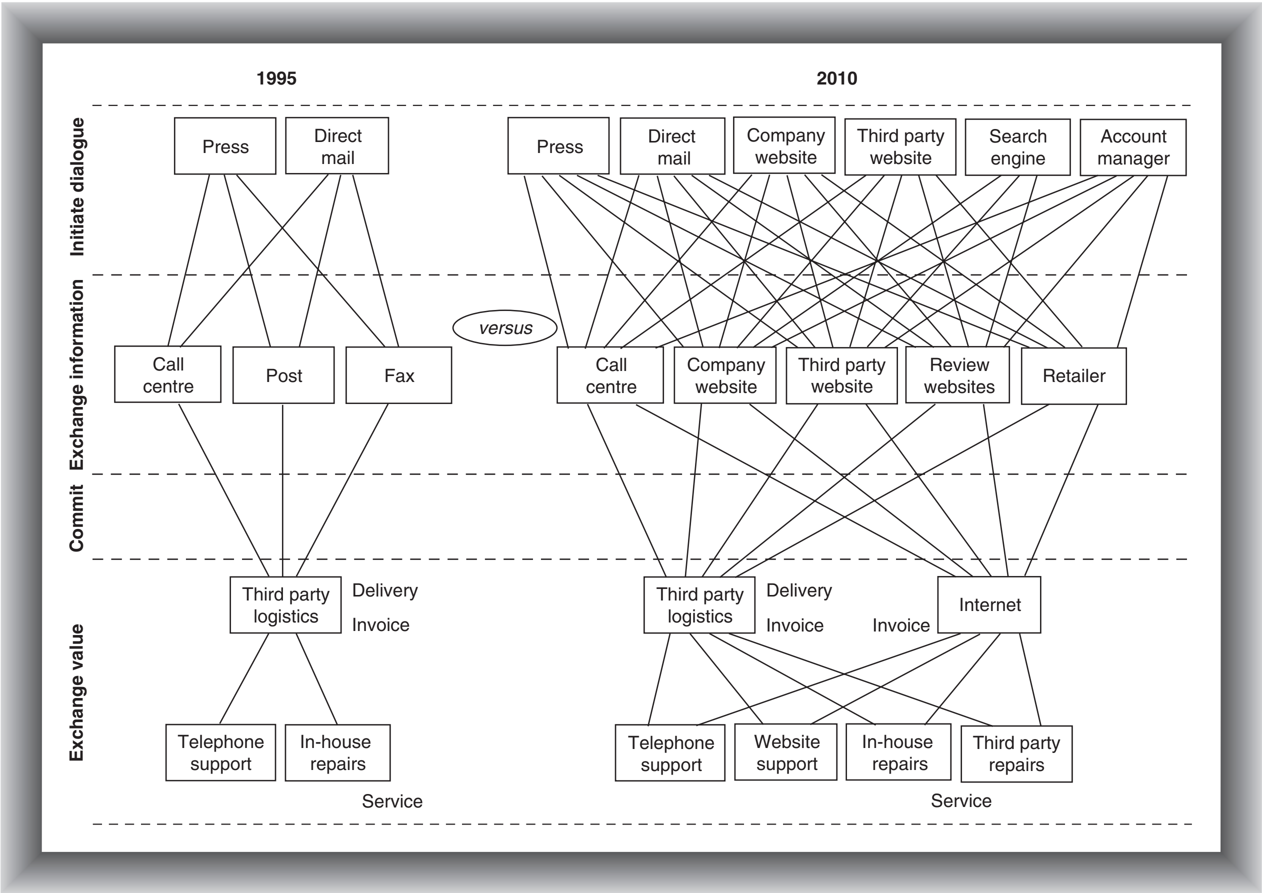

Figure 12.5 Channel chains – the market for PCs in 1995 and 2010
Note: Some hierarchical links have been omitted for ease of presentation. 'Review websites' are where product reviews, supplier reviews and customer reviews are found.

In the example from the business-to-business PC market in Figure 12.5, two of the common channel combinations offered by the various competitors are illustrated. Out of interest, prior to the 1990s most of the large computer companies used the traditional account management approach, when most of the sales process was handled face to face by account managers. Still a model used for larger computers or major contracts, it has tended, though, to be supplanted by other channel chains which offer better channel economics for smaller deals.

The first of these new channel chains was the direct model pioneered by Dell, illustrated on the left of Figure 12.5. Here, press advertising formed the dominant marketing tool, with further information provided by product brochures and call centre staff. The actual order could be placed by a number of means – often a fax or order sent by post by the accounts department.

By 2000, Dell and its competitors had added the internet to the channel mix, which by 2010 had evolved along the lines of that illustrated on the right. However, most of these companies are far from being a 'pure-play' internet provider (the term used in the internet world when referring to a company that uses only this channel). They have account managers for major accounts, who build relationships and negotiate discount levels. The account managers are freed from the details of product configuration and pricing by the website, while the order itself can be placed by post as well as on the web.

Whereas Figure 12.5 presents the overall structure of channel chains for a market, what we clearly need to look at are channel chains by segment, as illustrated in Figure 12.6.

Marketing insight

If we are to successfully encourage customers to move into new channels, we clearly have to base this on the segmentation that helped us understand their needs in the first place.

Two further examples follow channel chains by segment, this time with the channel chains laid out in a tabular form. The advantage of this format is that it clearly presents channel chains that have become quite complex when several channels are involved. The disadvantage is that it does not represent how the channels used by the customer at one stage might affect the channels they are likely to use at the next. Choose the format you feel most comfortable with.

The two examples come from an attempt by a major global travel company to understand the information seeking and purchasing processes of different segments. These are given in Figures 12.7 and 12.8. From these two of seven different segments, it can be seen that the behaviour of each is totally different.

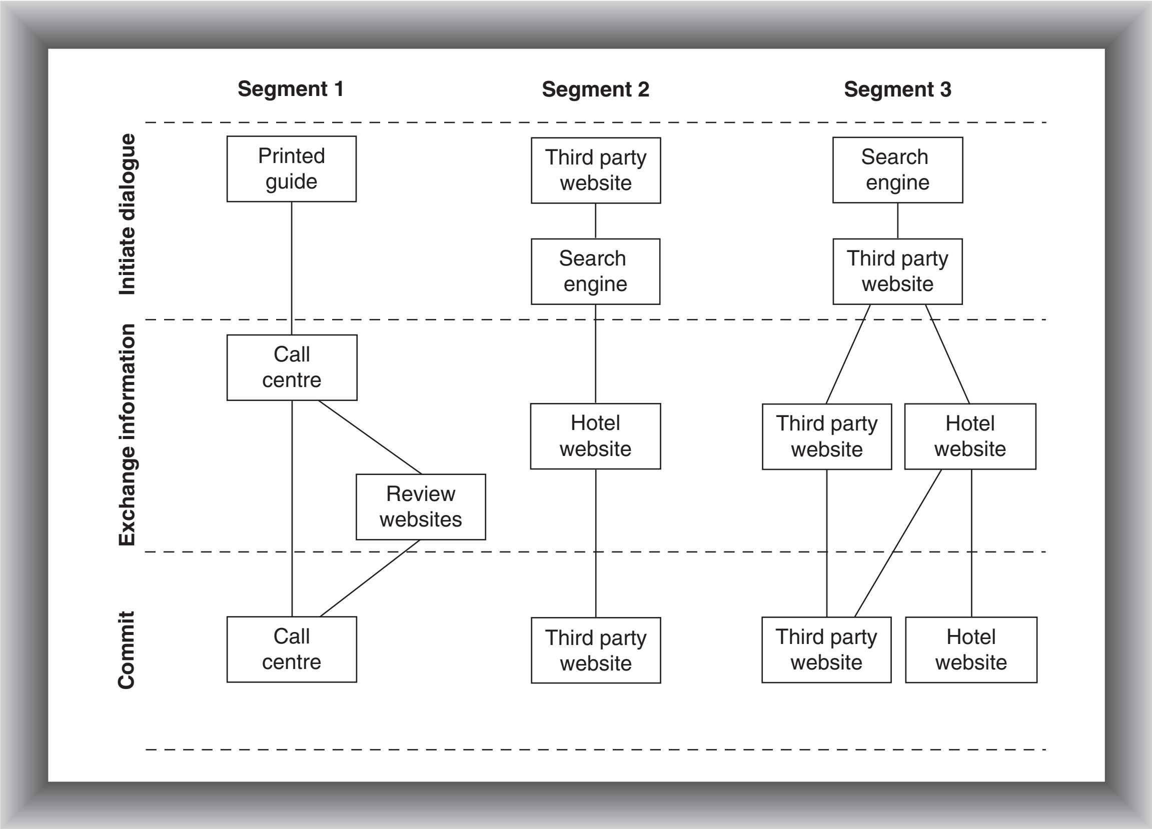

Figure 12.6 Channel chains – hotel chain
Source: Wilson *et al.* (2008). *The Multichannel Challenge: Integrating Customer Experience for Profit*. Oxford: Butterworth-Heinemann. With kind permission.
Note: 'Review websites' are where product reviews, supplier reviews and customer reviews are found.

It is easy to see from these figures that without such segmentation knowledge, an integrated communications plan would be impossible, as, indeed, would *any* marketing programme.

Marketing insight

No targeted communication strategy can be possible without knowing the actual channel behaviour of each segment at each stage of the purchase process. In addition, it is clear that these channel behaviours by segment need to be regularly monitored for changes. Even more important is timely market research which will inform the supplier of likely channel changes to be incorporated into future market maps.

Once you have mapped out each of your segments' current channel chains it is quite possible you could come across some very quick wins.

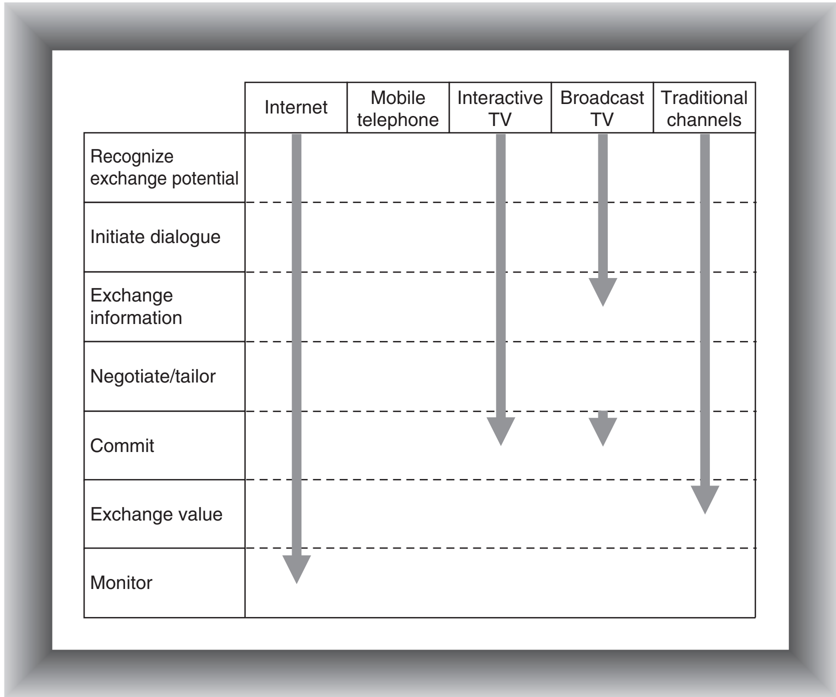

Figure 12.7
Channel chains in tabular form – 'Sunworshippers' segment
Note: Adapted from the originals and used with kind permission. This segment buys package holidays to trusted resorts where they base themselves on the beach or by the hotel pool.

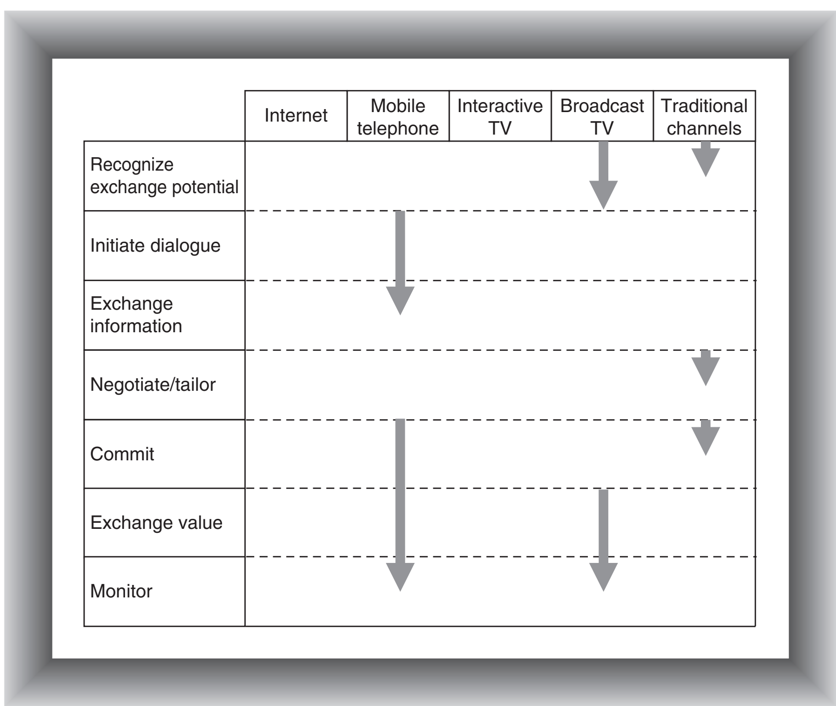

Figure 12.8
Channel chains in tabular form – 'John and Mary Lively' segment
Note: Adapted from the originals and used with kind permission. This segment is interested in traveling further afield and likes to get involved in activities and nightlife.

The particular example in Figure 12.6 is derived from market research conducted by a luxury hotel chain in order to understand how its guests found and booked their rooms. From this research the hotel was able to immediately action some simple changes at virtually zero cost which would encourage more of Segment 3 to book their room on the hotel website.

The research commissioned by the hotel fortunately included questions on why customers were making their channel choices and, crucially, why they made channel switches from one channel to another. To the marketing director's surprise, the main reason why customers in Segment 3 after visiting the hotel's website returned to the third party website to book was because they believed this was how they got a lower price. They were simply switching to obtain better value. These customers were, however, wrong as the hotel always offered the best prices directly.

With this insight, the marketing director was able to make some very straightforward changes on the home page conveying this very basic fact. A year later, research indicated that many of the customers who previously had switched back to the third party website to make their booking were now buying directly, thereby saving the hotel expensive commission payments paid to the third parties.

Returning to the principal theme of this section; different channels, then, are needed at different points in the sales cycle, and different competitors may adopt different approaches. The trick is to offer a channel chain that is appropriate to the differing needs of a company's target segments. It is easy to imagine a fourth, pure-play channel chain which has a low cost structure and is appropriate to certain price-sensitive segments – and, indeed, competitors adopting this approach exist.

The trick is to offer a channel chain that is appropriate to the differing needs of a company's target segments.

Having drawn the channel chains in current use, the next step is to consider possible future channel chains. This requires experimentation with channel chain diagrams to think through not just how the sale is to be made, but also how every other aspect of the customer's needs will be satisfied. Will a mobile phone customer buying over the Web be able to return a faulty phone to a nearby store? Will an e-hub be able to handle not just price negotiations, but also information flows on stock levels, complaints, returns and product development – and, if not, what additional channels will be needed?

As with the industry restructuring which we considered earlier, the acid test as to whether these new channel chains will flourish is whether they represent a better value proposition to the customer. We will return to this topic in the next section.

There is a timing issue to be considered as well. Even if a channel chain offers a theoretically better proposition to customers, they may not yet be ready for it.

Marketing insight

A channel chain innovation, like a product innovation, is likely to proceed along the lines of Rogers' (1962) bell-shaped diffusion of innovation curve.

If one hopes to convert customers to the internet, for example, it is clearly necessary to consider what proportion of the customer base has internet access and how mature their use of it is. We recall one department store which wasted millions on an aborted web service in the mid-1990s because it was simply too far ahead of its market.

As a slightly different alternative approach, Exercise 12.2 at the end of this chapter suggests some steps for considering how channels combine to meet customer needs in your own organization.

Channel choice: the channel value curve

Channel chain analysis may generate numerous possible bases of channel competition.

Marketing insight

In a reasonably pure market, in other words, one which is not too skewed by regulation or monopolistic dominance, successful channel chains will be those which offer the best value proposition to the customer.

At this stage, we need to compare the value proposition across the various potential channel combinations we have identified.

For this purpose, we recommend drawing up a chart as shown in Figure 12.9, which we call a 'channel value curve'. For each segment, the decisive buying criteria (DBCs) and weights indicating their relative importance to the customer are listed. In the segment illustrated here, the customers are most interested in the cost they pay – the price plus any other charges, such as delivery – but are also concerned with such buying criteria as convenience of purchase and the ability to browse for the book they want. The ability of each channel, or channel chain, to deliver against each of the buying criteria is then assessed judgementally on a scale of one to 10: the higher the score, the better this channel meets a particular criterion.

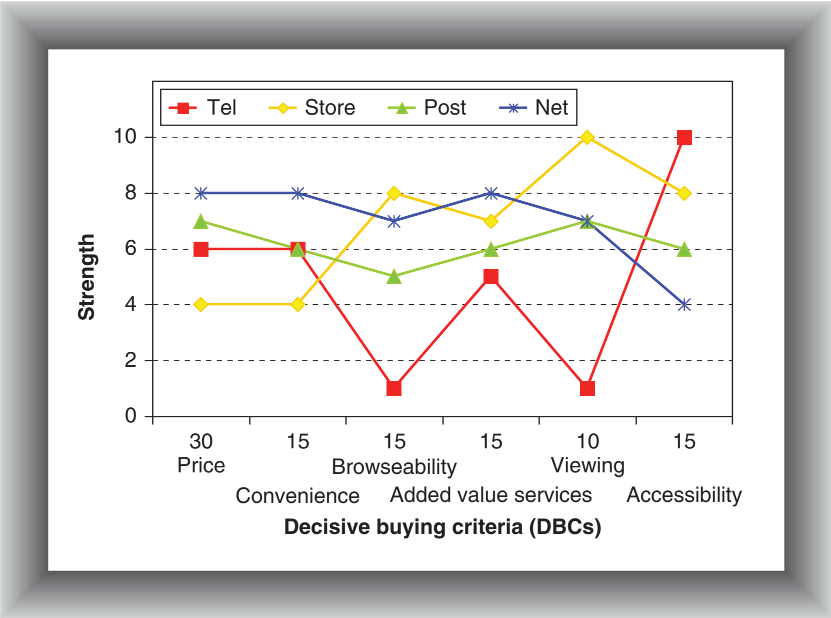

Figure 12.9
The channel value curve – books example
Note: The weightings for the DBCs are out of 100.

In this hypothetical example, the various means by which a book can be purchased are compared. It can be seen that taking all the buying criteria together, the internet best matches the needs of this particular segment. In reality, different segments of the book market are clearly best matched to different channels, which would show up clearly if the channel value curve was drawn for each segment's differing buying criteria.

Another simplification of this example is that, as we have seen, it is often channel chains which compete rather than individual channels with channels working together to satisfy different aspects of the customer's needs. In these cases, the various possible channel chains would each be compared against the buying criteria – so the channel chains would be listed in the key at the top, rather than individual channels.

Another simplification of this example is that, as we have seen, it is often channel chains which compete rather than individual channels.

Other than looking at the lines by eye to decide which offers the best match to customer needs, how can one determine which channel 'wins'? An alternative way of presenting the same information makes this clearer. In Figure 12.10, the same underlying data – shown in Table 12.3 – is presented as a stacked bar chart. The height of each section of the bar is proportional to the score of a buying criterion multiplied by its weight, divided by 100. So the overall height of the bar gives an approximate measure of how well, taking one thing with another, the channel meets customer needs. As with all analyses, though, management judgement should be exercised in its interpretation.

Both forms of presentation in Figures 12.9 and 12.10 have their advantages, and you can use either or both. The main point is, one way or another, to assess channels not against whether we, as a company,

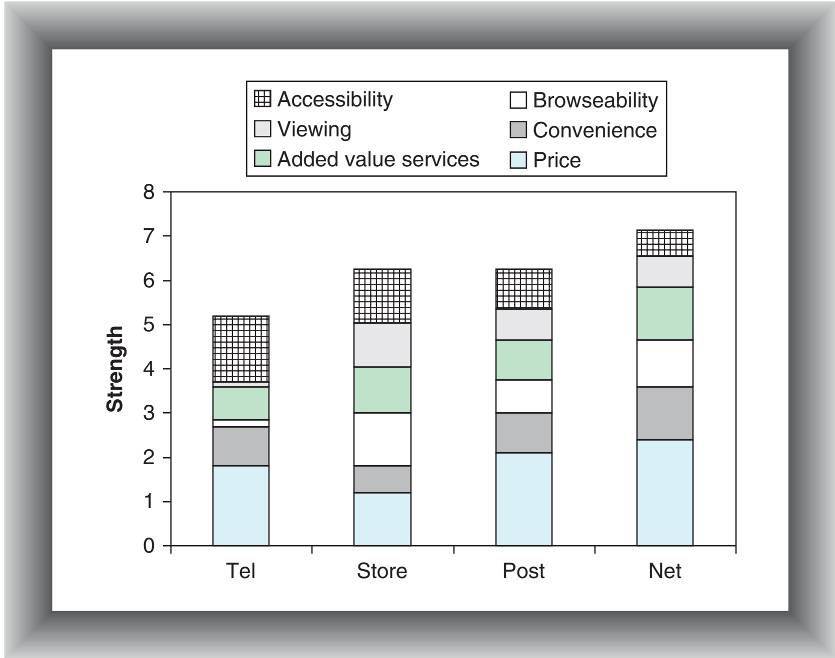

Figure 12.10
The channel value curve – an alternative presentation

Table 12.3 The channel value curve – calculations for the alternative presentation

Segment 5										
		Tel		***Store***		***Post***		***Net***	
DBC	***Weight***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***
Price	30	6	1.8	4	1.2	7	2.1	8	2.4
Convenience	15	6	0.9	4	0.6	6	0.9	8	1.2
Browseability	15	1	0.15	8	1.2	5	0.75	7	1.05
Added value services	15	5	0.75	7	1.05	6	0.9	8	1.2
Viewing	10	1	0.1	10	1.0	7	0.7	7	0.7
Accessibility	15	10	1.5	8	1.2	6	0.9	4	0.6
Total	100		5.2		6.25		6.25		7.15

The main point is, one way or another, to assess channels not against whether we, as a company, happen to like them, but against which will ultimately win out in the eyes of customers.

happen to like them, but against which will ultimately win out in the eyes of customers.

Our interests do, though, come into the analysis when it comes to price. The score of a channel chain against price-related factors, such as the total cost including delivery, will be affected by the channel economics, which will determine the price which any competitor using the channel chain will be able to offer. One factor in assessing the channel economics is the transaction cost involved. The TPN Register business-to-business exchange set up by General Electric, the first significant e-hub, saves General Electric 50–90% on processing costs for each order. But acquisition and retention costs should not be forgotten. The dotcom arm of one retail chain discovered in the first half of the last decade that customer acquisition through banner advertising was costing £700 per customer, when the average sale was only £50 – good news for the bricks-and-clicks retailer in its competition with pure-play dotcoms, as it could leverage its physical stores for customer acquisition at a cost of just £13 per customer. Conversely, the overall advantage of the channel value curve compared with other channel chains will affect the rate of diffusion of a new channel chain, and therefore the revenues included in the channel economics analysis. So you will need to estimate how much higher, or lower, your costs will be if you use a new channel combination, before you can complete this chart.

Marketing insight

The ideal way to do this is to work out the 'current lifetime value' (CLV) for customers in each segment – that is, the value of future revenues minus costs, discounted to the present using an appropriate cost of capital. You can then use the current lifetime value model to work out how the customer lifetime value would be affected by use of a new channel, by changing inputs such as transaction costs appropriately.

Whether or not you yet have customer lifetime value figures in your organization, some rough calculations leading to a channel value curve chart will help you to check whether you're proposing the right channel for the right purpose.

The prioritization matrix: defining channel strategy

As a result of the previous stages, the organization will have a list of possible channel innovations, and an assessment of the strength of each potential channel combination's value proposition to customers, as well as an assessment of current and future costs. All sorts of exciting possible strategies typically emerge by this point. But as one always has a limited budget and limited management time, it is now necessary to prioritize between the options available.

Our research suggests that companies can select from the following broad channel strategy options:

- A **single channel provider** provides at least the bulk of its customer interaction through one channel. Direct Line and First Direct both started as primarily telephone operations, while in the internet world the single channel approach (pure-play) is represented by Amazon, eBay, and so on.

- A **channel migrator** starts with one single channel, but attempts to migrate its customer base onto another channel on the grounds of increased value or reduced cost. easyJet initially sold tickets by telephone, but now provides a price advantage to its price-sensitive customers to buy online, where the great majority of its tickets are now purchased.
- An **activity-based strategy** uses different channels in combination to perform different tasks in the customer experience – that is, a channel chain involving different channels at different points in the buying cycle. For example, Thomas Cook's corporate foreign exchange business uses the internet to generate leads, a direct sales force to sign up new clients, and a call centre or the internet to take orders.
- An **integrated multichannel** approach involves offering different channels to the customer without attempts to influence which the customer uses. First Direct provides both telephone and internet banking as an integrated service. While the internet service has much lower unit costs and also has proved better for cross-selling, First Direct chooses to position itself on customer service and accept the higher costs from those customers who primarily use the telephone without penalizing them or rewarding internet users. The full range of channels offered by this HSBC subsidiary alongside the telephone and internet includes email, text messaging, iPhone app and the use of HSBC's branch and automated teller machine (ATM) network. For a multichannel strategy such as this to work effectively it must be carefully linked together, putting the essential joins in place, matching corporate goals, brand values and customer needs. First Direct was named *Which?* magazine's best financial services provider in 2011 and is the number one bank for customer satisfaction (Institute of Customer Service, 2011).
- A **needs-based segmentation strategy** involves offering different channels to different customer groups to meet their varying needs. Each of these routes to market may use the same brand name, or different names. As we have seen, HSBC has adopted a multiple brand strategy for its personal financial services offer with its First Direct and HSBC branded operations. In the travel sector, Thomas Cook through their Netflights.com brand enables customers to create their own flight and hotel packages online. Inchcape PLC sells cars through traditional showrooms and on the internet, with the latter branded as Autobytel. Other organizations have adopted a single brand strategy such as John Lewis department stores in the UK. John Lewis offer their online customers the facility to collect purchases from their chosen shop's collection point the following afternoon if it is more convenient than having it delivered to their home.
- A **graduated customer value strategy** uses channels selectively according to the financial value of the customers, with high-cost channels, such as account managers, for high-value customers, and lower-value customers steered toward the lower-cost channels such as the internet, call centres or value-added resellers. The IT industry has long made use of this approach. The UK's clearing banks,

though, are in danger of doing the precise opposite, offering the high-cost branch network to the lower-value customers who prefer not to bank by phone or internet.

How are we to choose between these approaches? Although the channel value curve will determine which approaches are likely to succeed in each segment, an organization will typically not have the resources to pursue all viable options – some of which may, in any case, deliver little value to shareholders, despite being accepted by the market. The challenge is to strike the right balance between providing and integrating channels to meet segment needs, and the cost of this provision both for build and ongoing management. It is this dimension of attractiveness to the organization which we have not yet considered fully. The answer is to use a variant of the directional policy matrix, the tool we used when looking at prioritizing and selecting segments.

The variant we have developed, termed the 'prioritization matrix', is explained in full in Exercise 12.3 at the end of this chapter. It is summarized in Figure 12.11.

In brief, this approach compares channel opportunities such as e-commerce projects against two dimensions: attractiveness to us and

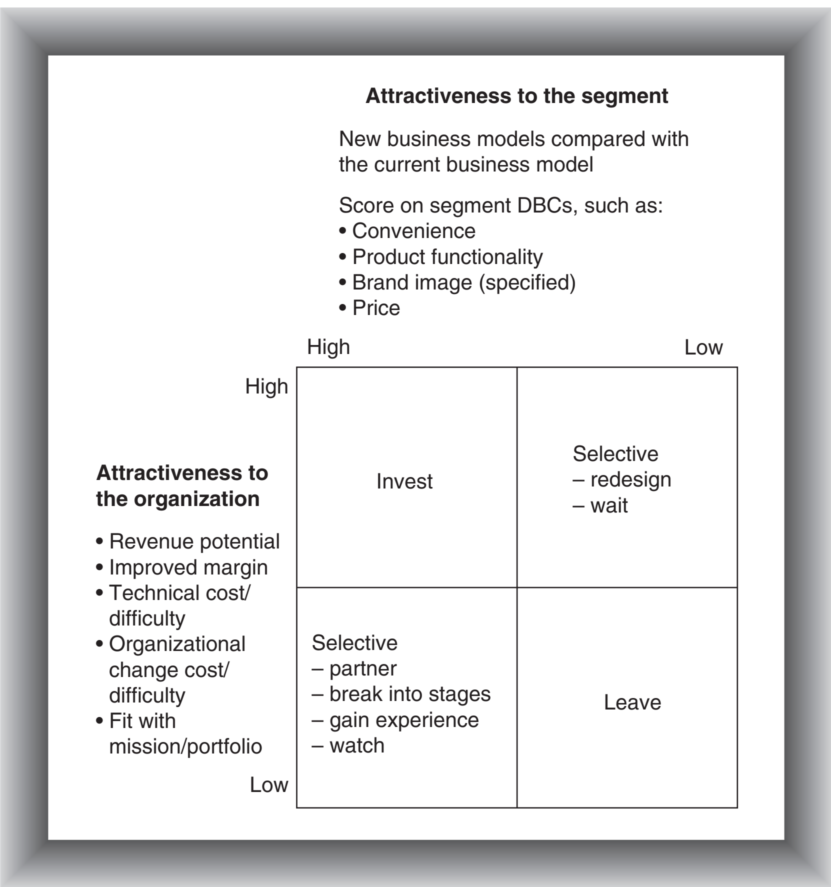

Figure 12.11 The prioritization matrix

Note: Although 'high' is positioned on the left of the horizontal axis it can, if you prefer, be placed on the right.

attractiveness to the segment. In many ways it is just like the directional policy matrix. But in assessing the horizontal axis, attractiveness to the segment, we compare not rival competitors but rival channel strategies. In other words, if we are considering selling via a web/call centre combination rather than a direct sales force, how would this channel strategy compare in the customer's eyes with their current way of doing business?

You may have spotted that we have already done much of the work to fill in this matrix in previous tools. The rival channel strategies are often different channels, or channel combinations, which we have identified in the 'channel chains' tool. We have compared these against customer needs using the 'channel value curve'. So the horizontal axis simply corresponds to the position of each proposed way of doing business on the channel value curve compared with the current model. A better value curve than the current business model will correspond to a position well to the left of the matrix. In fact, using the alternative presentation shown in Figure 12.10, the position on the horizontal axis can be determined mathematically by comparing the height of the bar chart for each proposed channel, or channel combination, with the height of the bar chart for the current model.

The prioritization matrix rapidly sorts out which projects are the top priorities.

We have found that using this tool provides a welcome structure to the board's decision-making debate and rapidly sorts out which projects are the top priorities. It also forces the proponents of a project to ask the right questions early on, increasing the quality of proposals put to the board. Exercise 12.3 explains exactly how to use the tool for your own organization.

An example of the application of the matrix is shown in Figure 12.12 which is for an insurance company examining its distribution policy in a particular European country (from Wilson *et al.* (2008) with kind permission).

The company drew the following conclusions about the four projects labelled in Figure 12.12:

1. A **distributor extranet** was a potential project to provide web access to the financial advisers who distributed its products, as an alternative to the call centre and account managers currently available to them. A clear win-win for the highly technical advisers, this was implemented as soon as possible, along with some of the other projects in the top left quadrant, starting with those closest to the top left-hand corner.
2. Another easy decision was on **sell direct** in the bottom right quadrant, which the company decided not to proceed with. Based on market research, it was believed that the few customers who were prepared to buy long-term savings products without any form of advice would probably prefer to use a fund supermarket to compare different offerings. Its low margins and channel conflict issues gave it a low score on the 'attractiveness' axis to the company too.

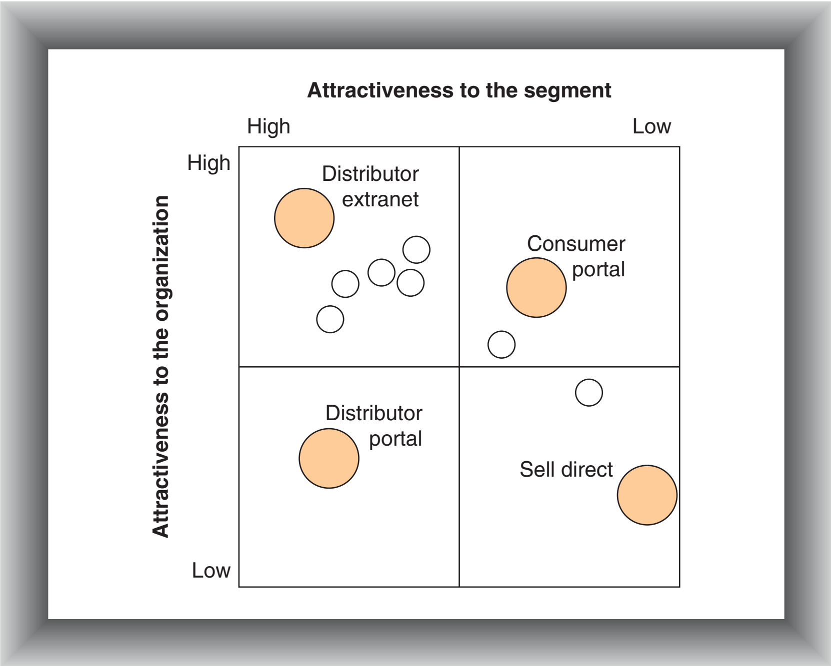

Figure 12.12
The prioritization matrix – insurance company
Note: The shaded circles simply highlight the four projects being discussed in the text, nothing else is implied by their shading or their size. The remaining circles identify other projects considered by the company.

3. A **distributor portal**, a new, web-based intermediary between the insurance company and its financial advisers, was likely to reduce prices and forming such a portal was outside the company's current skill set. As a result, this project scored fairly low on the 'attractiveness to the organization' axis. However, because it was attractive to customers, the company decided it would happen anyway in due course. So it decided to partner with another company offering this service.

4. As regards a **consumer portal**, the company felt it possible that one-stop shops to buy savings products by telephone and internet might become more attractive to customers, in the same way as car insurance, for example, has changed. The company took a watching brief to see whether customer views would move this towards the left over time.

Determining channel tactics

Once strategic decisions about channel choice and channel combinations have been made, the work is of course only just beginning. Here are just some of the areas where we have found that channel innovations can go wrong in practice.

Organizational structure can be a barrier to change if it encourages the organization to think and act around existing channels rather than new ones. One organization told us how its powerful sales force directors gave a highly successful call centre channel a decidedly mixed reception, as it reduced the business coming through their direct sales force. Turkeys rarely vote for Christmas, so the structure may need radical overhaul to reflect a new channel strategy. Sales directors, incidentally,

Organizational structure can be a barrier to change if it encourages the organization to think and act around existing channels rather than new ones.

often make good directors of internet strategy, because they are thoroughly unimpressed with technology and fads, and concentrate on serving customers profitably.

A particular issue facing many organizations is whether to 'spin out' a business using a new channel. Much in vogue during the internet euphoria of 1999 and early 2000, setting up a separate company to exploit the internet or a 'direct' call centre business has had varying success. A logical approach is to consider spin-outs when the channel value curve suggests that a pure-play strategy is appropriate to one or more customer segments. Where the customer need is for a hybrid model, though, innovation needs to be wedded with integration.

> Just as IBM initially set up its PC division with considerable autonomy, later 'roping it in' to exploit synergies with the rest of the business, so Gap initially set up its web operations with highly independent departments which, however, were kept within the company in order to integrate them as time went on. Another successful example of melding independence with synergy is Thomas Cook, which reintegrated ThomasCook.com Ltd back into the business.

This hybrid, semi-detached approach seems appropriate for the many companies requiring a multichannel model, particularly in the cases of an integrated multichannel strategy or activity-based strategy which we discussed earlier.

Reward systems can become tied to a particular channel, hence distorting behaviour in favour of maximizing returns from that channel.

As with organizational structure, reward systems can become tied to a particular channel, hence distorting behaviour in favour of maximizing returns from that channel. As profits ultimately come from satisfied customers, a more beneficial approach is to provide rewards based on customer profits or, ideally, customer lifetime value.

> The chief executive of a major retailer's website found that store managers were not encouraging customers to visit this low-cost channel because they feared it would reduce their annual bonuses. The chief executive therefore worked with the store managers to define metrics which would estimate how much trade was generated by each store for the website, as well as measuring business passed in the other direction from the website to local stores. These metrics could then be used to reward managers to act in the best interests of the business.

A further important point to note is that in multichannel companies the success of an internet channel cannot be measured purely on the basis of sales made on the website. One department store has found that for every pound of revenue it takes on the website, three pounds are spent in the store after browsing online – so it works equally hard to help these customers, through such facilities as store locations and information on the nearest store with a particular product in stock (McDonald and Wilson, 2002).

Finally, project management for large IT-enabled projects is never easy. Evidence from an in-depth study of numerous projects suggests that the use of software packages, where these are available, not only reduces risk, but also acts to embed and encourage best practice. Channel innovators may well find, as with innovators in other IT-enabled areas, that packages are not yet sufficiently mature to meet the whole of their needs; but it is certainly worth making a thorough exploration of what is available. A staged approach to project management is also likely to reduce business and technical risk, as well as being more likely to keep the board on side through delivery of quick wins.

Implementation is never easy, but those organizations that develop their channel strategy by focusing on their customers, not their products or their cost base, will reap the rewards of high loyalty and high customer lifetime value.

Chapter 12 review

This chapter provides a structured process for multichannel strategy formulation. This is to ensure that the most appropriate channels structure is put together for each of your selected segments, with a particular reference to IT-enabled channels.

We began with a brief summary of the complete process and then took a detailed look at the first of the five stages it involves. For this first stage we considered the future shape of the whole industry and put forward three strategic criteria that could require changes to the channel strategy followed by five main ways in which the current market map may be reconfigured. The latter covered substitute/reconfigured products, disintermediation, reintermediation, partial channel substitution and media switching/addition. We made the point, however, that predicting what reintermediation will occur is particularly difficult given the numerous possibilities, but provided some guidelines on which of the possibilities may become the dominant trading mechanism. Possibilities for the future were then discussed using two reconfigured market maps.

The second stage then looked at the use of channel chain analysis to describe which channels were used by each segment at the different stages of the purchasing process. This was to recognize the fact that in many markets, customers use more than one channel to meet their needs at different stages of their relationship with suppliers.

Next, we looked at the basis for selecting which of the new channel chains will flourish. We pointed out that the only arbiters here were the customers themselves and that they will assess the alternatives based on which offers each segment the best value proposition. We recommended using a channel value curve to help with this stage of the process and suggested how you could determine which channel chain would be the 'winner'.

We introduced the fourth stage of the process by highlighting a number of broad channel options that companies were able to select from and suggested using a variant of the directional policy matrix to assess which option would be the most attractive to the company. This prioritization matrix rapidly sorts out which projects are the top priorities.

Finally, we discussed some of the issues that may need to be addressed by companies for their new channel tactics to be implemented successfully.

■ Exercises[2]

Exercise 12.1

Take one of the segments from your project that you propose to serve and, using your earlier analysis, note the ways in which their needs can/will be better met by e-commerce. Repeat this for each of your selected segments.

Redraw the market map as it will be at the end of your planning period, say, three years' time, given your knowledge about likely developments in the market, such as new entrants, new channels, industry consolidation, and so on. The worksheet for market mapping in the Exercises section of Chapter 5 can be used for this part of the exercise. Make as many copies as you need.

Now draw up a list of e-opportunities for your organization under the headings of 'cost reduction' and 'value creation'.

Exercise 12.2

For each segment you propose to serve, consider what different means of communication customers use, leading to the purchase they make. The worksheet in Table 12.4, which you can copy for this exercise, indicates (as column headings) the major steps in any purchase process as presented earlier in this chapter. Against each step, indicate what means are used by the decision-maker to perform the step. Thus, in each vertical column, what percentage of this task is currently completed using this medium?

How, from the customer's point of view, could this sales process be improved? Reassess the percentages in these columns as they will be at the end of your planning period taking account of e-commerce or other new media.

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[2]Adapted from McDonald, M. and Wilson, H. (2002). *The New Marketing: Transforming the Corporate Future*. Oxford: Butterworth-Heinemann. Used with kind permission.

Table 12.4 Worksheet – the communications mix

Channel/ Medium	*Purchase phase*				
	Initiate dialogue	*Exchange information*	*Negotiate/ tailor*	*Commit*	*Exchange value*
Offline advertising (TV, press, etc.)					
Direct mail					
Sales force/ face-to-face contact					
Telephone					
Electronic					
Other (state):					

Table 12.5 The communications mix

Channel/ Medium	*Purchase phase*				
	Initiate dialogue (%)	*Exchange information (%)*	*Negotiate/ Tailor (%)*	*Commit (%)*	*Exchange value (%)*
Direct mail	85 60	60 40	20 10	20 10	None
Sales force/face-to-face	None	5 5	10 10	None	95 90
Telephone	5 5	10 10	40 20	80 70	None
E-mail	5 20	5 10	30 35	None	None
Website	5 15	20 35	0 25	0 20	5 10

Note: The figures indicate what percentage of each purchase phase is completed using the listed communication channel/medium with the first figure relating to the current year and the second figure relating to the end of the planning period.

A completed example of the worksheet for this exercise is illustrated in Table 12.5 and shows figures for the current year along with figures for the end of the planning period.

In any rows where you envisage the percentage changing, list the opportunities for your organization under the headings of 'cost reduction' and 'value creation'.

Exercise 12.3

This exercise is based on the prioritization matrix which can be used:

1. to decide on the relative importance of a number of possible channel initiatives, such as, for example, e-commerce projects;

2. as a first-cut prioritization to decide which potential opportunities should be developed into a full proposal;
3. as a second-cut prioritization to help the board prioritize limited resources, taking into account 'soft' issues such as strategic fit as well as 'hard' financial issues;
4. to help depoliticize debates about prioritization, and to sell the conclusions reached.

The tool is, though, no substitute for the development of carefully researched financials such as return on investment calculations, which should be done in parallel and used to inform the vertical axis, particularly for a second-cut prioritization.

First, select a business unit whose opportunities you wish to prioritize. This may be the organization as a whole, or one of the markets it serves.

Using a copy of the worksheet in Table 12.6, list the channel-related opportunities, such as e-commerce projects, which you wish to prioritize. These may be projects in development, projects which have gone live or possible future projects.

Now, using the same worksheet, determine the attractiveness of each opportunity to the organization as follows:

1. List the opportunity attractiveness factors for your organization, in other words, the factors that attract you to one opportunity rather than another. For example: impact on revenue; impact on margins; fit with the organization's mission; fit with the organization's skills; IT difficulty; business change difficulty, and so on.
2. For each of the factors, weight their relative importance to each other according to your own particular requirements when comparing opportunities by distributing 100 points between them.
3. Define the high, medium and low parameters for each of the factors selected, where very high scores 10 and very low scores zero.
4. Take one of the opportunities and, based on the parameters, determine its score for each factor at the end of your planning period (usually three years), multiply these individual scores by the weight that has been given to its respective factor and divide by 100, then add all these together to arrive at a total between zero and 10, and repeat for each opportunity.

Examples of completed attractiveness evaluations following the above procedure can be found in Chapter 9 where it was used to calculate segment attractiveness.

When determining attractiveness to the organization:

1. Keep the factors to between three and six if possible for simplicity. Consider deleting factors with a weighting of less than 10, or combining them with other factors.

Table 12.6 Worksheet – calculating channel-related opportunity attractiveness to the organization

Name and description	***Name and description***
Opportunity 1:	Opportunity 4:
Opportunity 2:	Opportunity 5:
Opportunity 3:	

Opportunity attractiveness factors	***Weight***	***Parameters***			***Opportunity 1***		***Opportunity 2***		***Opportunity 3***		***Opportunity 4***		***Opportunity 5***	
		High 10–7	***Med 6–4***	***Low 3–0***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***
Total	100				***Total***		***Total***		***Total***		***Total***		***Total***	

Note: The attractiveness factors, their weightings and parameters remain constant for each opportunity. Only the scores are specific to each opportunity. Parameters described as 'low', 'medium' or 'high' should be associated with a measurable definition to avoid subjective interpretation.

2. The factors should have nothing to do with customer take-up, which is dealt with in the following analysis. Therefore, assume project success, from the point of view of the customers, in your scoring. For example, in assessing the 'impact on revenue' of a new website, assume that customers will like it and use it.
3. Clear factors, weights and parameters on this axis with key colleagues before proceeding.
4. Keep factors separate from each other.
5. Research your financial scores as carefully as you can, particularly for a second-cut prioritization.
6. If the results do not match your intuitive feelings, consider whether you need to iterate, or whether your intuition needs updating!

Now determine the attractiveness of your proposed new business models to each of your selected segments as follows:

1. From the competitive strength evaluation conducted in Chapter 10, transfer to a copy of the worksheet in Table 12.7 the decisive buying criteria (DBCs) and constituent critical success factors (CSFs) for one of the segments you propose to serve. Also transfer to the worksheet the weighted importance of each buying criterion for this segment.

Table 12.7 Worksheet – calculating channel-related opportunity attractiveness to a segment

Segment:		***Current model***		***New model:***		***New model:***	
DBCs and their CSFs	***Weight***	***Score***	***Total***	***Score***	***Total***	***Score***	***Total***
Total	100	***Total***		***Total***		***Total***	
Attractiveness (*new model total minus current model total*):							

2. In the column headed 'Current model', enter the competitiveness scores and totals for your company as they appeared when evaluating your competitive strength for Year 0. 'Current' refers to your company's 'traditional' way of doing business, such as selling via a direct sales force, or selling over the Web with your current site.
3. In each of the columns headed 'New model', list the new channel-related opportunities you are considering for this segment.
4. Take one of the new opportunities and score its attractiveness to the segment out of 10 for each buying criterion initially for Year 0, with 'highly attractive' scoring from 10 down to seven, 'attractive' from six down to four and 'unattractive' from three down to zero (these are fixed and do not change). These scores are as perceived by the customers in the segment. Enter the scores for each new opportunity you have listed.
5. For each opportunity listed, multiply the individual scores by the weight that has been given to its respective buying criterion and divide by 100, then add all these together to arrive at a total between zero and 10.
6. To arrive at a number representing the 'attractiveness to customers', subtract the 'Current model' total from each 'New model' total and enter these at the bottom of the worksheet.

Once the calculations for Year 0 are complete, a further copy of the worksheet can be used to determine attractiveness for the end of the planning period.

When determining attractiveness to a segment:

1. It should be approached from the customer's perspective. Whenever possible, therefore, customers should be asked for their views. Alternatively, involve a small cross-functional team of those in your organization who are close to the customer.
2. Include all the segment's decisive buying criteria, even if they are unaffected by the new business model(s) you are proposing.
3. If the opportunity is targeted at a different stakeholder group, such as the supply-side, modify these instructions to assess the attractiveness factors (as opposed to buying criteria) for this group. These could include: margin achieved; transaction costs; fit with the organization's procedures; scope for building a long-term relationship, and so on. A recruitment site might be assessed on, for example, range of vacancies, ease of obtaining information, and so on.

The attractiveness scores can now be plotted on a prioritization matrix:

1. Transpose the organization's attractiveness scores for each opportunity on to the vertical axis of the prioritization matrix in Figure 12.13 and label each intersection on the vertical axis with the opportunity number and/or name. Ensure the scale from the point of origin to the

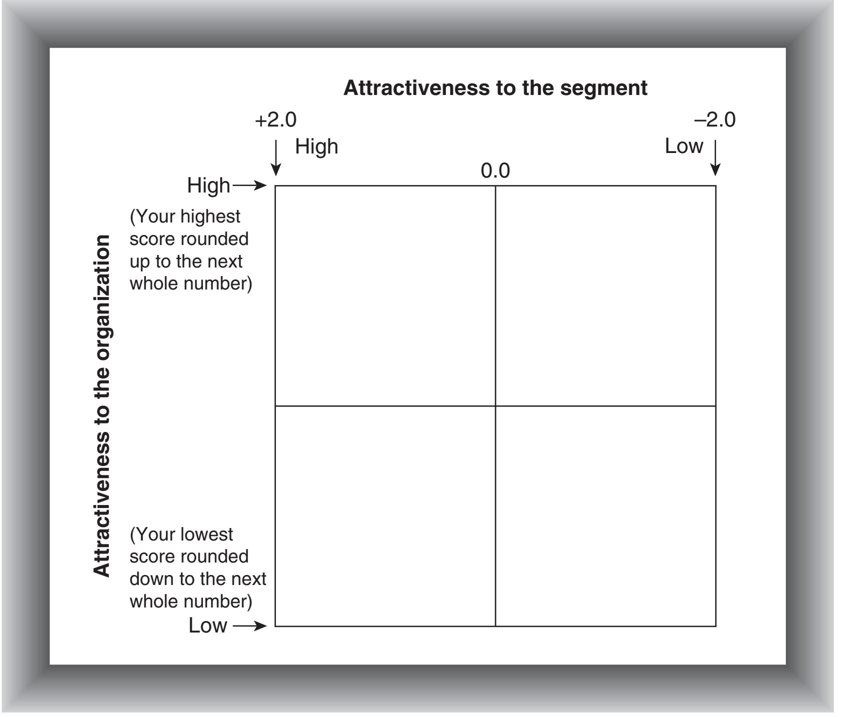

Figure 12.13 Worksheet – the prioritization matrix
Note: Although 'high' is positioned on the left of the horizontal axis it can, if you prefer, be placed on the right.

highest point allows a spread of opportunities between them rather than having the opportunities all grouping together at one or other end of the scale (a suggestion as to how to obtain a spread appears in Figure 12.13).

2. Now transpose the segment's attractiveness scores for the opportunities evaluated for it on to the horizontal axis of the prioritization matrix in Figure 12.13 using a scale ranging from plus two to minus two (normally sufficient for most exercises).
3. Locate the points of intersection as illustrated in Figure 12.14.

In addition to producing a separate prioritization matrix for each segment, consider transferring all the segment attractiveness scores on to a single prioritization matrix to produce a consolidated picture of the new opportunities being evaluated. Identify the applicable segment for each intersection on the horizontal axis.

When you have completed the prioritization matrix, consider the implications for the organization's resource allocation:

- Where should the investment in, for example, money and management time go?
- For these high-priority opportunities, what needs to be done to ensure that your envisaged scores on the segments' buying criteria are reached?

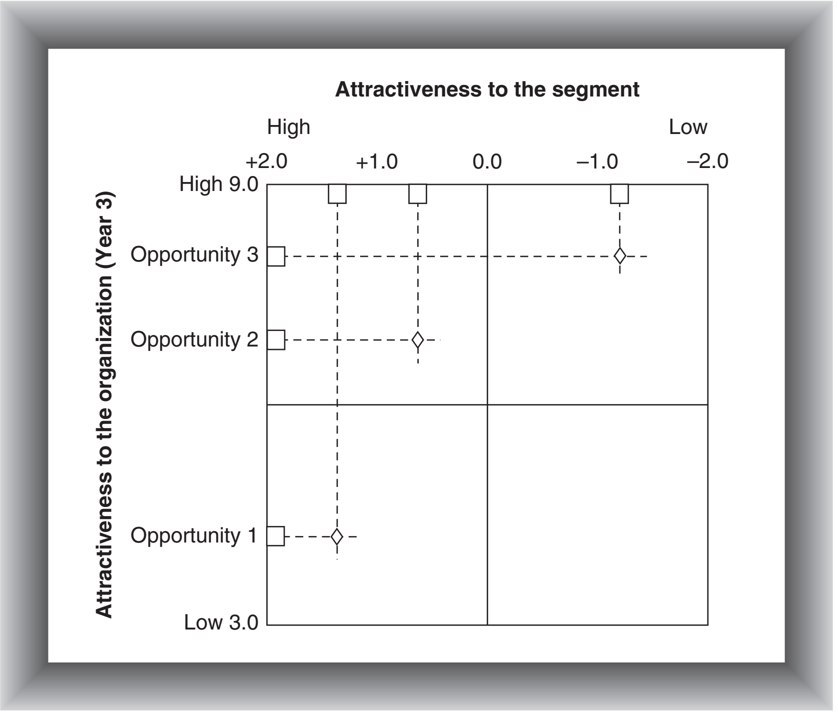

Figure 12.14
The prioritization matrix – locating the points of intersection

Finally, with respect to the prioritization matrix:

1. Do not take the cross-lines too literally! What matters is the relative position of your opportunities, not their absolute position on your grid.
2. Consider interactions between opportunities. If you invest in one opportunity such as a direct sales channel, will that affect your revenue or profits through another, such as an agent's network?
3. However, you cannot hold back the tide! If customers wish to switch to a new way of doing business (represented by a position towards the left of the prioritization matrix), 'cannibalization' of your traditional business may be necessary if you are not to leave a competitor to fill the gap.

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13 Setting marketing objectives and strategies for identified segments

Summary

It will by now be clear that, following the analysis that takes place as part of the segmentation process, realistic and achievable objectives, along with their associated strategies, should be set for the company's key segments. As it is the setting of objectives that forms a key step in the marketing planning process, it is at this point that segmentation becomes directly linked with marketing planning which, in turn, means that the objectives have to be developed within the framework of the overall corporate plan.

Once agreement has been reached on the broad marketing objectives and strategies, those responsible for the programmes of marketing activity can then proceed to the detailed planning stage, developing the overall strategy statements into sub-objectives.

Unless the setting of marketing objectives and strategies is carried out well, everything that follows will lack focus and cohesion. In previous chapters, you have gone to a lot of trouble to develop an in-depth understanding of the market and to select the right targets. The purpose of this chapter is to ensure that you score a bull's-eye on your selected targets!

This chapter is organized as follows:

- A discussion about what marketing objectives are and how they relate to corporate objectives
- How to set marketing objectives
- What competitive strategies are and how they can be used to gain competitive advantage
- How to start the process of marketing planning
- A brief review of product development as a growth strategy
- An introduction to marketing strategies and how to set them
- How to develop effective marketing strategies for identified segments
- A brief discussion about marketing in a downturn
- Guidelines on the profitability aspects of setting marketing objectives and strategies
- A review of the chapter
- Exercises further to help you analyse the gap between sales and financial objectives and long-term forecasts

Marketing objectives: what they are and how they relate to corporate objectives

There are no works on marketing which do not include at least one paragraph on the need for setting objectives. Setting objectives is a mandatory step in the planning process. The literature on the subject, though, is not very explicit, which is surprising when it is considered how vital the setting of **marketing objectives** is.

Definition:
A marketing objective is the quantification of what an organization sells (its products) and to whom (its segments).

An objective will ensure that a company knows what its strategies are expected to accomplish and when a particular strategy has accomplished its purpose. In other words, without objectives, strategy decisions and all that follows will take place in a vacuum.

A reminder: We use the word 'product' to avoid unnecessary references to 'services', 'not-for-profit services', 'capital goods' and 'retail'. The text is equally relevant to these.

Following the identification of opportunities and the explicit statement of assumptions about conditions affecting the business, the process of setting objectives should, in theory, be comparatively easy, the actual objectives themselves being a realistic statement of what the company desires to achieve as a result of market-centred analysis, rather than generalized statements born of top management's desire to 'do better next year'. However, objective setting is more complex than at first it would appear to be.

The logical approach to the difficult task of setting objectives is to proceed from the broad to the specific.

Most experts agree that the logical approach to the difficult task of setting marketing objectives is to proceed from the broad to the specific. Thus, the starting point would be a statement of the nature of the business (the mission statement), from which would flow the broad company objectives. Next, the broad company objectives would be translated into key result areas, which would be those areas in which success is vital to the firm. At one level, key result areas would include, for example, market penetration and the overall growth rate of sales. At the level responsible for securing 'market penetration', this could well be stepped down to 'segment penetration'. The third step would be creation of the sub-objectives necessary to accomplish the broad objectives, such as sales volume goals, geographical expansion, segment extension, product line extension, and so on.

Marketing insight

The end result of this process should be objectives which are consistent with the strategic plan, attainable within budget limitations, and compatible with the strengths, limitations and economics of other functions within the organization.

A reminder: In the not-for-profit sector, customer satisfaction is obviously a proxy for 'profitability'.

At the top level, management is concerned with long-run profitability which may well extend into market-related objectives; at the next level in the management hierarchy, the concern is for objectives that are defined more specifically and in greater detail, such as increasing sales and segment share, moving into new segments, and so on. These objectives are merely a part of the hierarchy of objectives, in that corporate objectives will only be accomplished if these and other objectives are achieved. At the next level, management is concerned with objectives that are defined even more tightly, such as to create awareness among a specific target segment about a new product, to change a particular customer attitude, and so on. Again, the general marketing objectives will only be accomplished if these and other sub-objectives are achieved. It is clear that sub-objectives *per se*, unless they are an integral part of a broader framework of objectives, are likely to lead to a wasteful misdirection of resources.

For example, a sales increase in itself may be possible, but only at an undue cost, so that such a marketing objective is only appropriate within the framework of corporate objectives. In such a case, it may well be that an increase in sales in a particular segment will entail additional capital expenditure ahead of the time for which it is planned. If this were the case, it may make more sense to allocate available production capacity to more profitable segments in the short term, allowing sales to decline in another segment. Decisions such as this are likely to be more easily made against a backcloth of explicitly stated broad company objectives relating to all the major disciplines.

Likewise, objectives should be set for advertising, for example, which are wholly consistent with the wider marketing objectives. Objectives set in this way integrate the advertising effort with the other elements in the marketing mix and this leads to a consistent, logical marketing plan.

Definition: A corporate objective describes a desired destination or result. Most often this is expressed in terms of profit.

So what is a corporate objective and what is a marketing objective?

A business starts at some time with resources and wants to use those resources to achieve something. What the business wants to achieve is a **corporate objective**, which describes a desired destination or result. Most often this is expressed in terms of profit, since profit is the means of satisfying shareholders or owners, and because it is the one universally accepted criterion by which efficiency can be evaluated, which will, in turn, lead to efficient resource allocation, economic and technological progressiveness and stability. How it is to be achieved is a strategy. In a sense, this means that the only true objective of a company is, by definition, what is stated in the corporate plan as being the principal purpose of its existence.

The only true objective of a company is, by definition, what is stated in the corporate plan as being the principal purpose of its existence.

This means that stated desires, such as to expand segment share, to create a new image, to achieve an x% increase in sales, and so on, are in fact **strategies** at the **corporate** level, since they are the means by which a company will achieve its profit objectives. In practice, however, companies tend to operate by means of functional divisions, each with a separate identity, so that what is a strategy in the corporate plan becomes an objective within each division, or strategic business unit (SBU).

Definition: Corporate strategies define how corporate objectives are to be achieved through the use of its resources.

For example, marketing strategies within the corporate plan become operating objectives within the marketing department, and strategies at the general level within the marketing department themselves become operating objectives at the next level down, so that an intricate web of inter-related objectives and strategies is built up at all levels within the framework of the overall company plan.

The really important point, however, apart from clarifying the difference between objectives and strategies, is that the further down the hierarchical chain one goes, the less likely it is that a stated objective will make a cost-effective contribution to company profits, unless it derives logically and directly from an objective at a higher level.

Corporate objectives and strategies can be simplified in the following way:

Corporate objective

- desired level of profitability

Corporate strategies

- which products and which markets (marketing)
- what kind of facilities (operations, distribution, IT, research and development, and so on)
- size and character of the staff/labour force (personnel)
- funding (finance)
- other corporate strategies such as social responsibility, corporate image, stock market image, employee image, and so on

It is now clear that at the next level down in the organization (in other words, at the functional level) which products are to be sold into which markets (restated, in order to be actionable, as 'which products are to be sold into which market segments') become *marketing objectives*, while the means of achieving these objectives using the marketing mix are *marketing strategies*. At the next level down there would be, say, *advertising objectives* and *advertising strategies*, with the subsequent *programmes* and *budgets* for achieving the objectives. In this way, a hierarchy of objectives and strategies can be traced back to the initial corporate objective. Figure 13.1 illustrates this point.

How to set marketing objectives

Definition: Igor Ansoff is a famous American planning guru who constructed a matrix known as the Ansoff Matrix, which had two dimensions and four boxes – existing products, new products, existing markets, new markets.

The **Ansoff** Matrix (1957) can be introduced here as a useful tool for thinking about marketing objectives. It is a concept normally written in terms of 'markets', but for the purposes of this book we will substitute (where appropriate) 'segment' for 'market'.

A firm's competitive situation can be simplified to two dimensions only, products and segments. To put it even more simply, Ansoff's

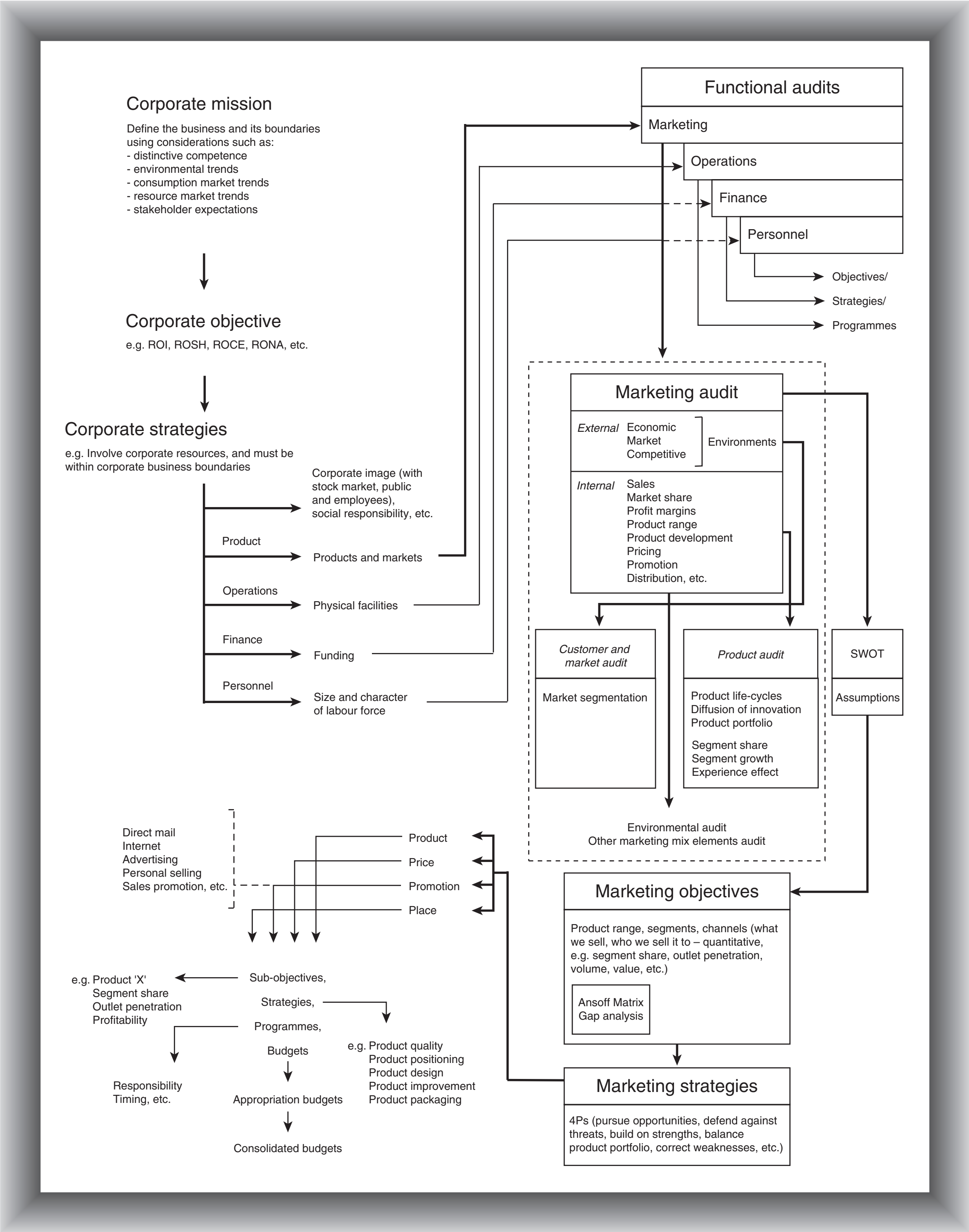


Figure 13.1 Objectives and strategies in a corporate framework
Source: McDonald, M. and Wilson, H. (2011). *Marketing Plans: How to Prepare Them, How to Use Them, 7th Edn*. Chichester: John Wiley & Sons Ltd.

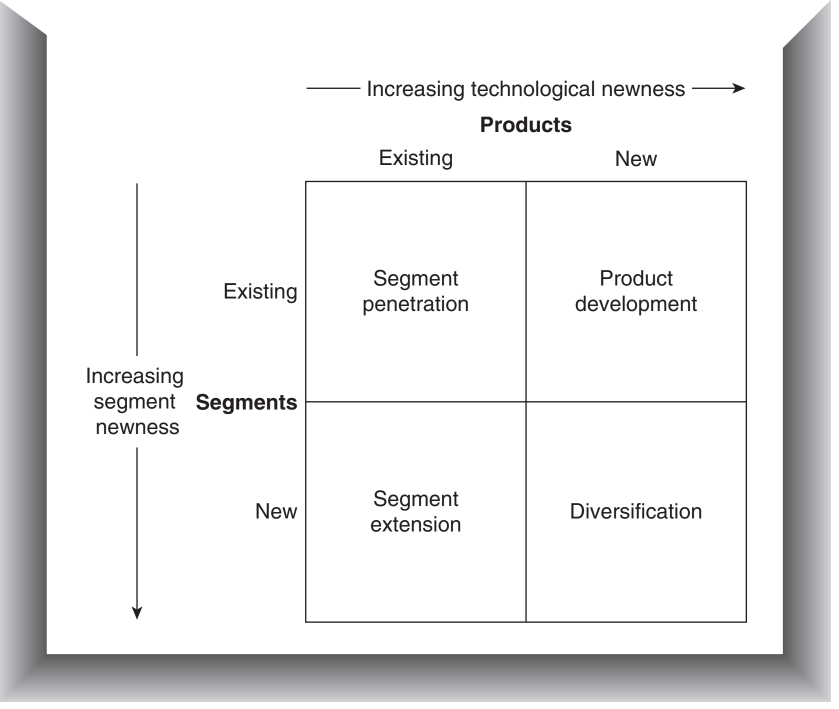


Figure 13.2
The Ansoff Matrix

framework is about what is sold (the 'product') and to whom it is sold (the 'segment'). Within this framework, Ansoff identifies four possible courses of action for the firm:

1. Selling existing products to existing segments.
2. Extending existing products to new segments.
3. Developing new products for existing segments.
4. Developing new products for new segments.

The matrix in Figure 13.2 depicts these concepts.

Marketing objectives are about products and segments only.

It is clear that the range of possible marketing objectives is very wide, since there will be degrees of technological newness and degrees of segment newness. Nevertheless, Ansoff's Matrix provides a logical framework in which marketing objectives can be developed under each of the four main headings above. In other words, *marketing objectives are about products and segments only*.

Common sense will confirm that it is only by selling something to someone that the company's financial goals can be achieved, and that advertising, pricing, service levels, and so on, are the means (or strategies) by which it might succeed in doing this. Thus, pricing objectives, sales promotion objectives, advertising objectives, and so on should not be confused with marketing objectives.

Pricing objectives, sales promotion objectives, advertising objectives, and the like, should not be confused with marketing objectives.

Marketing objectives are generally accepted as being quantitative commitments, usually stated either in standards of performance for a given operating period, or conditions to be achieved by given dates. Performance standards are usually stated in terms of sales volume and various measures of profitability. The conditions to be attained are usually a percentage of segment share and various other commitments, such as a percentage of the total number of a given type of distribution outlet.

There is also broad agreement that objectives must be specific enough to enable subordinates to derive from them the general character of action required and the yardstick by which performance is to be judged.

Objectives are the core of managerial action, providing direction to the plans.

Objectives are the core of managerial action, providing direction to the plans. By asking where the operation should be at some future date, objectives are determined. Vague objectives, however emotionally appealing, are counterproductive to sensible planning, and are usually the result of the human propensity for wishful thinking, which often smacks more of cheerleading than of serious marketing leadership. What this really means is that it is unacceptable to use directional terms such as 'improve', 'increase', 'decrease', 'optimize' or 'minimize' as objectives, because it is logical that, unless there is some measure, or yardstick, against which to measure a sense of locomotion towards achieving them, they do not serve any useful purpose.

Ansoff defines an objective as 'a measure of the efficiency of the resource-conversion process'. An objective contains three elements:

1. the particular attribute that is chosen as a measure of efficiency;
2. the yardstick or scale by which the attribute is measured;
3. the particular value on the scale which the firm seeks to attain.

Marketing objectives, then, are about each of the four main categories of the Ansoff Matrix:

1. **Existing products in existing segments.** These may be many and varied and will certainly need to be set for all existing major products and segments.
2. **New products in existing segments.**
3. **Existing products in new segments.**
4. **New products in new segments.**

Thus, in the long run, it is only by selling something (a 'product') to someone (a 'segment') that any firm can succeed in staying in business profitably.

Marketing insight

A two-year study of the top 35 industrial companies by McKinsey and Company revealed that leader companies agreed that product/segment strategy is the key to the task of keeping shareholders' equity rising. Clearly, then, setting objectives and strategies in relation to products and segments is a most important step in the marketing planning process.

Marketing objectives are concerned solely with products and segments.

Definition: A product life cycle plots the volume or value of sales of a product from its launch to its decline and withdrawal.

Simply defined, product/segment strategy means the route chosen to achieve company goals through the range of products it offers to its chosen segments. Thus, the product/segment strategy represents a commitment to a future direction for the firm. Marketing objectives, then, are concerned solely with products and segments.

The general marketing *directions* which lead to the above objectives flow, of course, from a **product life cycle** and portfolio analysis. However, when drawing up the objectives, we must concern ourselves with both the life cycles and portfolio analysis of our segments *and* the life cycles and portfolio analysis of our products *in* our chosen segments. The link between these two concepts is illustrated in Figure 13.3. For a full explanation, please refer to McDonald and Wilson (2011).

The marketing directions which come out of life cycle and portfolio analysis revolve around the following logical decisions, with a brief guide to the appropriate strategies also listed. Please note that, although we refer to the labels invented by the Boston Consulting Group (for example, 'cash cow'), such labels should not generally be used in connection with the directional policy matrix (DPM) and are used here

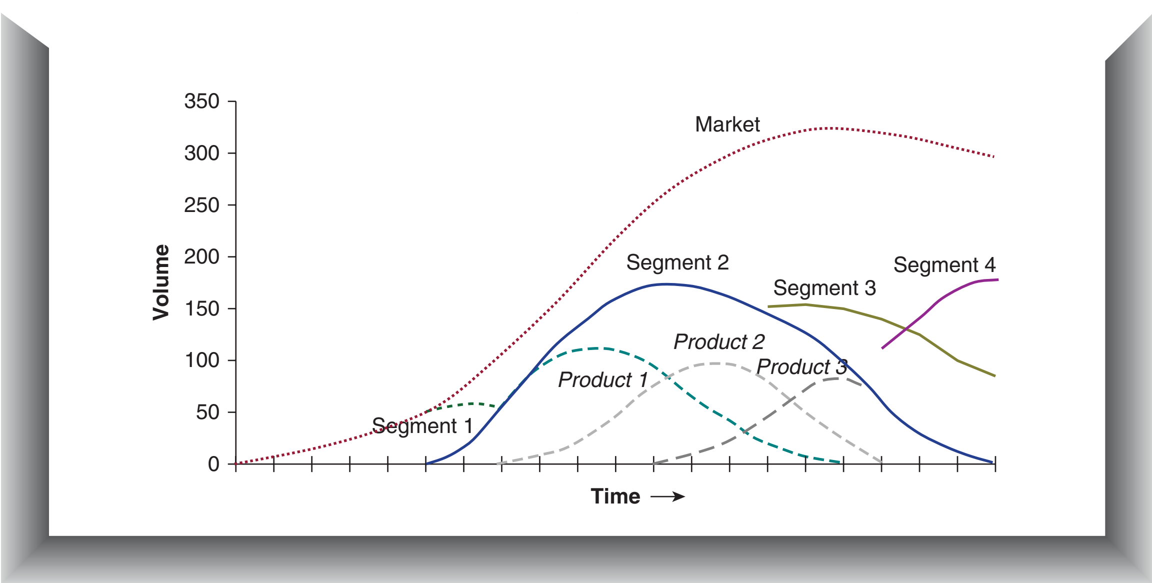


Figure 13.3 Product life cycles within segments

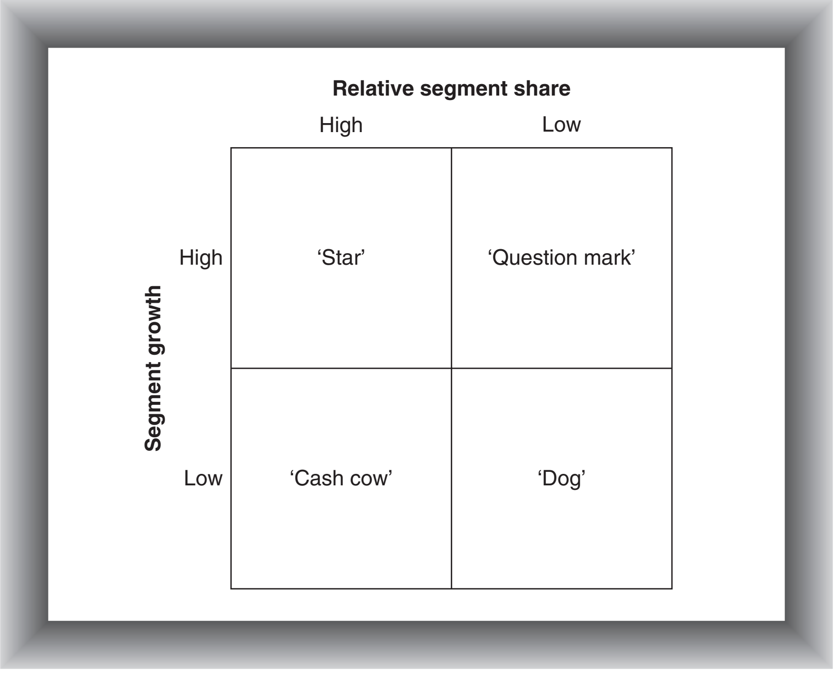


Figure 13.4
The Boston Matrix (basic outline)

only for the purpose of explanation. We have suggested more appropriate labels for the directional policy matrix in Figure 13.5 and Table 13.1, both of which appear after the following review.

- **Maintain** – This usually refers to the 'cash cow' type of product/segment (segments that fall in the bottom left-hand box of the Boston Matrix which we first discussed in Chapter 9 and summarized in Figure 9.2 which, for ease of reference, is repeated in a simplified format in Figure 13.4) in which the company enjoys a competitive position, and reflects the desire to maintain a competitive and profitable position, even though it is acknowledged these products/segments are not as attractive as other products/segments in terms of achieving the organization's objectives.

  The emphasis will be on maintaining present earnings in the most profitable products/segments, rather than aggressive growth, while activity in those that are less profitable should be considered for cutting back. Marketing effort should be focused on differentiating products to maintain share of key segments. Discretionary marketing expenditure should be limited, especially when unchallenged by competitors, or when products have matured. Comparative prices should be stabilized, except when a temporary aggressive stance is necessary to defend segment share.

- **Improve** – This usually refers to the 'star' type of product/segment (segments that appear in the top left-hand box) and reflects the desire to improve the competitive position in attractive segments which look as if their attractiveness will continue, or even improve.

The obvious objective for such segments is to maintain your sales/volume growth rates at least at the segment growth rate, thus maintaining segment share, or to grow faster than the segment, thus increasing segment share.

Three principal factors should be considered:

1. Possible geographic expansion.
2. Possible product line expansion.
3. Possible product line differentiation.

These could be achieved by internal development, joint ventures or acquisition.

The main point is that, in attractive segments, an *aggressive marketing posture is required*, together with a very tight budgeting and control process to ensure that capital resources are efficiently utilized.

- **Harvest** – This usually refers to a particular category of 'dog' type product/segment (segments that appear in the bottom right-hand box, but towards the mid-point vertical line of the matrix) where the company has a moderately good to poor position (as opposed to an unquestionably poor position) and reflects the desire to relinquish competitive position in favour of short-term profit and cash flow, but not necessarily at the risk of losing the business in the short term. These are sometimes referred to as 'cash dogs'.

  The reality of low growth should be acknowledged and the temptation to grow sales into these segments or grow sales of those products at the previous high rates of growth should be resisted. They should not be viewed as a 'marketing problem', which will be likely to lead to high advertising, promotion, product development and inventory costs, and therefore to lower profitability. Some of the 'maintain' policies may still be appropriate, but with more of an eye on profit and cash flow.

  Finally, the attention of talented managers should be focused on these 'cash dogs'.

- **Exit** – This usually refers to the genuine 'dog' type of product/segment (segments that appear in the bottom right-hand box, but well to the right of the mid-point vertical axis), also sometimes to the 'question mark', and reflects a desire to divest because of a very weak competitive position or because the cost of staying in it is prohibitive and the risk associated with improving its position is too high. Generally, immediate divestment is the preferred course of action, unless there is still the opportunity to generate some cash with minimal marketing expenditure.

- **Enter** – This usually refers to the new and most promising emerging products/segments where it has been decided to invest for future product/segment leadership (selected segments that appear in the top right-hand box).

As already stated, however, great care should be taken not to follow slavishly any set of 'rules' or guidelines related to the above. It should be stressed that there can be no *automatic* policy for a particular segment or product, and strategic business unit managers should consider three or more options before deciding on 'the best' for recommendation. Above all, strategic business unit managers must evaluate the most attractive opportunities and assess the chances of success in the most realistic manner possible. This applies particularly to new business opportunities. New business opportunities would normally be expected to build on existing strengths, particularly in marketing, which can be subsequently expanded or supplemented.

In addition, the use of pejorative labels like 'dog', 'cash cow', and so on should be avoided.

The use of pejorative labels like 'dog', 'cash cow', and so on should be avoided.

A full list of marketing guidelines as a precursor to objective setting is given in Figure 13.5. A fuller list is set out in Table 13.1 which includes guidelines for functions other than marketing. One word of warning, however: such general guidelines should not be followed unquestioningly. They are included more as checklists of questions that should be asked about each major product in each major segment *before* setting marketing objectives and strategies.

General guidelines should not be followed unquestioningly.

It is at this stage that the circles in the directional policy matrix can be moved to show their relative size and position in three years' time. You can do this to show, first, where they will be if the company takes no action and, second, where you would ideally prefer them to be. These latter positions will, of course, become the marketing objectives. Precisely how this is done was shown in Chapter 10. It is, however, the key stage in the marketing planning process.

Competitive strategies

At this stage of the planning process, it would be helpful to explain developments in the field of competitive strategies, since an understanding of the subject is an essential prerequisite to setting appropriate marketing objectives.

One of the principal purposes of marketing strategy is for you to be able to choose the customers, and hence the segments, you wish to deal with. In this respect, the directional policy matrix discussed in Chapter 9 is particularly useful. The main components of competitive strategy are:

- the company;
- customers;
- products/services;
- competitors.

Relative company competitiveness (High → Low, left to right); **Segment attractiveness** (High → Low, top to bottom)

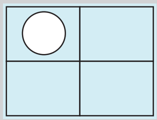
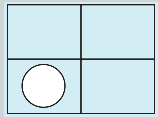
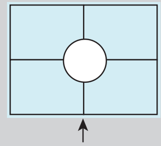
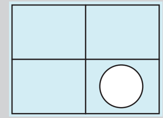
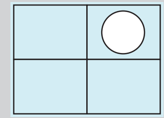
<table>
<tr><th></th><th colspan="3">High</th><th colspan="3">Low</th></tr>
<tr><td>High</td><td colspan="3">Invest for growth
Defend leadership, gain if possible.
Accept moderate short-term profits and, if necessary, negative cash flow.
Consider geographic expansion, product line expansion, product differentiation.
Upgrade product development effort.
Aggressive marketing posture, viz. selling, advertising, pricing, sales promotion, service levels, as appropriate.</td><td colspan="3">Opportunistic
The options are:
1 move it to the left if resources are available to invest in it;
2 keep a low profile until funds are available;
3 divest to a buyer able to exploit the opportunity.</td></tr>
<tr><td>Low</td><td colspan="2">Maintain segment position, manage for sustained earnings
Maintain segment position in most successful product lines.
Prune less successful product lines, unless necessary to market success.
Differentiate products to maintain share of key segments.
Limit discretionary marketing expenditure.
Stabilize prices, except where a temporary aggressive stance is necessary to maintain segment share.</td><td colspan="2">Selective*
Acknowledge low growth.
Do not view as a 'marketing' problem.
Identify and exploit growth segments.
Emphasize product quality to avoid 'commodity' competition.
Systematically improve productivity.
Assign talented managers.</td><td colspan="2">Manage for profit
Prune product line aggressively.
Maximize cash flow.
Minimize marketing expenditure.
Maintain or raise prices at the expense of volume.
(All of these are on the assumption that such products are not essential to market position.)</td></tr>
</table>

Figure 13.5 Strategies suggested by portfolio matrix analysis
Note: 'Selective*' refers to those segments or products which fall on or near the vertical dividing line in a directional policy matrix.

> If we are to succeed, we need to work hard at developing a sustainable competitive advantage.

So far, we have said very little about competitors, although clearly if we are to succeed, we need to work hard at developing a sustainable competitive advantage. The important word here is 'sustainable', as temporary advantages can be gained in numerous ways, such as, for example, a price reduction or a clever sales promotion.

Table 13.1 Guidelines suggested for different positioning on the directional policy matrix

					
Main thrust	Invest for growth	Maintain segment position, manage for earnings	Maintain selectively	Manage for cash	Opportunistic development
Segment share	Maintain or increase dominance	Maintain or slightly milk for earnings	Maintain selectively	Forgo share for profit	Invest selectively in share
Products	Differentiation – line expansion	Prune less successful. Differentiate for key segments	Emphasize product quality. Differentiate	Aggressively prune	Differentiation – line expansion
Price	Lead – aggressive pricing for share	Stabilize prices/raise	Maintain or raise	Raise	Aggressive – price for share
Promotion	Aggressive promotion	Limit	Maintain selectively	Minimize	Aggressive promotion
Distribution	Broaden distribution	Hold wide distribution pattern	Maintain selectively	Gradually withdraw distribution	Limited coverage
Cost control	Tight control – go for scale economies	Emphasize cost reduction, namely variable costs	Tight control	Aggressively reduce both fixed and variable	Tight, but not at expense of entrepreneurship
Production	Expand, invest (organic, acquisition, joint venture)	Maximize capacity utilization	Increase productivity, for example, specialization/ automation	Free up capacity	Invest
R & D	Expand – invest	Focus on specific projects	Invest selectively	None	Invest
Personnel	Upgrade management in key functional areas	Maintain. Reward efficiency, tighten organization	Allocate key managers	Cut back organization	Invest
Investment	Fund growth	Limit fixed investment	Invest selectively	Minimize and divest opportunistically	Fund growth
Working capital	Reduce in process – extend credit	Tighten credit – reduce accounts receivable, increase inventory turn	Reduce	Aggressively reduce	Invest

Most business people would agree that as segments mature, the only way to grow the business without diversifying is at the expense of competitors, which implies the need to understand in depth the characteristics of each important segment to the company and of the main competitors in it. We briefly referred to the leading thinker in this field in Chapter 9, namely Michael Porter of the Harvard Business School, and any reader wishing to explore this vital subject in more depth should refer to his book *Competitive Strategy* (1980).

Perhaps the best way to summarize this complex subject would be to tell a story.

> Imagine three tribes on a small island fighting each other because resources are scarce. One tribe decides to move to a larger adjacent island, sets up camp, and is followed eventually by the other two, who also set up their own separate camps. At first it is a struggle to establish themselves, but eventually they begin to occupy increasing parts of the island; eventually, many years later, they begin to fight again over adjacent land. The more innovative tribal chief – that is, the one who was first to move to the new island – sits down with his senior warriors and ponders what to do, since none are very keen to move to yet another island. They decide that the only two options are:
>
> 1. Attack and go relentlessly for the enemy's territory.
> 2. Settle for a smaller part of the island and build in it an impregnable fortress.

These two options, namely terrain or impregnable fortress (or both), are, in fact, the same options that face business people as they contemplate competitive strategy. Let us look in turn at each of these options, continuing for a moment longer with the military analogy, and starting with terrain.

> Imagine two armies facing each other on a field of battle. One army has 15 soldiers in it, the other 12 (depicted by circles). Imagine also that they face each other with rifles and all fire one shot at the other at the same time, but they do not all aim at the same soldier! Figure 13.6 depicts the progress of each side in disposing of the other. It will be seen that after only three volleys, the army on the right has only one soldier remaining, while the army on the left, with eight soldiers remaining, is still a viable fighting unit.

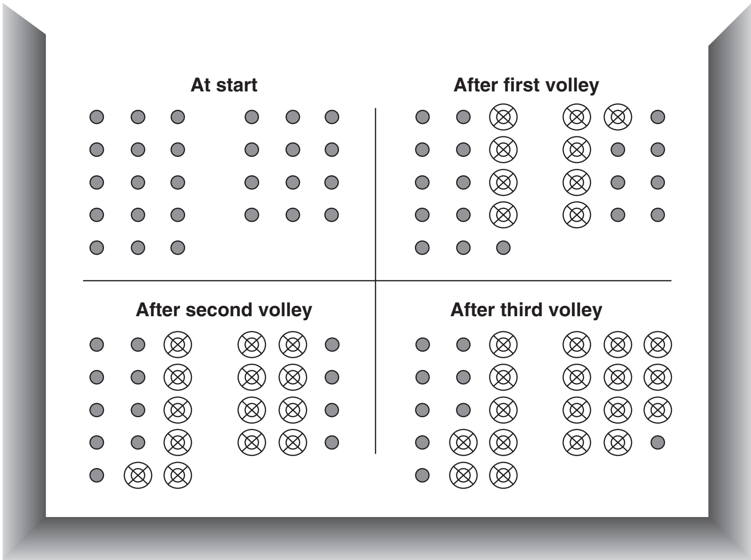


Figure 13.6 The importance of market share

One interesting fact about this story is that the effect observed here is *geometric* rather than *arithmetic*, and is a perfect demonstration of the effect of size and what happens when all things are equal, except size. The parallel in industry, of course, is segment share.

Just look at what used to happen in the computer industry when General Electric, Rank Xerox, RCA, ICL and others attacked the giant IBM in its core segments. The larger competitor was able to win the battle. So, all things being equal, a company with a larger segment share than another should win in the long term over a smaller competitor. Or *should* they? Clearly, this is not inevitable, providing the smaller companies take evasive action. Staying with the computer industry, just look at how successful NCR have been with their 'global fortress' strategy (for example, automated teller machines (ATMs) for the financial market).

In 1992 and 1993, IBM got caught unawares, with disastrous financial results, by quicker-moving, smarter, smaller competitors. They have now recovered by regrouping and re-segmenting their market, just as Rank Xerox did in the 1970s to recover from the successful entry of the Japanese with smaller photocopiers. IBM have also used their enormous market power and reach to take advantage of the new but substantial markets for services.

Marketing insight

In the market for banking services, First Direct in the UK took a commanding position by means of a differentiated product, dispensing with all the paraphernalia of expensive branches.

Marketing insight

In the market for insurance, Direct Line in the UK completely changed the rules of warfare by dispensing with brokers, with a consequential saving in premiums for customers.

Put yet another way; look for a moment at the economists' model of supply and demand shown in Figure 13.7.

Here we see that when supply is greater than demand, price will fall, and that when demand exceeds supply, the price will tend to rise. The equilibrium point is when supply matches demand. The only way a competitor can avoid the worst effects of such a situation is by taking one of the following actions:

1. being the lowest cost supplier;
2. differentiating the product in some way so as to be able to command a higher price.

Michael Porter (1985) combined these two options into a simple matrix, as shown in Figure 13.8.

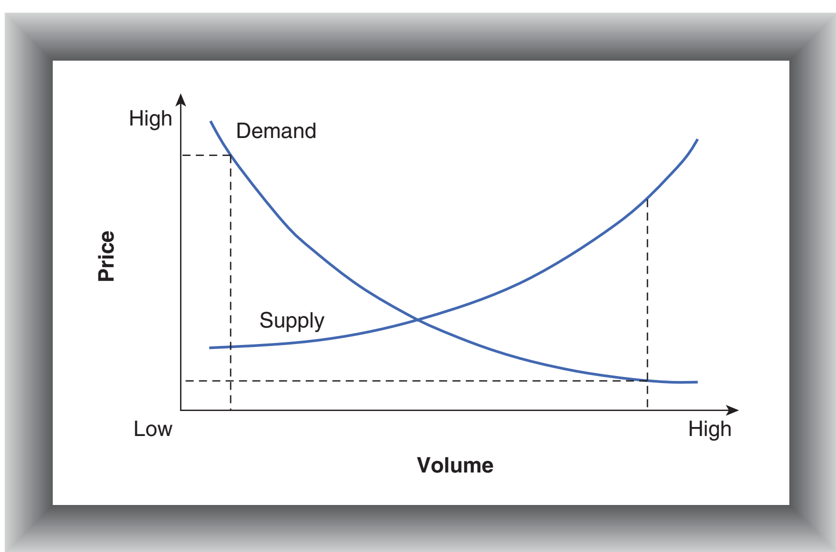


Figure 13.7
Supply and demand curves

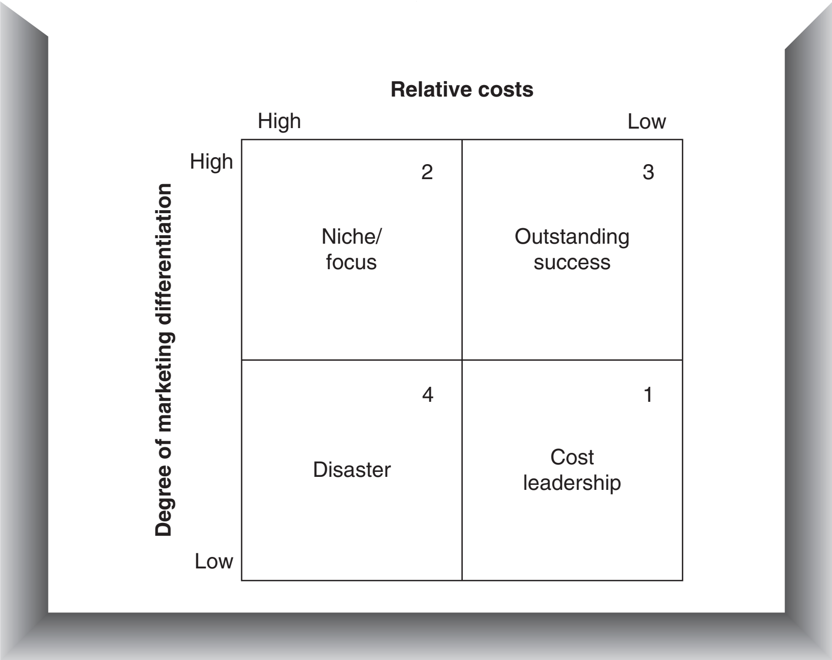


Figure 13.8
Cost versus differentiation matrix
Source: Porter, M.E. (1985) *Competitive Advantage – Creating and Sustaining Superior Performance*. New York: Free Press.

It can be seen that Box 1 represents a sound strategy, particularly in commodity-type markets such as bulk chemicals, where differentiation is harder to achieve because of the identical nature of the chemical make-up of the product. In such cases, it is wise to recognize the reality and pursue a productivity drive with the aim of becoming the lowest cost producer. Likewise, companies who base their offer around low price, such as Wal-Mart and easyJet, clearly have to focus their resources on being the lowest cost producer in the market. It is here that the **experience effect** becomes especially important.

Definition: The experience effect, which also includes the 'learning curve', reflects the improvements (usually resulting in lower costs) that result from economies of scale, learning and improved productivity over time.

Very briefly, the experience effect, which also includes the 'learning curve', is recognition of the fact that the more we do something, the better we are at doing it. Included in the experience effect are such items as better productivity from plant and equipment, product design improvements, process innovations, labour efficiency, work specialization, and so on. In addition to the experience effect, and not necessarily mutually exclusive, are *economies of scale* that come with growth. For example, capital costs do not increase in direct proportion to capacity, which results in lower depreciation charges per unit of output, lower operating costs in the form of the number of operatives, lower marketing, sales, administration, and research and development costs, and lower raw materials and shipping costs. It is generally recognized, however, that cost decline applies more to the value-added elements of cost than to bought-in supplies. In fact, the Boston Consulting Group discovered that costs declined by up to 30% for every cumulative doubling of output. This phenomenon is shown in Figure 13.9.

Cost decline applies more to the value-added elements of cost than to bought-in supplies.

There is sufficient evidence to show that this real cost reduction actually occurs, in which case it follows that the greater your volume, the lower

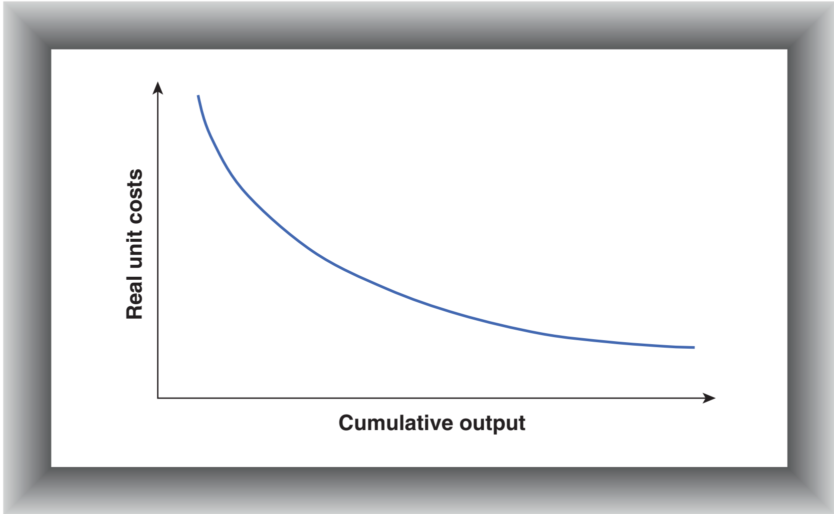


Figure 13.9
The impact on unit costs of the learning curve

your unit costs should be. Thus, irrespective of what happens to the price of your product, providing you have the highest segment share (hence the biggest volume), you should always be relatively more profitable than your competitors.

> Many companies, however, such as Mercedes and BMW, could not hope to be the lowest cost producers (though they still seek to keep their costs under control). Consequently, their whole corporate philosophy is geared to differentiation and what we have called 'added value'. Clearly, this represents a sensible strategy for any company that cannot hope to be a world cost leader and, indeed, many of the world's great companies succeed by means of such a focus and locate themselves in Box 2 (in Figure 13.8). Many of these companies also succeed in pushing themselves into Box 3, the outstanding success box, by occupying what can be called 'global fortresses'. A good example of this is NCR, who dominate the world's banking and retail markets with their focused technological and marketing approach. American Express is another.
>
> Companies like 3M, McDonald's and General Electric, however, typify Box 3, where low costs, differentiation and world leadership are combined in their corporate strategies. Nothing, however, is forever and readers will be aware of the problems suffered not so long ago by McDonald's as a result of the backlash of the health lobby.

Only Box 4 remains. Here we can see that a combination of commodity-type markets and high relative costs will result in disaster sooner or later. A position here is tenable only while demand exceeds supply.

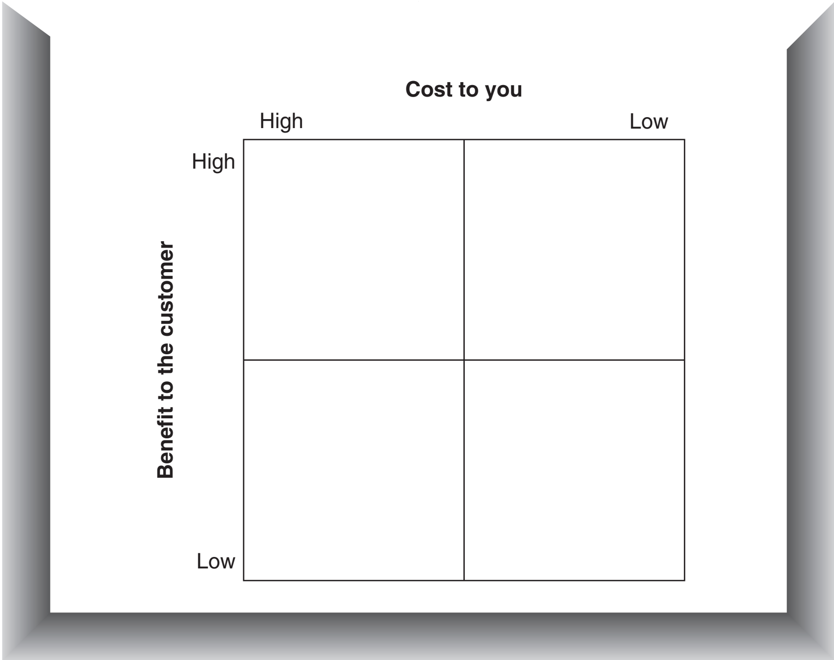


Figure 13.10
Cost/benefit matrix

When, however, segments in these markets mature, there is little hope for companies who find themselves in this unenviable position.

An important point to remember when thinking about differentiation as a strategy is that you must still be *cost effective*. It is a myth to assume that sloppy management and high costs are acceptable as long as the product has a good image and lots of added value. Also, in thinking about differentiation, please refer back to the section on benefit analysis in Chapter 7, for it is here that the route to differentiation will be found. It is also clear that there is not much point in offering benefits that are costly for you to provide but which are not highly regarded by customers: in other words, benefits which are not their decisive buying criteria (DBCs). So consider using a matrix like the one given in Figure 13.10 to classify your benefits. Clearly, you will succeed best by providing as many benefits as possible that fall into the top right-hand box.

> ICI, now part of AkzoNobel, is an example of a company that proactively strove to change its global strategy by systematically moving away from bulk chemicals in Box 1 (in Figure 13.8) towards speciality chemicals in Box 2 and then going on to occupy a 'global fortress' position in these specialities (Box 3). This, however, proved to be very difficult in mature markets.

The main point here, however, is that when setting marketing objectives, it is essential for you to have a sound grasp of the position in your segments of yourself and your competitors and to adopt appropriate postures for the several elements of your business, all of which *may* be different. It may be necessary, for example, to accept that part of your product portfolio is in the ‘Disaster’ box (Box 4 in Figure 13.8). You may well be forced to have some products here, for example, to complete your product range to enable you to offer your more profitable products into your chosen segment(s). The point is that you must adopt an appropriate stance towards these products and set your marketing objectives accordingly, using where appropriate the guidelines given in Figure 13.5 and Table 13.1.

Finally, here are some very general guidelines to help you think about competitive strategies.

1. Know the terrain on which you are fighting (the market and its segments).
2. Know the resources of your enemies (competitive analysis).
3. Do something with determination that the enemy is not expecting.

Where to start – gap analysis

Figure 13.11 illustrates what is commonly referred to as ‘gap analysis’. Essentially, what it says is that if the corporate sales and financial objectives are greater than the current long-range trends and forecasts, there is a gap which has to be filled.

This gap can be filled in six ways:

1. improved productivity (for example, reduce costs, improve the sales mix, increase prices, reduce discounts, improve the productivity of the sales force);
2. segment penetration (for example, increase usage, increase segment share);
3. new products;
4. new segments (for example, new user groups, enter new segments, geographical expansion);
5. a combination of new products and segments;
6. new strategies (for example, acquisition, joint ventures, licensing, franchising).

Another option, of course, is to reduce the objectives!

Gap analysis is best done in two separate steps. Step 1 should be done for sales revenue only, so under the gap in Figure 13.11, reducing costs is not relevant as we are only interested in revenue growth. Step 2 should then go through the same stages, but this time looking at the profit and costs implications of achieving the sales growth.

A detailed methodology for completing both steps is given in the Exercises section of this chapter.

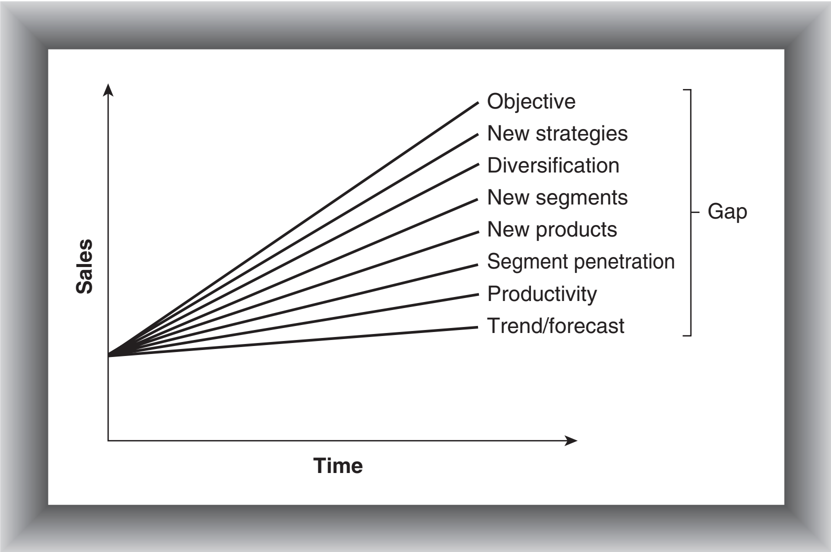


Figure 13.11
Gap analysis

If improved productivity is one method by which the profit gap is to be filled, care must be taken not to use measures such as 'to reduce marketing costs by 20% overall'. The portfolio analysis undertaken earlier will indicate that this would be totally inappropriate for some segments (although it may be applicable to some of the products at the later stages of their life cycle sold into these segments) for which increased marketing expenditure may be needed, while for others a 20% reduction in marketing costs may not be sufficient.

As for sales growth options, it is clear that productivity improvements and segment penetration should always be a company's first option, since it makes far more sense to attempt to increase profits and cash flow from *existing* products and segments initially, because this is usually the least costly and the least risky. This is so because, for its present products and segments, a company has developed knowledge and skills which it can use competitively. Associated with this is the growing interest in customer retention and there is now much evidence to show that keeping existing customers can be a source of ever-increasing profits.

As for sales growth options, it is clear that productivity improvements and segment penetration should always be a company's first option.

Marketing insight

An industrial laundry almost doubled its profits per customer over five years. A car-servicing business expects fourth-year customers to generate three times the profit of a first-year customer. A distributor of industrial products found that net sales per account continued to rise even into the nineteenth year of the relationship.

For the same reason, it makes more sense in many cases to move along the horizontal axis of the Ansoff Matrix for further growth before attempting to find new segments. The reason for this is that it normally takes many years for a company to get to know its segments and to build up a reputation. That reputation and trust, embodied in either the company's name or in its brands, is not so easily transferable to new segments, where other companies are already entrenched. Toyota fully understood this when deciding to enter the market served by luxury cars and launched its luxury range, first in the USA in 1989, under the 'Lexus' brand name. Toyota was also fully prepared for the length of time, and expense, it would take for its new Lexus branded cars to become established in their target segments. Today, the brand name 'Lexus' is synonymous with luxury and its association with Toyota rarely recognized.[1]

It is essential that you ensure that the method chosen to fill the gap is consistent with the company's capabilities and builds on its strengths.

Marketing insight

For example, it would normally prove far less profitable for a dry-goods grocery manufacturer to introduce frozen foods than to add another dry-foods product. Likewise, if a product could be sold through existing channels using the existing sales force, this is far less risky than introducing a new product that requires new channels and new selling skills.

New products should be consistent with the company's known strengths and capabilities. Diversification is the riskiest strategy of all.

Exactly the same applies to the company's operations, distribution and people. Whatever new products are developed should be as consistent as possible with the company's known strengths and capabilities. Clearly, the use of existing operations capacity is generally preferable to new processes. Also, the amount of additional investment is important. Technical personnel are highly trained and specialized, and whether this competence can be transferred to a new field must be considered. A product requiring new raw materials may also require new handling and storage techniques, which could prove expensive.

Marketing insight

It can now be appreciated why going into new segments with new products (diversification) is the riskiest strategy of all, because *new* resources and *new* management skills have to be developed. This is why the history of commerce is replete with examples of companies that went bankrupt through moving into areas where they had little or no distinctive competence.

[1]In late 2009 and early 2010 Toyota had to recall some of its Toyota and Lexus branded models due to technical faults experienced on a number of cars. This much publicized recall eroded trust in both brands, particularly in their reliability, and threatened to blur the carefully nurtured distinction between them. Although volumes, profits and its global market share have fallen since then, a position not helped by disruptions in the supply of parts caused by the earthquake and tsunami in Japan on 11 March 2011, the two brands appear to have retained their distinct identities.

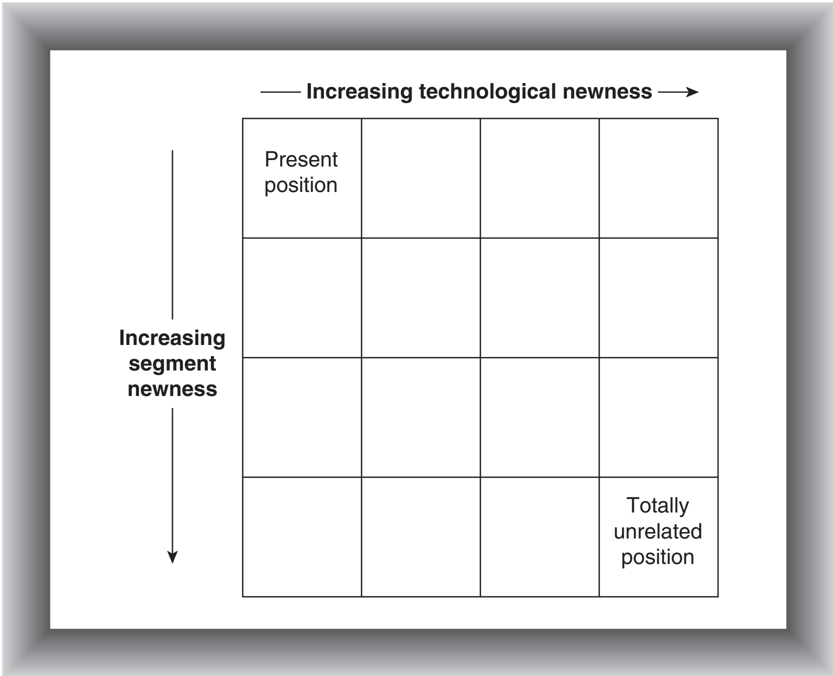


Figure 13.12 Technological and segment newness

This is also why many companies that diversified through acquisition during periods of high economic growth have since divested themselves of businesses that were not basically compatible with their own distinctive competence.

The Ansoff Matrix, of course, is not a simple four-box matrix, for it will be obvious that there are degrees of technological newness, as well as degrees of segment newness. Figure 13.12 illustrates the point. It also demonstrates more easily why any movement should generally aim to keep a company as close as possible to its present position, rather than moving it to a totally unrelated position, except in the most unusual circumstances.

Nevertheless, the life cycle phenomenon will inevitably *force* companies to move along one or more of the Ansoff Matrix axes if they are to continue to increase their sales and profits. A key question to be asked, then, is *how* this important decision is to be taken, given the risks involved.

A full list of the possible methods involved in the process of gap analysis is given in Figure 13.13. An even more detailed list, including what needs to be measured, is given in Figure 13.14. This also suggests that executives should try to discriminate between marketing expenditure which is essential to maintain the business (maintenance) and marketing expenditure to develop the business (development). From this it will be seen that there is nothing an executive can do to fill the gap that is not included in the list. The precise methodology to implement this concept can be found in McDonald and Wilson (2011).

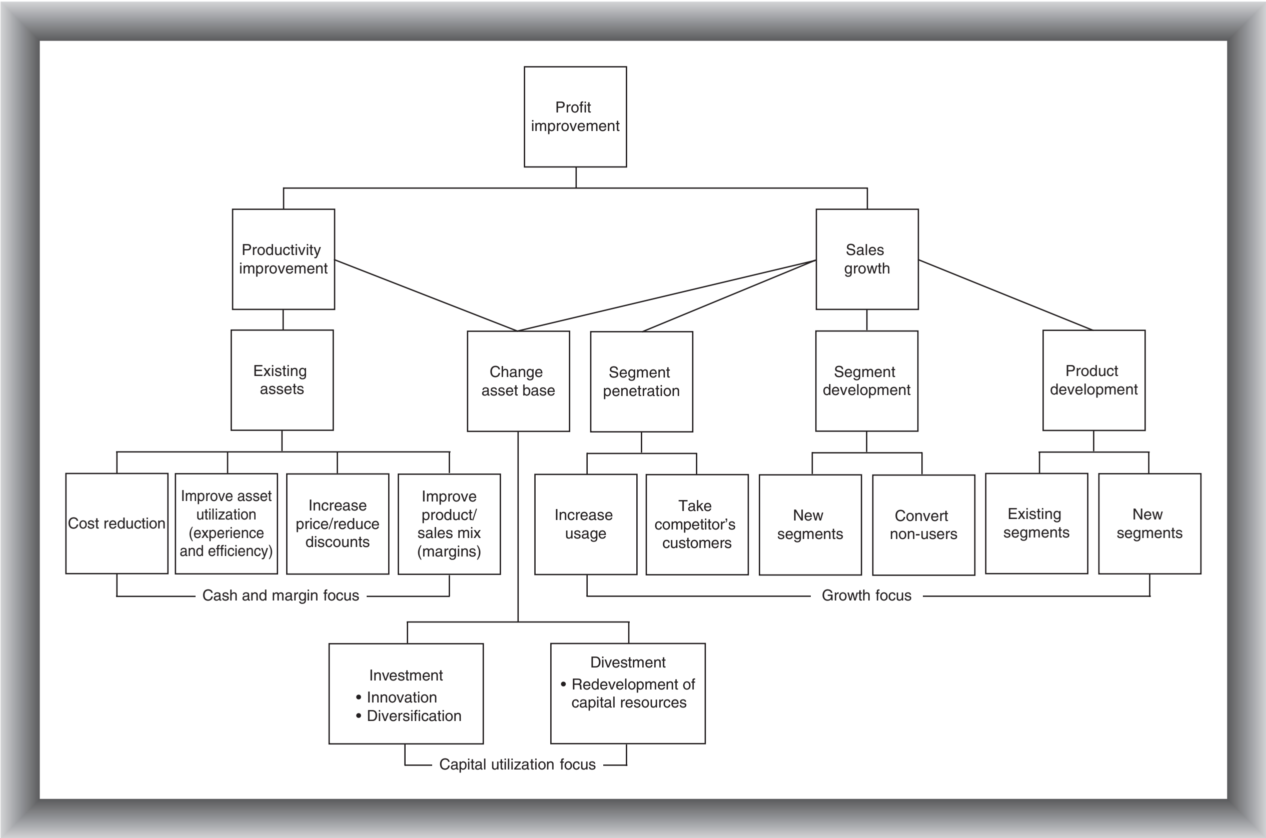


Figure 13.13 Profit/division profit improvement options (after Professor John Saunders, Aston University, used with kind permission)

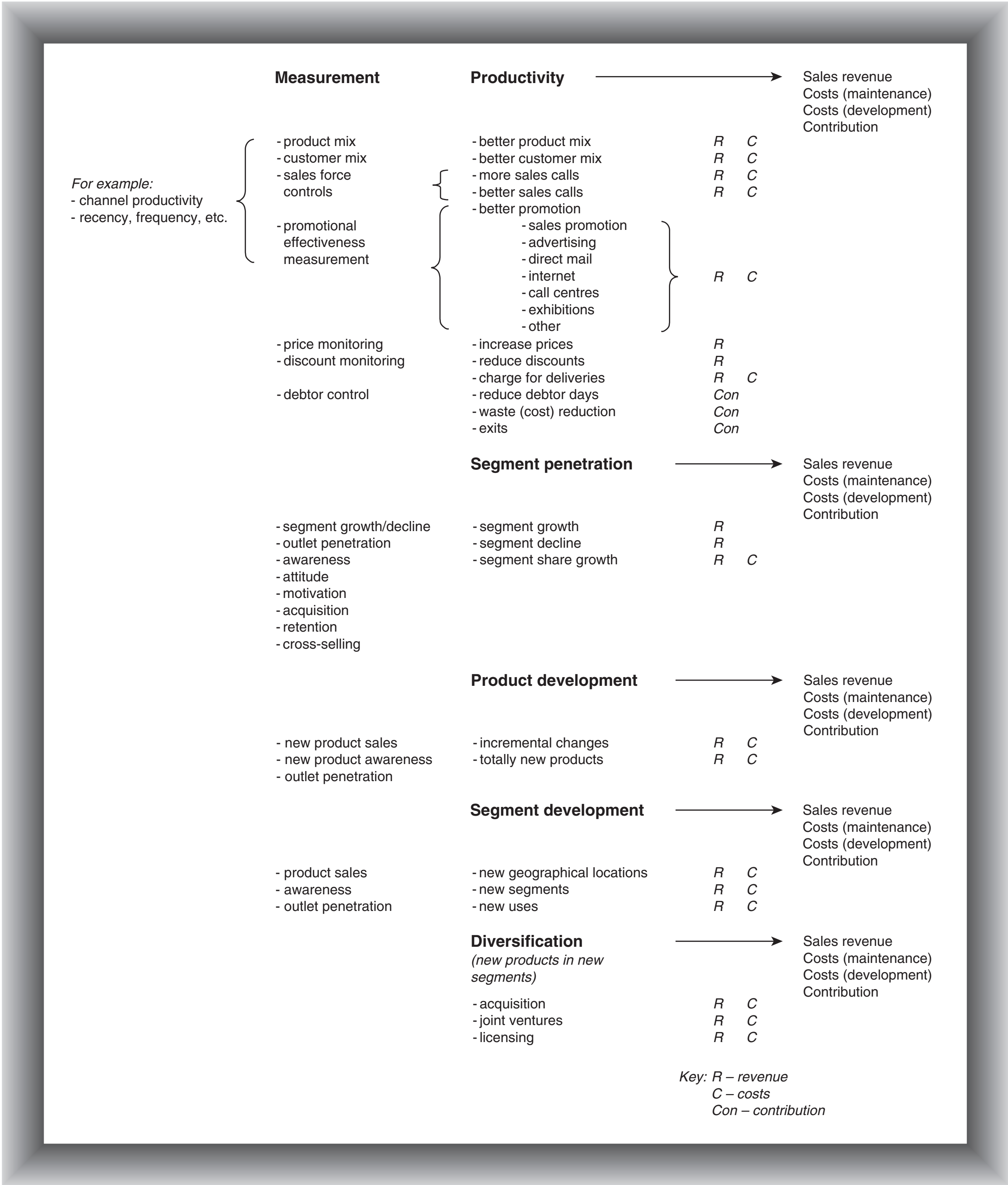


Figure 13.14 Comprehensive list of options for filling the ‘gap’ and suggested measurements

At this point, it is important to stress that the ‘objectives’ point in gap analysis should *not* be an extrapolation, but your own view of what revenue would make this into an excellent business.

Marketing insight

The word 'excellent' must, of course, be relative only to comparable businesses. If all the executives in a company responsible for strategic business units were to do this, and then work out what needed to be done to fill any gaps, it is easy to understand why this would result in an excellent overall business performance. Instead, what often happens is that executives wait until there is a crisis before doing any strategic planning. For many such organizations, alas, during the late 1980s and early 1990s, it was all left too late and many went bankrupt. In the late 1990s and at the dawn of the new century, countless dotcom businesses jumped on the internet bandwagon with no properly thought-out strategies, and their demise was inevitable. The recession that saw in the second decade of the twenty-first century has also taken its toll of companies that had given insufficient time to strategic planning.

One final point to make about gap analysis based on the Ansoff Matrix is that, when completed, the details of exactly *how* to achieve the objectives still needs to be worked out. This is the purpose of the strategic marketing plan. So, gap analysis represents a very useful starting point in mapping out the general route, which is why we suggest you start here, rather than going to all the trouble of preparing a strategic marketing plan only having to change it later. The point is, however, that gap analysis using the Ansoff Matrix is *not* a marketing plan.

New product development

Although it is not the purpose of this book to explore in detail any of the sub-sets of marketing, such as market research, new product development and diversification, and so on, it would nonetheless be quite useful to outline briefly the process of new product development and its relationship to the gap analysis described earlier. As already stated in this chapter, sooner or later all organizations will need to move along one or both axes of the Ansoff Matrix.

After understanding how the company relates to its market along with gap analysis have clarified the place of new product development in a broad company context, the organization must examine the micro-considerations. These involve the range of factors that must be taken into account when a product is assessed in terms of its fit within the product portfolio and its contribution towards objectives.

New product development can usefully be seen as a process consisting of the following seven steps:

1. **Idea generation** – the search for product ideas to meet company objectives.
2. **Screening** – a quick analysis of the ideas to establish those which are relevant.
3. **Concept testing** – checking with the appropriate segments that the new product ideas are acceptable.

4. **Business analysis** – the idea is examined in detail in terms of its commercial fit in the business.
5. **Product development** – making the idea 'tangible'.
6. **Testing** – market tests necessary to verify early business assessment.
7. **Commercialization** – full-scale product launch, committing the company's reputation and resources.

Marketing strategies

What a company wants to accomplish, then, in terms of such things as segment share and volume is a 'marketing objective'. How the company intends to go about achieving its objectives is 'strategy'. Strategy is the overall route to the achievement of specific objectives and should describe the means by which objectives are to be reached, the time programme and the allocation of resources. It does not delineate the individual courses the resulting activity will follow.

Strategy is the route to the achievement of specific objectives and describes how objectives will be reached.

There is a clear distinction between strategy and detailed implementation, or tactics. **Marketing strategy** reflects the company's best opinion as to how it can most profitably apply its skills and resources to the marketplace. It is inevitably broad in scope. The plan which stems from it will spell out action and timings and will contain the detailed contribution expected from each department.

Definition: Marketing strategies are the means by which a company achieves its marketing objectives and are usually concerned with the four Ps.

There is a similarity between strategy in business and strategic military development. One looks at the enemy, the terrain, the resources under command, and then decides whether to attack the whole front, an area of enemy weakness, to feint in one direction while attacking in another, or to attempt an encirclement of the enemy's position. The policy and mix, the ways in which they are to be used, and the criteria for judging success, all come under the heading of strategy. The action steps are tactics.

Similarly, in marketing, the commitment, mix and type of resources as well as guidelines and criteria that must be met, all come under the heading of strategy. For example, the decision to use distributors in all but the three largest segments, in which company salespeople will be used, is a strategic decision. The selection of particular distributors is a tactical decision.

The following headings indicate the general content of strategy statements in the area of marketing which emerge from marketing literature:

1. Policies and procedures relating to the products to be offered, such as number, quality, design, branding, packaging, positioning, labelling, and so on.
2. Pricing levels to be adopted, margins and discount policies for products in particular segments.

3. Advertising, sales promotion, direct mail, call centres and the internet, along with the mix of these, the creative approach, the type of media, type of displays, the amount to spend, and so on.
4. What emphasis is to be placed on personal selling, the sales approach, sales training, and so on.
5. The distribution channels to be used and the relative importance of each.
6. Service levels, and so on, in relation to different segments.

Thus, marketing strategies are the means by which marketing objectives will be achieved and are generally concerned with the four major elements of the marketing mix as follows:

- **Product** The general policies for product branding, positioning, deletions, modifications, additions, design, packaging, and so on.
- **Price** The general pricing policies to be followed for product groups in market segments.
- **Promotion** The general policies for communicating with customers under the relevant headings, such as: advertising, sales force, sales promotion, public relations, exhibitions, direct mail, call centres, the internet, and so on.
- **Place** The general policies for channels and customer service levels.

Translating these four Ps from what the organization does to what the customer cares about can be thought of as the fours Cs: 'customer needs', total 'cost' (not necessarily just the upfront price), 'communications' and 'convenience'.

The following list of marketing strategies (in summary form) covers the majority of options open under the headings of the four Ps:

1. **Product**
   - expand the line
   - change performance, quality or features
   - consolidate the line
   - standardize design
   - positioning
   - change the product portfolio
   - branding
2. **Price**
   - change price, terms or conditions
   - skimming policies
   - penetration policies

3. **Promotion**
   - change advertising or promotion
   - change the mix between direct mail, call centres, the internet
   - change selling
4. **Place**
   - change delivery or distribution
   - change service levels
   - change channels
   - change the degree of forward or backward integration

You should refer to McDonald and Wilson (2011), Chapters 7–11, for a much more detailed consideration of promotion, pricing, service and distribution. These chapters describe what should appear in advertising and sales promotion, sales, customer relationship management (CRM), pricing and place plans. This detail is intended for those whose principal concern is the preparation of a detailed one-year operational or tactical plan. All the product options are covered in Chapter 5 of the same book. The relationship between this detail and the strategic plan is in the provision of information to enable the planner to delineate broad strategies under the headings outlined above.

Formulating marketing strategies is one of the most critical and difficult parts of the entire marketing process. It sets the limit of success. Communicated to all management levels, it indicates what strengths are to be developed, what weaknesses are to be remedied, and in what manner. Marketing strategies enable operating decisions to bring the company into the right relationship with the emerging pattern of market opportunities, which previous analysis has shown to offer the highest prospect of success. Of invaluable assistance here are the insights gained from a market segmentation project conducted along the lines detailed in this book.

Formulating marketing strategies is one of the most critical and difficult parts of the entire marketing process.

Developing effective marketing strategies for identified segments

The portfolio matrix completed at the conclusion of your segmentation project will have enabled you to identify your key market segments. The parts of the offer to prioritize in order to improve your position in each of these segments will be apparent from the competitive strength evaluation you undertook in order to complete the matrix. In addition, the detailed analysis undertaken beforehand will enable you to develop the specific marketing strategies to pursue. Tables 13.2 and 13.3, which are repeats of Tables 10.3 and 10.1, respectively, in Chapter 10, illustrate the point with Table 13.2 highlighting the priorities and Table 13.3 the specific marketing strategies.

Table 13.2 Using competitive strength evaluation to prioritize areas for improvement

Segment 4								
DBCs & CSFs		***Weight***	***Your company***		***Competitor A***		***Competitor B***	
			Score	***Total***	***Score***	***Total***	***Score***	***Total***
1.	Delivery	50	6	3.0	9	4.5	4	2.0
2.	Product	25	8	2.0	6	1.5	10	2.5
3.	Image	15	8	1.2	8	1.2	6	0.9
4.	Price	10	5	0.5	6	0.6	3	0.3
	Total	100		6.7		7.8		5.7

Note: A reminder: DBCs ('decisive buying criteria') refer to the attributes of a purchase that customers evaluate when choosing between alternative offers and describes customer needs. CSFs ('critical success factors') refer to the constituents of an offer that enable companies to deliver the benefits customers are seeking. CSFs therefore describe for the company the relevant product, price, promotion and place requirements (and all other relevant 'Ps'). The specific CSFs appear in Table 13.3.

Table 13.3 Using DBCs and CSFs to determine specific marketing strategies

Segment 4		
Decisive buying criteria and their constituent critical success factors		***Weight***
1.	Delivery reliability: ≥95% within 30 minutes of the agreed time	50
2.	Product technical performance: temperature range tolerance	25
3.	Leading edge image: e-business, product materials pioneer	15
4.	Price	10
	Total	100

From Table 13.2 it is clear that the company must substantially improve its 'delivery' if it is to outperform its prime competitor, Competitor A. This is because:

1. it is notably weaker in this area than Competitor A; and
2. the segment attributes 50% of its decision to this factor.

The specific aspect of 'delivery' to improve is identified in Table 13.3, this information coming from the needs analysis that went into developing the segment.

By investing in delivery reliability and securing a perceptible improvement with the segment in its on-time deliveries, to such an extent that it was seen to be on a par with Competitor A, the company's overall offer would outperform that of Competitor A. The company's total competitive score would increase to 8.2, the highest in the market (assuming its competitors continue with current strategies).

The next area to consider improving for this segment would be 'product' as this accounts for 25% of the decision. The company may already be outperforming its prime competitor in the technical performance of its product, but Competitor B, by scoring top marks in this area, clearly shows there is room for improvement.

What is also clear with this segment is that directing resources to improve the company's price perception, such as cutting its price, would add little to its competitive strength, price accounting for only 10% of the segment's decision. In fact, with improved delivery reliability and product technical performance, the company could consider increasing its price once it was certain these improvements had registered with the segment. This would, of course, weaken its perceived performance for this part of the proposition, but as it accounts for so little of the overall decision the effect of such a change would be very small.

To conclude this section it should be pointed out that in many instances it is useful to apply a healthy dose of creativity when developing strategies. Although your segmentation project will have identified the specific needs to address, developing new product and service ideas that could better meet these needs will often lift your perceived competitive performance above that obtained by simply improving the specific products and services offered today. The concept of product life cycles was briefly mentioned earlier in this chapter and readers referred to McDonald and Wilson (2011) for a full explanation.

Marketing in a downturn

At the time of writing, global economic forecasts have been revised downwards and although growth is still generally expected to remain positive there is particular concern about the eurozone where recession is being forecast due to the region's sovereign debt problem. It therefore seems appropriate to include a few comments about marketing in a downturn.

The typical reaction to recessions is what Andrew Lorenz describes as 'anorexia industrialosa': an excessive desire of an organization to be leaner and fitter, leading to emaciation and eventually death. This unfortunate outcome usually comes about because the response to a recession generally leads to a worsening of customer service, and customers will not tolerate this anymore.

Today, customers can search for and evaluate information about products independently of those who have a vested interest in selling them. This enables customers to explore all the options available to them, assess their current suppliers against competitors and determine who most effectively acts in the customers' interest.

On top of this, institutional shareholders have been pressurizing companies to report meaningful facts about corporate performance rather than the traditional, high-level financial reporting that has appeared every year in corporate accounts. This has led to business leaders being forced to re-examine tired corporate behaviours such as cost-cutting and downsizing as the route to profitability in recessionary times.

In times of recession, and as economies emerge from recession, marketing should be even more centre stage than it is during periods of growth. All that will work is a company-wide focus on market segments and customers with whom you want to work in the long term. Companies such as Tesco who see their core purpose as being 'to continually increase customer value to earn their lifetime loyalty' and who engage everyone in the business to focus on the customer, will see the other side of a recession in a far stronger position than those who take their eye off the customer ball. Of course in times of economic uncertainty, even great companies like Tesco can make tactical errors of judgement, as they did in the build-up to Christmas 2011, but their underlying customer-focused strategies bode well for their long-term future.

In light of the above, here are some guidelines for managing in a recession:

1. Remember that customers are attracted by promises, but are retained through their experiences. This means that if you cannot describe the value required by customers, you certainly will not be able to deliver it. So, understanding customer needs is essential.
2. Do not try to cover too many markets, segments and customers. Focus on the ones you want to be with in the long term.
3. Reduce your product portfolio, in other words, do you have too many products, services, pack sizes, and so on?
4. Look carefully at your distribution network. Has it grown too big?
5. Improve the productivity of all your promotional spend, especially that of the sales force.
6. Get your costs down in unproductive areas of the business. This includes costs associated with serving unprofitable markets, segments and customers.
7. Work out who are your key accounts. Take them away from the general sales force and give one to each of your best managers.
8. Do not let the sales force do big deals. Within days *everyone* will have maximum discounts.
9. Selectively attack (focus on) competitors' key segments that are attractive to you and with whom your offer is perceived as competitively strong. Do not be concerned about losing business in unprofitable segments.
10. Keep the heart of the business: key markets, key segments, key customers and key products.

Above all, do not sacrifice competitive strength in your key market segments in order to maintain return on investment. Rather, look for ways to improve your competitive position with them. Recessions do not last forever but a valued customer lost through dissatisfaction can take forever to win back.

Marketing objectives, strategies and profitability – valuing key market segments

Finally, guidelines follow on the *profitability* aspects of setting marketing objectives and strategies for your key market segments.

It is strongly advised, however, that you consult your accountant when considering this section, as the methodology described is quite complex and the implications are very profound for the total organization.

Background/facts

- Risk and required return are positively correlated, in other words, as risk increases, investors expect a higher return.
- Risk is measured by the volatility in expected returns, in other words, the likelihood of making a very good return or losing money. This can be described as the quality of returns.
- All assets are defined as having future value to the organization. Hence, assets to be valued include not only tangible assets like plant and machinery, but intangible assets, such as key market segments.
- The present value of future cash flows is one of the most acceptable methods to value assets including key market segments.
- The present value is increased by:
  - increasing the future cash flows;
  - making the future cash flows 'happen' earlier;
  - reducing the risk in these cash flows, in other words, improving the certainty of these cash flows (hence the required return).

Suggested approach

- Identify your key market segments according to their attractiveness to your company and your relative competitiveness in them, as suggested in Chapters 9 and 10.
- Based on your current experience and planning horizon that you are confident with, make a projection of future net free cash in-flows from your segments. These calculations will consist of three parts:
  - revenue forecasts for each year;
  - cost forecasts for each year;
  - net free cash flow for each segment for each year.

- Identify the key factors that are likely to either increase or decrease these future cash flows. We suggest identifying the top five factors. These factors are likely to be assessed according to the following:
  - the riskiness of the product/market segment relative to its position on the Ansoff Matrix;
  - the riskiness of the marketing strategies to achieve the revenue and segment share;
  - the riskiness of the forecast profitability (for example, the cost forecast accuracy).
- Now recalculate the revenues, costs and net free cash flows for each year, having adjusted the figures using the risks (probabilities) from the above.
- Ask your accountant to provide you with the overall strategic business unit cost of capital and capital used in the strategic business unit. This will not consist solely of tangible assets. Thus, £500,000 capital at a required shareholder rate of return of 10% would give £50,000 as the minimum return necessary.
- Deduct the proportional cost of capital from the net free cash flow for each segment for each year.
- An aggregate positive net present value indicates that you are creating shareholder value, in other words, achieving overall returns greater than the weighted average cost of capital, having taken into account the risk associated with future cash flows.

For a full explanation of the above methodology, see McDonald *et al.* (2007).

Chapter 13 review

This chapter has confirmed the need for setting clear, definitive objectives for all aspects of marketing, and that marketing objectives themselves have to derive logically from corporate objectives. The advantages of this practice are that it allows all concerned with marketing activities to concentrate their particular contribution on achieving the overall marketing objectives, as well as facilitating meaningful and constructive evaluation of all marketing activity.

Because marketing objectives have to be set within the framework of the corporate plan, we began by discussing the relationship between corporate objectives and marketing objectives. In doing so we identified that a hierarchy of objectives existed within organizations and that corporate objectives would only be accomplished if all these levels of objectives were achieved. We used this as the opportunity to explain the difference between an objective and a strategy because at whatever level you are in an organization, what you want to achieve at that level is an objective, how you plan to achieve it is your strategy. Those responsible for implementing the strategies set the required outcomes as their objectives, and how they plan to achieve them become, in turn, their strategies. The result is an intricate web of interrelated objectives and strategies built up at all levels within the framework of the overall company plan. By breaking down the overall objectives this way, the problem of strategy development becomes more manageable, hence easier.

Next, we discussed how to set marketing objectives and introduced the Ansoff Matrix (Ansoff, 1957) as a useful tool for thinking about these objectives. Here we pointed out that because it is only by selling something (a 'product') to someone (a 'segment') that any firm can succeed in staying in business, this means that marketing objectives are concerned solely with products and segments. We also introduced into the discussion the need to relate the general marketing direction of these objectives to the life cycles and portfolio analyses of both your products and your chosen segments and, while doing so, provided some guidelines for appropriate strategies.

We then considered developments in the field of competitive strategies as it is only by developing a sustainable competitive advantage that a company can hope to succeed. Here we introduced a simple matrix for competitive advantage developed by Michael Porter (1985) and briefly ran through its implications for companies.

With all the tools for objective setting in place, we then looked at using 'gap analysis' as a start to the process of marketing planning. Here we identified six ways of filling the gap between corporate sales and financial objectives and the current long-range trends and forecasts when the latter were predicted to fall short of the former, and used the Ansoff Matrix to identify where the least and most risky strategies were to be found. Considerations with respect to the portfolio and life cycle analysis were also discussed.

After a brief review of new product development we took a look at marketing strategies and how these were the means by which a company achieved its objectives and were usually concerned with the four Ps. Here we emphasized that formulating marketing strategies was one of the most critical and difficult parts of the marketing process. We then looked at how to identify the specific marketing strategies to adopt in order to improve your competitive position in key market segments. Guidance for this came from the competitive strength evaluation undertaken in the final step of the segmentation process and the detailed analysis undertaken beforehand to form the concluding segments.

This was followed by a short discussion about marketing in a downturn which highlighted the importance of customer focus to surviving these economic dips. A series of guidelines were then suggested for managing in a downturn.

Finally, we provided guidelines on the profitability aspects of setting marketing objectives and strategies and how to value key market segments having taken into account the risks associated with their future cash flows.

Here it is worth stressing that the vital phase of setting objectives and strategies is a highly complex process which, if done badly, will probably result in the considerable misdirection of resources. For more detailed insights into this key aspect of marketing and a practical guide to marketing planning, readers are recommended to refer to McDonald and Wilson (2011).

Exercises

The exercise shown here, concerned with carrying out a gap analysis, is in two parts. The first part considers *revenue* and the second part considers *profit*.

A series of worksheets accompany this exercise. Make as many copies of these worksheets as you need.

Exercise 13.1 – Revenue

Objective

Start by plotting the sales position you wish to achieve at the end of your planning period, illustrated by point ‘E’ in Figure 13.15.

Next, plot the forecast position, point ‘A’ in Figure 13.15.

Productivity

Are there any actions you can take to close the gap under the headings in Table 13.4? Plot the total revenue value of these actions, point ‘B’ in Figure 13.15. (These represent cash and margin focus.)

Existing products/existing segments (segment penetration)

List your principal products on the horizontal axis of Figure 13.16 and principal segments on the vertical axis. In each smaller square, write in current sales (top left) and achievable sales during the planning period (bottom right). Figure 13.16 represents the top left quadrant of the Ansoff Matrix (see Figure 13.2).

Now, plot the segment penetration position, point ‘C’ in Figure 13.15. This point will be the addition of all the values in the bottom right of the small boxes in the Ansoff Matrix (Figure 13.16). Please note, revenue from productivity actions (1), (2), (3) and (4) in Table 13.4 should be deducted from the segment penetration total before plotting point ‘C’.

New products/existing segments and existing products/new segments

Next, list the value of any new products you might develop for existing segments (Figure 13.17). Alternatively, or in addition, if necessary, list

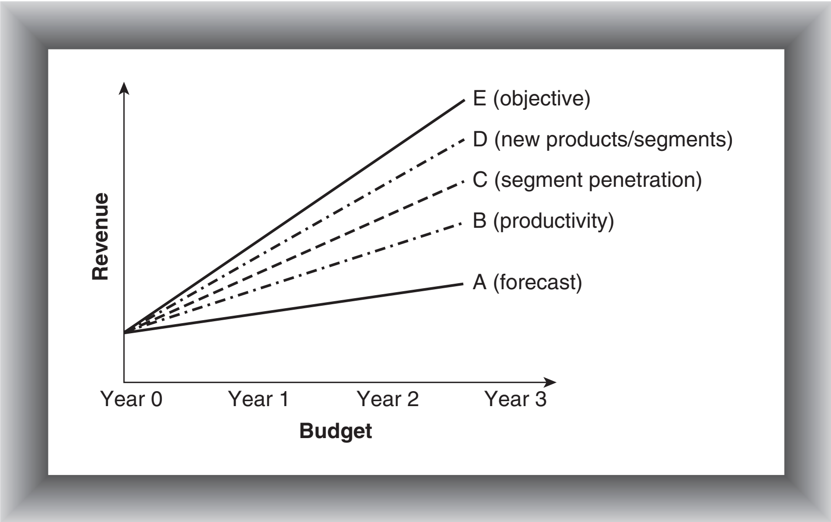


Figure 13.15 Gap analysis – plotting the revenue positions for Exercise 13.1

Table 13.4 Worksheet – productivity actions to close the sales gap

Productivity (NB. Not all factors are mutually exclusive)	***Revenue***
Better product mix (1)	
Better customer mix (2)	
More sales calls (3)	
Better sales calls (4)	
Increase price	
Reduce discounts	
Charge for deliveries	
Total	

Note: The numbers in parentheses are referred to in the next course of action.

the value of any existing products that you might sell to new segments (Figure 13.18). Figures 13.17 and 13.18 represent the top right and bottom left quadrants, respectively, of the Ansoff Matrix. Plot the total value of these, point 'D' in Figure 13.15.

New products/new segments (diversification)

List the value of any new products you might develop for new segments until point 'E' is reached. (This step, along with the previous two steps, represents a sales growth focus.)

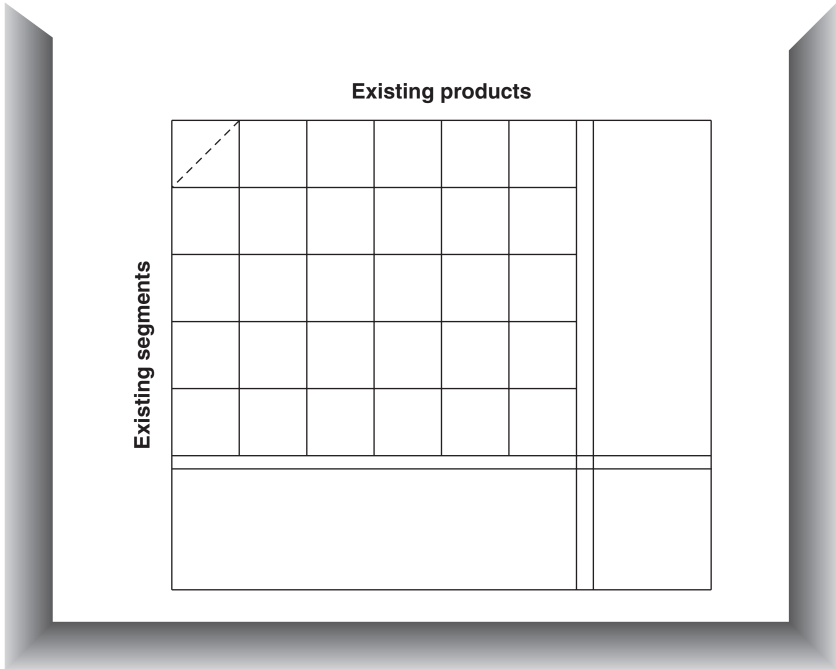


Figure 13.16 Worksheet – current and achievable sales revenue of existing products in existing segments

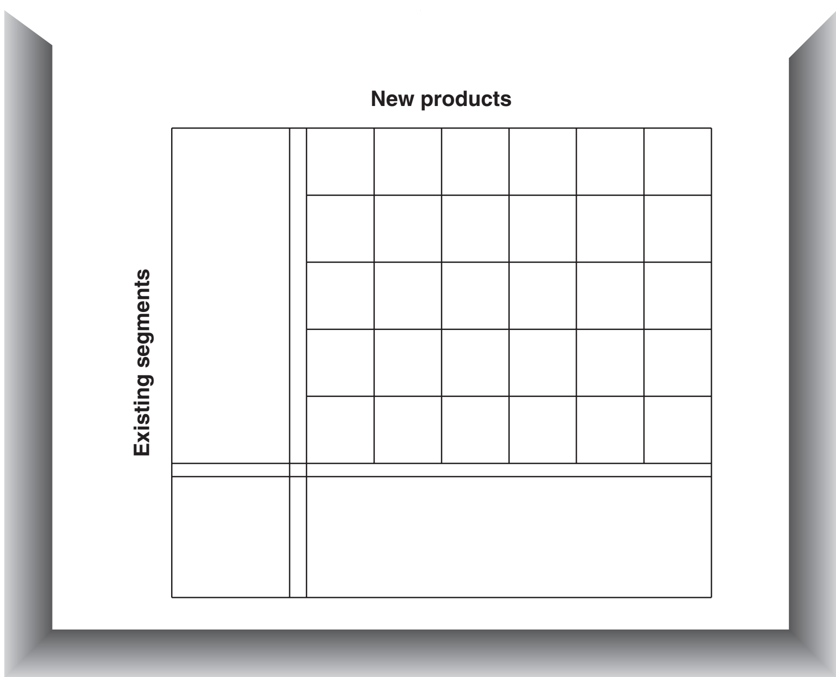


Figure 13.17 Worksheet – sales revenue of new products in existing segments

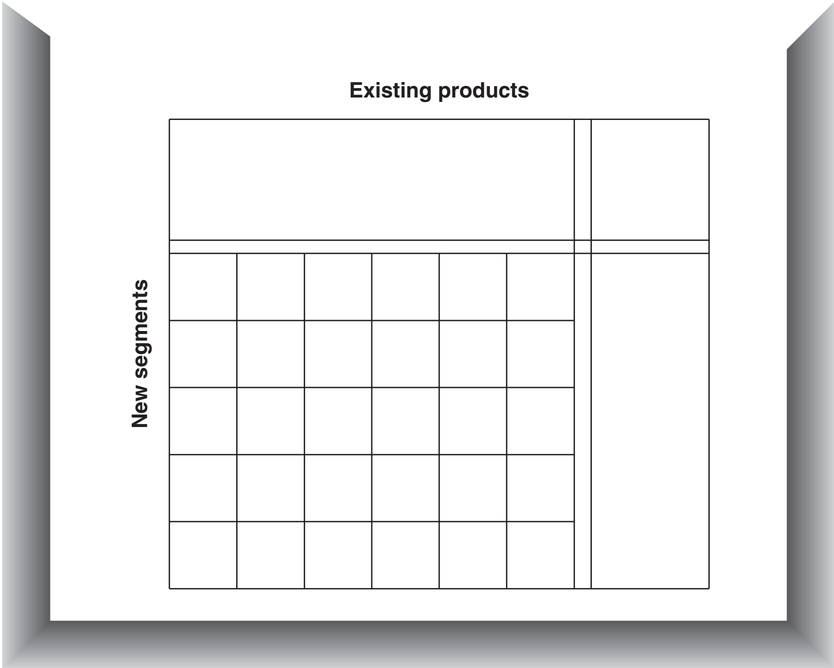


Figure 13.18 Worksheet – sales revenue of existing products in new segments

Capital utilization
If none of this gives you the required return on investment, consider changing the asset base. This could be:

1. acquisition;
2. joint venture.

Exercise 13.2 – Profit

Objective
Start by plotting the profit position you wish to achieve at the end of the planning period, point 'E' in Figure 13.19.

Next, plot the forecast profit position, point 'A' in Figure 13.19.

Productivity
Are there any actions you can take to close the gap under the headings in Table 13.5? Plot the total profit value of these actions, point 'B' in Figure 13.19. (These represent cash and margin focus.)

Existing products/existing segments (segment penetration)
List your principal products on the horizontal axis of Figure 13.20 and principal segments on the vertical axis. In each smaller square, write in current profit (top left) and achievable profit value during the planning period (bottom right).

Now, plot the segment penetration position, point 'C' in Figure 13.19. This point will be the addition of all the values in the bottom right of the small boxes in the Ansoff Matrix (Figure 13.20).

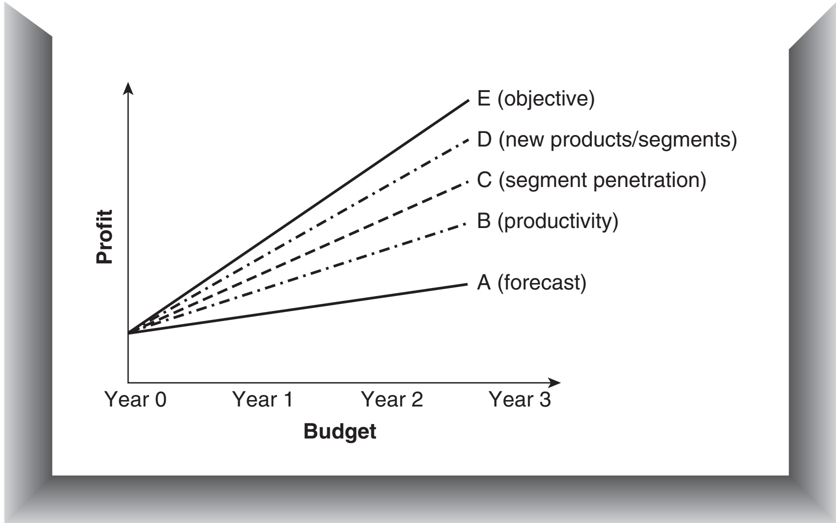


Figure 13.19
Gap analysis – plotting the profit positions for Exercise 13.2

Table 13.5 Worksheet – productivity actions to close the profit gap

Productivity (NB. Not all factors are mutually exclusive)	***Profit***
Better product mix	
Better customer mix	
More sales calls	
Better sales calls	
Increase price	
Reduce discounts	
Charge for deliveries	
Reduce debtor days	
Cost reduction	
Others (specify)	
Total	

New products/existing segments and existing products/new segments

Next, list the profit value of any new products you might develop for existing segments (Figure 13.21). Alternatively, or in addition, if necessary, list the profit value of any existing products that you might sell to new segments (Figure 13.22). Plot the total value of these, point 'D' in Figure 13.19.

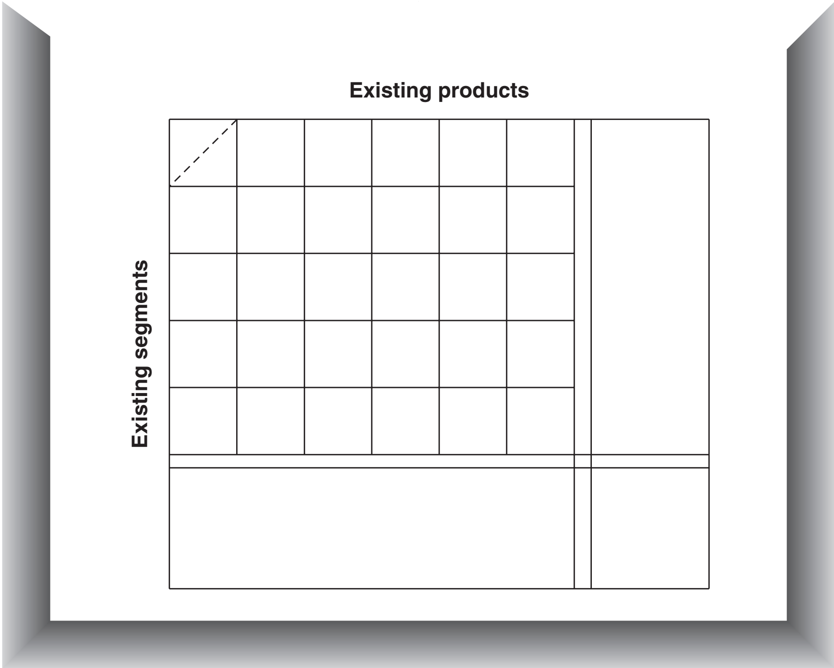


Figure 13.20
Worksheet – current and achievable profit value of existing products in existing segments

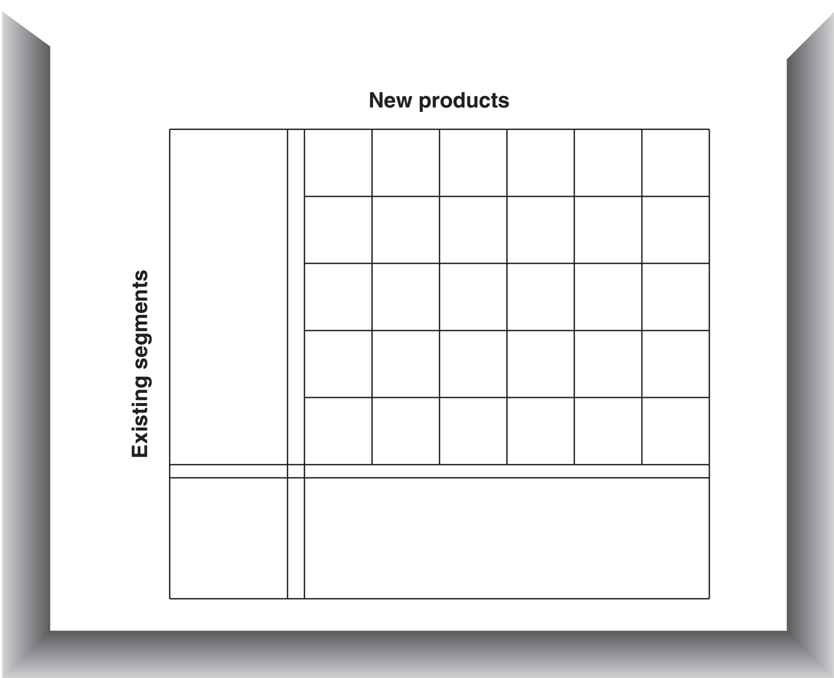


Figure 13.21
Worksheet – profit value of new products in existing segments

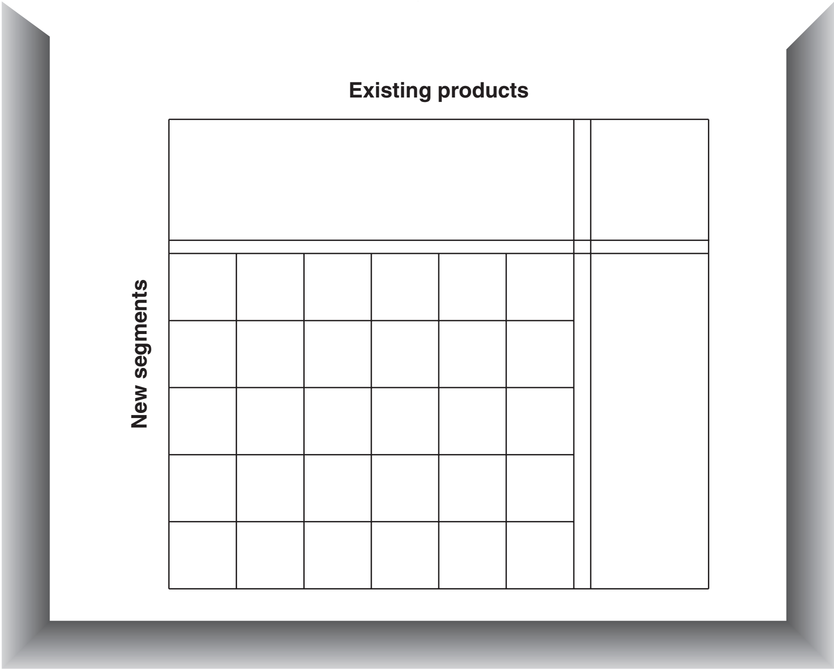


Figure 13.22 Worksheet – profit value of existing products in new segments

New products/new segments (diversification)

List the profit value of any new products you might develop for new segments until point 'E' is reached. (This step, along with the previous two steps, represents a sales growth focus.)

Capital utilization

If none of this gives you the required return on investment, consider changing the asset base. This could be:

1. acquisition;
2. joint venture.

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14 Organizational issues in market segmentation

Summary

The structuring of markets into clearly defined segments is undoubtedly a key input into the company's marketing plan. Segmentation not only identifies the customer groups your company should focus its resources into, but also, through the detailed analysis required in a professionally conducted segmentation process, identifies vitally important elements of a successful marketing strategy. Having an organization which is both supportive of the process and supportive of carrying through the findings into the marketplace is therefore crucial.

The purpose of this chapter is to raise and discuss the organizational issues associated with segmentation, many of which need to be addressed at the very early stages of a segmentation project.

This chapter is organized as follows:

- The vital role of the chief executive and top management
- How the need for formalized marketing procedures is related to company size and diversity of operations
- Issues to take into account when planning for the segmentation process
- A further look at the issues relating to line management and gaining their support
- The importance of integrating the segmentation process into a marketing planning system and, in turn, into a total corporate planning system
- Why an inclusive, cross-functional approach to segmentation produces the best results
- The importance of organizing the company's activities around segments
- Further considerations with respect to integrating the selected segments into the organization at the strategic level
- A brief discussion about management information systems and their support for the selected segments
- Supporting a segmentation strategy with effective marketing tactics
- A suggestion on how to bring segments to life within the organization and help win the support and enthusiasm of staff
- A review of this chapter

Segmentation as a company exercise

Marketing's contribution to business success in manufacturing, the provision of services, distribution or retailing activities lies in:

1. a commitment to detailed analysis of future opportunities to meet customer needs;
2. a wholly professional approach to selling to well-defined market segments those products or services that deliver the sought-after benefits.

Achieving revenue budgets and sales forecasts are a function of how good our intelligence services are, how well suited our strategies are and how well we are led.

Support from the chief executive and top management

Marketing insight

There can be no doubt that unless the chief executive sees the need for a segmentation review, understands the process, and shows an active interest in it, it is virtually impossible for a senior functional marketing executive to implement the conclusions in a meaningful way.

This is particularly so in companies that are organized on the basis of divisional management, for which the marketing executive has no profit responsibility and in which he or she has no line management authority. In such cases, it is comparatively easy for senior operational managers to create 'political' difficulties, the most serious of which is just to ignore the new segments and their requirements entirely.

The vital role that the chief executive and top management *must* play in segmentation underlines one of the key points in this chapter: that it is *people* who make systems work, and that system design and implementation have to take account of the 'personality' of both the organization and the people involved, and that these are different in all organizations.

One of the most striking features we have observed is the difference in 'personalities' between companies, and the fact that within any one company there is a marked similarity between the attitudes of executives. These attitudes vary from the impersonal, autocratic kind at one extreme to the highly personal, participative kind at the other.

Any system, therefore, has to be designed around the people who have to make it work, and has to take account of the prevailing traditions, attitudes, skills, resource availability and organizational constraints.

Since the chief executive and top management are the key influencers of these factors, without their sponsorship, active support and participation any formalized approach to segmentation is unlikely to work. The worst outcome can be a chief executive and top management ignoring the plans built out of the segmentation review and continuing to make decisions which appear illogical to those who have participated in the segmentation process and in producing the resulting marketing plan. This very quickly destroys any credibility that the emerging plans might have had, leading to the demise of the procedures and to serious levels of frustration throughout the organization.

The active interest of the chief executive and top management is vital if any formalized approach to segmentation is to be successful.

Indeed, there is some evidence leading to the belief that chief executives who fail, first, to understand the essential role of marketing in generating profitable revenue in a business and, second, to understand how marketing can be integrated into the other functional areas of the business through marketing planning procedures are a key contributory factor to poor business performance.

There is a depressing preponderance of executives who live by the rule of 'the bottom line' and who apply universal financial criteria indiscriminately to all products and segments, irrespective of the long-term consequences. There is a similar preponderance of executives with a utilitarian mentality who see marketing as an unworthy activity that is something to do with activities such as television advertising, and who think of their products only in terms of their technical features and functional characteristics, in spite of the evidence that these are only a part of what a customer buys. Not surprisingly, in companies headed by people like this, market-based segmentation reviews and marketing planning are either non-existent, or where they are tried, they fail. This is the most frequently encountered barrier to effective marketing.

Size and diversity

In a large diversified company operating in many markets, a complex combination of market, segment, product and financial plans is possible. For example, what is required at the individual segment level will be different from what is required at the regional level which in turn will be different from what is required at headquarters level, while it is clear that the total corporate plan has to be constructed from the individual building blocks. Furthermore, the function of marketing itself may be further functionalized for the purpose of marketing planning, such as market research, advertising, selling, distribution, and so on, while different markets and different segments may need to have separate plans drawn up.

In a large diversified company operating in many markets, a complex combination of market, segment, product and financial plans is possible.

Let us be dogmatic about requisite planning levels:

- First, in a large diversified group, irrespective of such organizational issues, anything other than a systematic approach to the issues addressed in marketing is unlikely to enable the necessary control to be exercised over the corporate identity.

- Second, unnecessary planning, or overplanning, could easily result from an inadequate or indiscriminate consideration of the real planning needs at the different levels in the hierarchical chain.
- Third, as size and diversity grow, so the degree of formalization in its marketing processes must also increase. This can be simplified in the form of a matrix as shown in Figure 14.1.

The degree of formalization must increase with the evolving size and diversity of operations. However, while the degree of formalization will change, the need for a complete marketing planning system, along with all its inherent processes, does not. The problems that companies suffer, then, are a function of either the degree to which they have a requisite marketing planning system or the degree to which the formalization of their system grows with the situational complexities attendant upon the size and diversity of operations.

There are, of course, many other issues that impact on the degree of formalization required, such as whether a company is operating through subsidiary companies or through intermediaries, but these can only be considered against the background of the two major dimensions of size and diversity.

Size

Size of operations is, without doubt, the biggest determinant of the two in the type of marketing systems required.

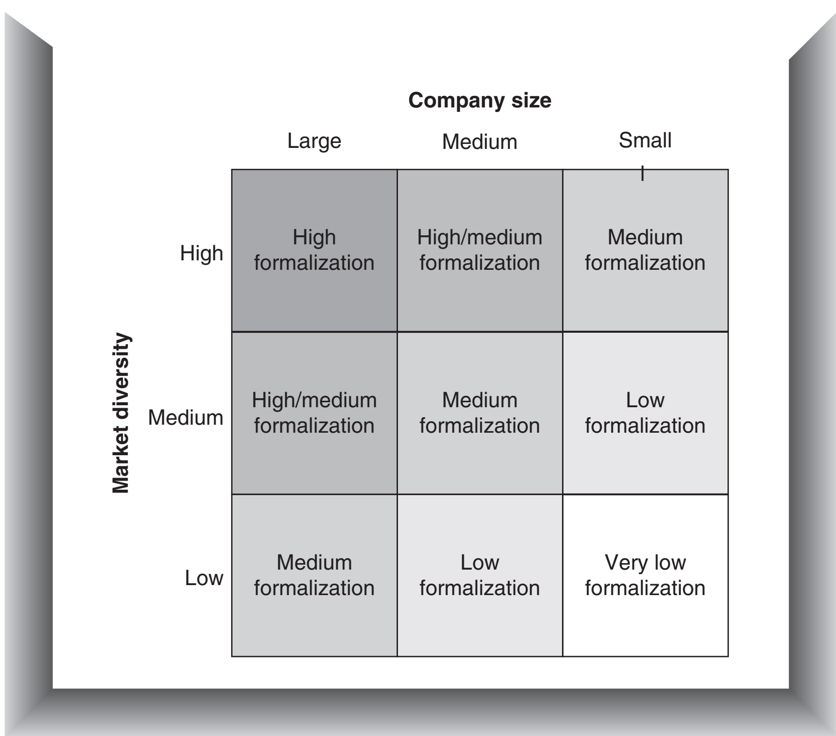

Figure 14.1
The influence of size and diversity on the need for formalization in marketing

In small companies, there is rarely much diversity of markets or products, and top management has an in-depth knowledge of the key determinants of success and failure. There is usually a high level of knowledge of both the technology and the market. While in such companies the central control mechanism is the sales forecast and budget, top managers are able to explain the rationale lying behind the numbers, have a very clear view of their comparative strengths and weaknesses, and they are able to explain the company's marketing strategy without difficulty. This understanding and familiarity with the strategy is shared with key operating staff by means of personal, face-to-face dialogue throughout the year. Staff are operating within a logical framework of ideas, which they understand. There is a shared understanding between top and middle management of the industry and prevailing business conditions. In such cases, since either the owner or a director is usually also deeply involved in the day-to-day management of the business, the need to rely on informational inputs from other staff is considerably less than in larger companies. Consequently, there is less need for written procedures about understanding markets, strengths and weaknesses, and opportunities and threats (SWOT) analysis, assumptions, and marketing objectives and strategies, as these are carried out by top management, often informally at meetings and in face-to-face discussions with staff, the results of which are the basis of forecasts and budgets. Written documents in respect of the target segments and their price, advertising and selling strategies, and so on are very brief, but those managers responsible for those aspects of the business know what part they are expected to play in achieving the company's objectives. Such companies are, therefore, operating according to a set of structured procedures, and complete the process steps of marketing planning, but in a relatively informal way.

In small companies, there is rarely much diversity of markets or products, and top management has an in-depth knowledge of the key determinants of success and failure.

Marketing insight

On the other hand, many small companies that have a poor understanding of the marketing concept and in which the top manager leaves his or her strategy implicit suffer many serious operational problems.

These operational problems become progressively worse as the size of company increases. As the number and levels of management increase, it becomes progressively more difficult for top management to enjoy an in-depth knowledge of industry and business conditions by informal, face-to-face means. In the absence of written procedures and a structured framework, the different levels of operating management become increasingly less able to react in a rational way to day-to-day pressures.

In general, the bigger the company, the greater is the incidence of standardized, formalized procedures in their marketing processes.

Diversity of operations

From the point of view of management control, the least complex environment in which to work is an undiversified company.

For the purposes of this discussion, 'undiversified' is taken to mean companies with homogeneous customer groups or limited product lines. For example, a diverse range of products could be sold into only one sector such as, say, the motor industry, with this being the only customer group in which segmentation is required. Alternatively, hydraulic hoses could be sold into many diverse sectors, but it is only the benefits being sought from hydraulic hoses that the segmentation work is required to consider. Both could be classified as 'undiversified'.

In such cases, the need for institutionalized marketing processes increases with the size of the operation, and there is a strong relationship between size and the complexity of the management task, irrespective of any apparent diversity.

Marketing insight

For example, an oil company will operate in many diverse markets around the world, through many different kinds of marketing systems, and with varying levels of market growth along with varying levels of segment growth and segment share in these markets. In most respects, therefore, the control function for headquarters management is just as difficult and complex as that in a major diversified conglomerate. The major difference is the greater level of in-depth knowledge which top management has about the key determinants of success and failure underlying the market or product worldwide, because of its homogeneity.

Because of this homogeneity of market or product, it is usually possible for headquarters to impose worldwide policies on operating units in respect of activities such as certain aspects of advertising, public relations, packaging, pricing, trademarks, product development, and so on, whereas in the headquarters of a diversified conglomerate, overall policies of this kind tend to be impracticable and meaningless.

The view is often expressed that common marketing processes in companies comprising many heterogeneous units are less helpful and confuse rather than improve understanding between operating units and headquarters. However, the truth is that conglomerates often consist of several smaller multinationals, some diversified and some not, and that the actual task of marketing rests on the lowest level in an organization at which there is general management profit responsibility. Forecasting and budgeting systems by themselves rarely encourage anything but a short-term, parochial view of the business at these levels, and in the absence of the kind of procedures described in this book, and found in books devoted to the process of marketing planning, higher levels of management do not have a sufficiently rational basis on which to set long-term marketing objectives.

Exactly the same principles apply at the several levels of control in a diversified multinational conglomerate, in that at the highest level of control there has to be some rational basis on which to make decisions about the portfolio of investments, and research has shown that the most successful companies are those with standard marketing procedures to aid this process. In such companies there is a hierarchy of market audits, strengths and weaknesses, and opportunities and threats analysis, assumptions, objectives, strategies and marketing programmes, with increasingly more detail required in the procedures at the lowest levels in the organization. The precise details of each step vary according to circumstances, but the eventual output of the process is in a universally consistent form.

The basis on which the whole system rests is the information input requirements at the highest level of management. Marketing objectives and strategies necessary to exploit the chosen segments are frequently synthesized into a multi-disciplinary corporate plan at the next general management level of profit responsibility until, at the highest level of management, the corporate plan consists largely of financial information and summaries of the major operational activities. This is an important point, for there is rarely a consolidated operational marketing plan at conglomerate headquarters. This often exists only at the lowest level of general management profit responsibility, and even here it is sometimes incorporated into the corporate plan, particularly in capital goods companies, where engineering, manufacturing and technical services are major factors in commercial success.

There is rarely a consolidated operational marketing plan at conglomerate headquarters.

Here it is necessary to distinguish between short-term operational plans and long-term strategic plans, both products of the same process. Conglomerate headquarters are particularly interested in the progress of, and prospects for, the major areas of operational activities, and while obviously concerned to ensure a satisfactory current level of profitability, are less interested in the detailed short-term scheduling and costing-out of the activities necessary to achieve these objectives. This, however, is a major concern at the lowest level of general management profit responsibility.

Marketing insight

To summarize, the smaller the company, the more informal and personal the procedures for segmentation and marketing planning. As company size and diversity increase, so the need for institutionalized procedures increases.

The really important issue in any system is the degree to which it enables *control* to be exercised over the key determinants of success and failure. A formally designed system seeks to find the right balance between the flexibility of operating units to react to changes in local market conditions and centralized control. The main role of headquarters is to harness the company's strengths on a worldwide basis and to ensure that lower-level decisions do not cause problems in other areas and lead to wasteful duplication. At the same time, however, it must not stifle creativity.

The really important issue in any system is the degree to which it enables *control* to be exercised over the key determinants of success and failure.

Creativity cannot flourish in a closed-loop formalized system. There would be little disagreement that in today's abrasive, turbulent and highly competitive environment, it is those firms that succeed in extracting entrepreneurial ideas and creative marketing programmes from systems that are necessarily yet acceptably formalized, that will succeed in the long run. Much innovative flair can so easily get stifled by systems.

Marketing insight

There is clearly a need, therefore, to find a way of injecting new enthusiasm into the periodic reviews of the market. Inertia must never set in.

In companies with effective marketing processes, whether these are formalized or informal, this renewal of enthusiasm is often best achieved by the involvement of senior managers, from the chief executive down through the hierarchy. Essentially what takes place is a personalized presentation of the findings in the review of the market and its segments, together with the proposed marketing objectives and strategies and outline budgets for the strategic planning period. These are discussed, and amended where necessary, and agreed in various synthesized formats at the hierarchical levels in the organization *before* any detailed operational planning takes place. It is at such meetings that managers are called upon to justify their views, which tends to force them to be more bold and creative than they would have been had they been allowed merely to send in their proposals. Obviously, however, even here much depends on the degree to which managers take a critical stance, which will be much greater when the chief executive takes an active part in the process. *Every hour of time devoted at this stage by the chief executive has a multiplier effect throughout the remainder of the process*. And let it be remembered, we are not, repeat not, talking about budgets at this juncture in anything other than outline form.

While the segmentation task and the development of the findings into marketing objectives and strategies are less complicated in small, undiversified companies, and there is less need for formalized procedures than in large, diversified companies, the fact is that exactly the same framework should be used in all circumstances, and that this approach brings similar benefits to all.

In a multinational conglomerate, headquarters management is able to assess major trends in markets and products around the world, and is thus able to develop strategies for investment, expansion, diversification and divestment on a global basis. For their part, subsidiary management can develop appropriate strategies with a sense of locomotion towards the achievement of coherent overall goals.

This is achieved by means of synthesized information flows from the bottom upwards, which facilitates useful comparison of performance around the world, and the diffusion of valuable information, skills, experiences and systems from the top downwards. The particular benefits which accrue to companies using such systems can be classified under the major headings of the marketing mix elements as follows:

- **Product** – control is exercised over the product range. Maximum effectiveness is gained by concentrating on certain products in certain markets, based on experience gained throughout the world.
- **Price** – pricing policies are sufficiently flexible to enable local management to trade effectively, while the damaging effects of interaction are considerably mitigated.
- **Promotion** – duplication of effort and a multitude of different platforms and company images are ameliorated. Efforts in one part of the world reinforce those in another.
- **Place** – substantial gains are made by rationalization of the logistics function.

To which should be added the particular benefits which accrue from the exchange of marketing information: there is a transfer of knowledge, a sharing of expertise and an optimization of effort around the world.

The procedures which facilitate the provision of such information and knowledge transfers also encourage operational management to think strategically about their own areas of responsibility, instead of managing only for the short term.

It is abundantly clear that it is through the complete process of segmentation, marketing planning and planning skills that such benefits are achieved, and that discussions such as those about the standardization process are largely irrelevant. Any standardization that may be possible will become clear only if a company can successfully develop a system for identifying the needs of each market and each segment in which it operates, and for organizing resources to satisfy those needs in such a way that it results in the best utilization of resources worldwide.

It is through the complete process of segmentation, marketing planning and planning skills that major benefits are achieved.

Planning for the segmentation process

A recipe for the failure or partial failure of segmentation is to assume that the process appearing in this book can be implemented immediately and taken all the way through to its conclusions in a matter of days, or even weeks.

If the outcome of the review is best put into effect by incorporating it into a complete marketing planning system, then we are talking about years, with the evidence indicating that a period of around three years is required in a major company before a complete marketing planning system can be implemented according to its design. With a marketing planning system in place, incorporating a new segmentation structure can be completed in a single cycle of the planning process.

Failure, or partial failure, then, is often the result of not developing a timetable for introducing a new system, to take account of the following:

1. The need to communicate why segmentation and reviews of segmentation are necessary.
2. The need to recruit top management support and participation.
3. The need to test the process out on a limited basis as a pilot to demonstrate its effectiveness and value.
4. The need for training programmes, or workshops, to train line management in its use.
5. Complete lack of data and information in some parts of the world, or data and information built either around products or around past 'segments'.
6. Shortage of resources in some parts of the world.

Above all, a resolute sense of purpose and dedication is required, tempered by patience and a willingness to appreciate the inevitable problems which will be encountered in implementing the conclusions.

This is all closely linked to the next issue companies need to get right in the segmentation process: line management support.

Line management support

Hostility, lack of skills, lack of data and information, lack of resources, and an inadequate organizational structure, all add up to a failure to obtain the willing participation of operational managers. The reasons for this are not hard to find and are related to the initiator's lack of a plan for segmentation.

New processes inevitably require considerable explanation of the procedures involved and the accompanying pro formas, flow charts, and so on. Often these devices are most conveniently presented in the form of a manual. When such a document arrives on the desks of busy line managers, unheralded by any previous explanation or discussion, the immediate reaction often appears to be fear of their possible inability to understand it, let alone comply with it, followed by anger and finally rejection. They begin to picture a headquarters as a remote 'ivory tower', totally divorced from the reality of the marketplace.

> Line management is often absorbed in the achievement of current results, while the segmentation process, and its translation into operational requirements through the marketing planning process, is geared towards establishing the future revenue sources for the company.

This is often exacerbated by line management's absorption in the current operating and reward system, which is geared to the achievement of *current* results, while the segmentation process, and its translation into operational requirements through the marketing planning process, is geared towards establishing the future revenue sources for the company. Also, because of the trend towards the frequent movement of executives around organizations, there is less interest in spending time on future business gains from which someone else is likely to benefit.

Allied to this is the fact that many line managers are ignorant of basic marketing principles and have never been used to breaking up their markets into strategically relevant segments, or collecting meaningful information about them.

This lack of skill is compounded by the fact that there are many countries in the world which cannot match the wealth of useful information and data available in, for example, Europe and the USA. This applies particularly to rapidly growing economies, where the limited aggregate statistics are not only unreliable and incomplete, but also quickly out of date. The seriousness of this problem is highlighted by the often rigid list of corporate headquarters' information requirements, based totally on the home market.

The solution to this particular problem requires a good deal of patience, common sense, ingenuity and flexibility on the part of both headquarters and operating management. This is closely connected with the need to consider resource availability and the prevailing organization structure. The problem of lack of reliable data and information can only be solved by devoting time and money to its solution and, where available resources are scarce, it is unlikely that the information demands of headquarters can be met.

It is for this reason that some kind of appropriate headquarters organization has to be found for the collection and dissemination of valuable information, and that training has to be provided on ways of solving this problem. For some markets, this training will need to cover how to make informed estimates from the limited data and information that are available.

Again, these issues are complicated by the varying degrees of size and complexity of companies. It is surprising to see the extent to which organizational structures cater inadequately for marketing as a function. In small companies, there is often no one other than the sales manager, who spends all their time engaged either in personal selling or in managing the sales force. Unless the chief executive is marketing-oriented, detailed studies of markets to determine the most appropriate segments for the business are just not done.

In small companies, unless the chief executive is marketing-oriented, detailed studies of markets to determine the most appropriate segments for the business are just not done.

In medium sized and large companies, particularly those that are divisionalized, there is rarely any provision at board level for marketing as a discipline. Sometimes there is a commercial director with line management responsibility for the operating divisions, but apart from sales managers at divisional level, or a marketing manager at head office level, marketing as a function is not particularly well catered for. Where there is a marketing manager, that person tends to be somewhat isolated from the mainstream activities.

Marketing insight

The most successful organizations are those with a fully integrated marketing function, whether it is line management responsible for sales, or a staff function, with operating units being a microcosm of the head office organization.

However, it is clear that without a suitable organizational structure, any attempt to implement a marketing process such as segmentation which requires the collection, analysis and synthesis of market-related information is unlikely to be successful.

Integrating the segmentation process into a marketing planning system and into a total corporate planning system

Marketing insight

Segmentation as a stand-alone process will end up being an intellectually challenging, but theoretical, exercise if the process and conclusions are not incorporated into a marketing planning system.

While effective segmentation requires there to be a marketing planning system, in turn it is difficult to initiate an effective marketing planning system in the absence of a parallel corporate planning system. This is yet another facet of the separation of operational planning from strategic planning. For, unless similar processes and time scales to those being used in the marketing planning system are also being used by other major functions such as distribution, operations, finance and personnel, the sort of trade-offs and compromises that have to be made in any company between what is wanted and what is practicable and affordable will not take place in a rational way. These trade-offs have to be made on the basis of the fullest possible understanding of the reality of the company's multifunctional strengths and weaknesses, and opportunities and threats.

One of the problems of systems in which there is either a separation of the strategic corporate planning process, or in which marketing planning is the only formalized system, is the lack of participation by key functions of the company, such as research and development (R&D), information technology (IT) or production. Where these are key determinants of success, as is frequently the case, a separate marketing planning system is virtually ineffective.

Where marketing, however, is a major activity, as in fast-moving consumer goods companies, it is possible to initiate a separate marketing planning system. The indications are that when this happens successfully, similar systems for other functional areas of the business quickly follow suit because of the benefits which are observed by the chief executive.

Cross-functional involvement

The very nature of the segmentation process brings with it the temptation to delegate the process in its entirety to the market research manager, or to the marketing planning manager or, in the absence of a marketing planning manager, to the corporate planning function. This divorcing of the process from operations is likely to result in a strong reluctance by line management to accept the conclusions, especially if they represent a change from current thinking, as well as resentment of the rigorous process it involves and of the people who follow it.

Divorcing the segmentation process from operations is likely to result in a strong reluctance by line management to accept the conclusions.

It also has to be said that such an approach is unlikely to produce the best results. Those staff in contact with the marketplace bring practical experience to the process. Staff from other areas of the company bring a different perspective to the issues addressed in the process, as well as a further resource for creative thinking.

The detailed work required for segmentation does not, however, suit a committee environment. As suggested in Chapter 2, 'Preparing for segmentation – additional guidelines for success', a core team of two or three individuals needs to be established, whose job it is to carry out the detailed work, commission externally contracted agencies as required or agree such briefs with the relevant section of the company, use the cross-functional steering group as a sounding board, and raise topics with other members of staff as appropriate.

This raises the question again of the key role of the chief executive in both the segmentation process and marketing planning as a whole. Without both the chief executive's support and understanding of the very serious implications of initiating an effective segmentation review, everyone else's efforts will largely be ineffective.

Without both the chief executive's support and understanding of the very serious implications of initiating an effective segmentation review, everyone else's efforts will largely be ineffective.

Successful implementation of segmented marketing

As was pointed out at the beginning of this chapter, it is impossible to divorce implementation from the process of arriving at the concluding segments. Of critical importance here are:

1. the support of the chief executive and top management;
2. a feeling of 'ownership' of the conclusions by the company's key operating units engendered by their involvement in the process;
3. an institutionalized marketing planning process which can take the results of the segmentation review and develop it into both a strategic three-year plan and a one-year marketing programme.

In addition, to operate effectively in the selected segments, the company's activities should, wherever practicable, be organized around them, rather than around products, functions or geography. If this

The world's leading companies now organize themselves around segments and processes rather than around products.

cannot be achieved, the company's market share goals and financial objectives are unlikely to be reached. Increasingly, companies are organizing themselves around customers and processes, such as product development, rather than solely around products.

Marketing insight

Many a company has been caught out by subtle changes in their several markets causing a product to become practically redundant. In consumer goods, for example, many companies are beginning to admit that their rigid product/brand management system has allowed their major intermediaries to take the initiative, and many are now changing belatedly to a system where the focus of marketing activity revolves around major segments rather than individual products.

Computer firms, such as AT&T for example, organize around end-use markets and appoint multi-disciplinary teams to focus their attention on their specific needs. The result is personnel, accounting, production, distribution and sales policies that are tailored specifically to a unique set of market needs.

This consideration of 'internal compatibility' is so important that it should be kept in mind while following the segmentation process. It is also one of the criteria used to assess the suitability of a concluding segment, along with size, differentiation and reachability.

Marketing departments can, of course, operate within the new segmentation structure on their own and develop advertising and promotional programmes accordingly: which is an implementation strategy referred to as 'bolt-on segmentation' because of its high level of customer focus but low level of organizational integration (see 'Segmentation archetypes in companies' in Chapter 2). This approach will not, however, be as successful as one which has both a high level of customer focus *and* a high level of organizational integration, or 'effective segmentation' as this particular archetype is called (Jenkins and McDonald, 1997).

Organizational integration can be looked at on three levels, the strategic, the managerial and the tactical.

Strategic integration through the mission statement

Many organizations find their different departments, and sometimes even different groups in the same department, pulling in different directions. This often has disastrous results, simply because the organization has not defined the boundaries of the business and the way it wishes to do business in its mission or purpose statement.

Marketing insight

Take the example of a high-technology company. One group of directors felt the company should be emphasizing technology, while another group felt technology was less important than marketing. With such confusion at the top of the company, it is not hard to imagine the chaos further down.

Marketing insight

A different example concerns a hosiery buyer for a department store group. She believed her mission was to maximize profit, whereas research showed that women shopped in department stores for items other than hosiery. They did, however, expect hosiery to be on sale, even though that was rarely the purpose of their visit. This buyer, in trying to maximize profit, limited the number of brands, colours and sizes of hosiery on sale, with the result that many women visitors to the store were disappointed and did not return. So it can be seen that in this case, by maximizing her own profit, she was sub-optimizing the total profit of the group. In this case, the role of her section was more of a *service* role than a profit-maximizing role.

Here, we can see two levels of mission. One is a *corporate* mission statement; the other is a lower level, or *purpose*, statement. But there is yet another level, as shown in the following summary:

Type 1 'Motherhood', usually found inside annual reports designed to 'stroke' shareholders. Otherwise of no practical use.

Type 2 The real thing. A meaningful statement, unique to the organization concerned, which 'impacts' on the behaviour of the executives at all levels.

Type 3 This is a 'purpose' statement (or lower level mission statement). It is appropriate at the strategic business unit (SBU), departmental or product group level of the organization.

The mission statement should in itself consist of brief statements, which should normally run to no more than one page and cover the following points:

1. **Role or contribution of the unit** – for example, profit generator, service department, opportunity seeker.
2. **Business definition** – defines the business, preferably in terms of the *needs* you satisfy or the *benefits* you provide, rather than in terms of

what you make. Do not be too specific (for example, 'we sell milking machinery') or too general (for example, 'we are in the engineering business').

3. **Distinctive competence** – these are the essential skills/capabilities/resources that underpin whatever success has been achieved to date. Competence can consist of one particular item or the possession of a number of skills that apply only to your organization or specific business unit. A statement that could equally apply to any competitor cannot, by definition, be a *distinctive* competence and is therefore unsatisfactory.
4. **Indications for future direction** – a brief statement of the principal things you will do, and those you would give serious consideration to (for example, move into a new segment). In some instances it may also be appropriate to cover what you will *never* do.

It is particularly in the 'business definition' and 'indications for the future' areas that the conclusions drawn from the segmentation review will have an influence.

Managerial integration

In addition to adopting an organizational structure built around segments, it will be necessary to provide management information in a form that supports the new segmentation focus.

In addition to adopting an organizational structure built around segments, as discussed earlier, it will be necessary to provide management information in a form that supports the new segmentation focus. It has to be said, however, that changing organizational structures and management information systems are not tasks that can be achieved overnight. Both will take time, and it may take a great deal of determination to prevent the difficulties that will be encountered becoming a justification for throwing out the segmentation conclusions. Evolution, as opposed to revolution, may need to be the order of the day, and the process of evolution will be slower the more the 'new order' challenges the status quo and the distribution of power.

Tactical integration

Here we are concerned with the ability of the organization at the operational level to be effective in the segment.

The advertising and promotions department needs to be able to target their activities into the selected segments. Single approach campaigns will have to be dropped in favour of differentiated campaigns, some of which may need to employ techniques currently unfamiliar to the department.

The sales force will need to be trained both in distinguishing between the different segments, and in the appropriate benefits to be highlighted during sales meetings. Alternatively, of course, it may be possible to reorganize the sales group around the segments.

Differential pricing will need to be supported and understood within the organization, as the days of the single pricing policy will most likely have disappeared. This will be particularly difficult for the sales force, but they will be helped by being given carefully targeted products/services, supported by clear and distinctive promotional campaigns.

Distribution will also need to adapt, both in terms of the availability levels and channels required by the segments.

Bringing segments to life

The personal dimension in segmentation is clearly very important: without the belief and commitment of the employees to this method of looking at the market, the segmentation process is all but sunk. But the 'personal' side of the segments themselves can help win the support and enthusiasm of staff and, in doing so, encourages them to change any previously entrenched ways.

Marketing insight

A number of companies have turned to cartoonists in order to give a human face to their segments and put their segments on first name terms. This has the additional advantage of emphasizing that each segment is, in fact, a collection of living, breathing human beings who, just like the company's employees, look for the proposition that best meets their needs at a price they perceive as providing superior value for money. If in doing this they find themselves having to switch brands, then that is exactly what the segments will do.

This 'personalizing' of segments was certainly put to good effect in ICI Fertilizers when a new marketing plan was rolled out at the end of their extensive segmentation project. After internally researching the needs of the target market (the company's employees) and testing alternative 'offers', the seven segments which emerged from the project were named Martin, David, Oliver, Brian, George, Arthur and Joe. All seven of them were captured as cartoon characters, with each drawing carefully tested among the target market in terms of its ability to portray the profile of the segment it was meant to represent. The cartoon depictions of Brian, George and Joe appear in Figure 14.2.

Chapter 14 review

A successful segmentation project is one which results in a company implementing the conclusions drawn from it. However, the degree of commitment to implementation is directly related to the extent of an organization's commitment to, and involvement in, its segmentation review. In this chapter we looked at the organizational issues associated with a company's approach to segmentation and their approach to implementing the conclusions.

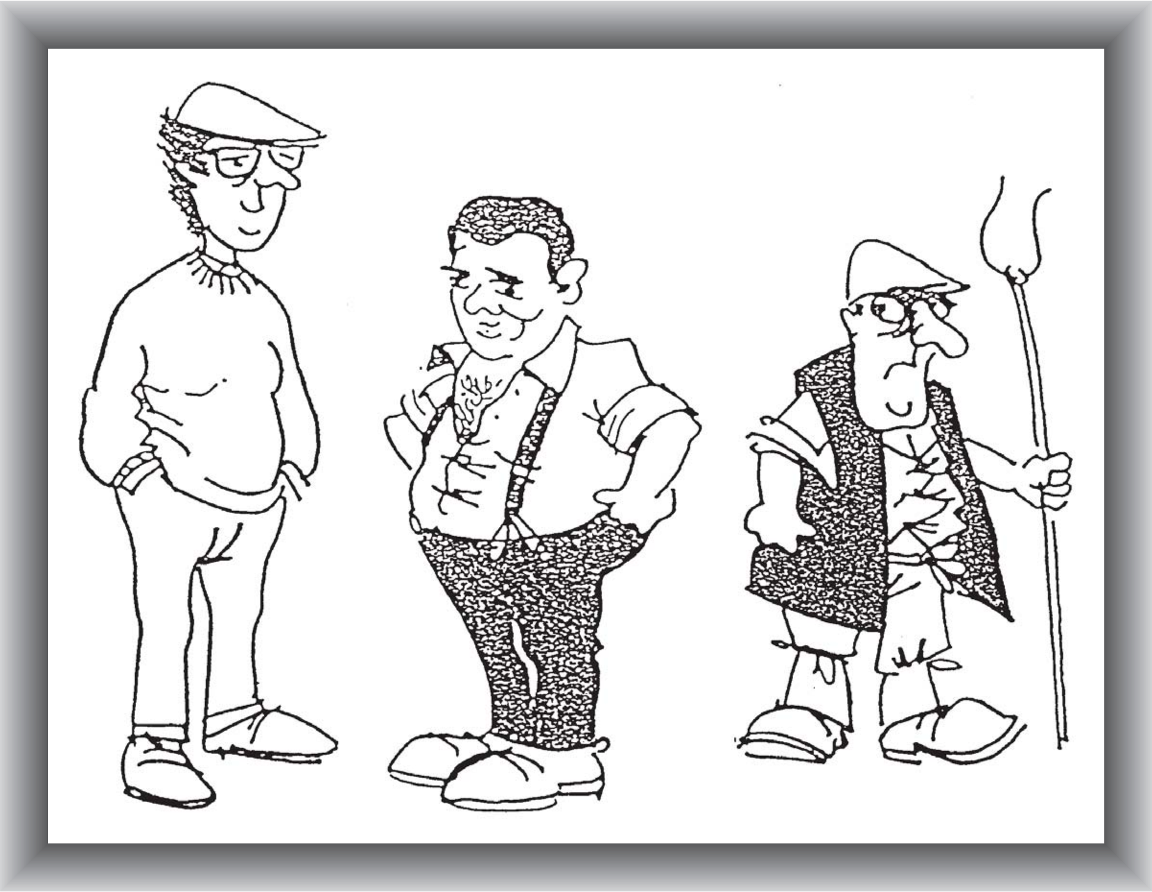

Figure 14.2 Bringing segments to life using cartoon characters
Drawings by Arthur Shell

We first highlighted the vital role of the chief executive and top management and emphasized that it was essential to obtain their active support and participation. Without it, any formalized approach to segmentation is unlikely to work. Their commitment will not only make it far easier for the project to obtain the resources it requires but will also help surmount any internal barriers to implementation.

Next, we discussed the parameters which drive the level of formalization a company requires in its marketing processes. Here we identified company size and the extent of a company's diversity with respect to customer groups or products as the key determinants of how formalized the marketing processes needed to be, with increases in formalization being directly related to increases in size and/or diversity. Of these two, we suggested that company size had the greatest influence. The point was made, however, that when operating a formalized system, a careful balance was required between the flexibility of operating units to react to changes in local market conditions and centralized control. It is particularly important not to stifle creativity.

We then moved on to discuss the importance of planning for the segmentation process and putting together a timetable for introducing it into the company. A number of issues to be taken account of were identified, including the recruitment of top management support and participation, training, and the difficulty some areas will have in obtaining the information a *market*-based segmentation approach requires. We linked this to the next consideration, namely obtaining line management support and their willing participation both in the process itself and in the implementation of its conclusions. This was also an opportunity to point out that the most successful organizations were those with the marketing function fully integrated into its organizational structure.

Integrating the segmentation process and its conclusions into a marketing planning system was discussed next because, if left on its own, segmentation becomes a sterile exercise. We also pointed out that it was difficult to initiate an effective marketing planning system in the absence of a parallel corporate planning system.

To conclude the discussion of segmentation as a company exercise we looked at the need to involve a number of functions from across the business in the project. However, we emphasized that the detailed work required by the project was not suited to a committee environment and that this needed to reside with a core team of two to three individuals.

We then moved on to discuss the implementation issues and began by emphasizing the critical importance, once again, of the chief executive and top management, of involving the key operating units in the process, and having an institutionalized marketing planning process. The latter to ensure that the segmentation findings are embedded in the company's strategic marketing plan and one-year marketing programme.

Our discussion on implementation then looked at the need to integrate the segmentation conclusions into the company by ensuring that the company's activities were organized around them. To develop this theme, we first discussed the importance of a company having a clear mission statement and pointed out that the conclusions drawn from the segmentation review would influence some of the key statements in the mission statement. We then highlighted the importance of supporting an organizational structure built around segments with appropriate management information, and suggested that evolution rather than revolution was required here as such a change often presents a major challenge to the company.

We completed our discussion on implementation issues at the tactical level of a company's operations and emphasized that to be effective in each segment, each element of the marketing mix had to have a segment focus.

To conclude the chapter we suggested that as part of winning the support and enthusiasm of staff for the new segments, engaging the skills of a cartoonist to capture each of them as a memorable character has worked well for many companies.

Reference

Jenkins, M. and McDonald, M. (1997) 'Market segmentation: organisational archetypes and research agendas'. *European Journal of Marketing*, 31(1), 17–32.

15 Using segmentation to improve performance – a case study

Summary

This chapter contains a case study written by a company that has applied segmentation to their business. Although the case is based on the supply of services to business customers, it contains insights that are of interest to all companies, regardless of what they supply or to whom they supply it.

This chapter is organized as follows:

- GlobalTech – developing service support for high-tech products

The real identity of the company has been disguised and, where necessary, the company has modified any commercially sensitive data.

Additional case studies can be found at www.marketsegmentation.co.uk.

GlobalTech

This case study describes the use of market segmentation to assist in the development of a service product. Customer requirements were captured via qualitative research and the segmentation was completed through the use of quantitative research. The result was a set of segments that enabled the development of a new approach to delivering service while improving customer satisfaction.

GlobalTech is the fictitious name of a real company marketing high-tech and service products globally. Customers are counted in hundreds of thousands. The markets are mainly business-to-business with a very few large customers buying thousands of items. Service is a major revenue stream measured in billions of dollars. The lessons learnt from this case study could be of interest to any organization having to care for large numbers of customers.

Background

A failed segmentation

An internal GlobalTech team tried to complete a marketing audit in 2000. This included market definition, market segmentation and quantification. Each product division conducted their audit separately. They used mainly brainstorming techniques to define their markets and to produce the data required.

Company insight 1

Markets transcend your internally defined product divisions. Therefore, it is best to understand the markets and monitor your overall performance in those markets. To reshape market information to meet the needs of internal reporting will lead to misinformation.

On completion, the results were compared across the divisions. It rapidly became apparent that each division addressed almost all the markets. However, the market definitions they produced were different with significant bias to just the products they offered. Similarly the segments each division identified where in conflict with the outputs from the other divisions.

On reflection it was agreed that the results were unreliable. They could not be used to help shape future strategies or marketing investments.

GlobalTech was now in the uncomfortable situation of being in a market information vacuum. Any confidence they had in their understanding of the market had been destroyed. Consequently the decision was taken that all future market analysis and understanding tasks would be supported by appropriate investments in market research.

Company insight 2

Do not rely on the internally gathered opinions of your sales and marketing staffs to define markets and identify customer requirements and attitudes. Do invest in the necessary market research to provide a reliable segmentation and support for strategy and product development.

First market segmentation

The following year the segmentation was redone supported by extensive qualitative and quantitative market research. The objective was to understand and group into segments the decision-makers for the product in the overall market.

The qualitative study produced a very clear picture and definition of the markets addressed by GlobalTech. It also provided the customers' view of the benefits they sought from the products and the differences in their attitudes towards their suppliers. The questionnaire for the quantitative study was based on the results of the qualitative study. The result was seven clearly defined segments.

This enhanced understanding of the market assisted the marketing of hardware and software products but did not address service products or customer satisfaction and loyalty issues.

The internal need

At the dawn of the twenty-first century the market life cycle had matured. All but the more sophisticated products were perceived as 'commodities'. Consequently, the opportunities for effective product differentiation had diminished. GlobalTech, in common with its competitors, was finding that customers were becoming increasingly disloyal.

For many years, product churns and upgrades from existing customers had accounted for some 70% of GlobalTech's product revenues. Service and exhaust revenues[1] almost equalled total product revenues. Service was perceived to be a key influencer of loyalty. But the costs of delivering service were becoming unacceptable to customers. Concurrently, service pricing was coming under increasing competitive pressures.

The challenge was to increase loyalty while achieving a step function improvement in margins. Thus, it was decided to invest in a better understanding of the service market as an enabler to delivering cost-effective differentiation and loyalty.

This case history covers the project from inception to implementation.

The segmentation project

Buy-in

The GlobalTech main board director responsible for customer service sponsored the project. This was a critical prerequisite, as the outcome would have a significant impact on the organization, its processes and behaviours.

Similarly, the project team included key members of service, marketing and finance to ensure buy-in. However, at that time it was deemed inappropriate to include representatives from all but two of the countries due to travel implications, costs and resource impacts. In retrospect this was not a good decision.

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[1]Exhaust revenues are those revenues that follow on, almost automatically, from an initial product sale. These would normally include service plus training, consultancy, consumables, supplies, add-ons, and so on.

Company insight 3

Try to anticipate the scale of organizational change that may result from a major segmentation project. Then ensure the buy-in planned from the start of the project embraces all those who will eventually have a say in the final implementation.

Business objectives

The project team agreed the overall business objectives as:

1. To develop strategies for profitable increase in market share and sustainable competitive advantage in the service markets for GlobalTech's products.
2. To identify opportunities for new service products and for improving customer satisfaction within the context of a robust customer needs segmentation, which can be readily applied in the marketplace.
3. To identify the key drivers of loyalty so that GlobalTech may take actions to increase customer loyalty significantly.
4. To provide the information required to help develop a new and innovative set of service products designed and tailored to meet differing customer requirements while significantly reducing internal business process costs.

Results from the qualitative study

The output from the qualitative study was a thorough report documenting the results, in line with the desired research objectives. Some of the more surprising aspects were supported by verbatims. A key output was the polarization of very different attitudes towards service requirements that some buyers had in comparison with others. For example:

- Some wanted a response within a few hours, whereas many others would be equally happy with next day.
- Some wanted their staff thoroughly trained to take remedial actions supported by a specialist on the phone. Others did not want to know and would just wait for the service provider to fix the problem.
- Some wanted regular proactive communications and being kept up to date. Others wanted to be left alone.
- Some would willingly pay for a premium service, under a regular contract, while others would prefer to take the risk.
- The attitudes of professional buyers, procuring on behalf of user departments, were consistently different from those of the user departments.

Results from the quantitative study

The output from the quantitative study was extensive. Much of the output was detailed demographic data, opportunities information and competitive positioning comparisons. However, the focus was on a fairly extensive executive summary for internal communications within GlobalTech. What follows are summarized extracts from those outputs.

The segments

Six market segments were identified as a result of iterative computer clustering. Initially the clustering routines had identified more segments but by careful analysis these were reduced to what was decided to be the most manageable level. Some previously very small segments were merged with very similar larger segments. A summary of the six concluding segments appears in Table 15.1.

Table 15.1 GlobalTech's segments

Segment	*Description*
Koala bears 	Preserve their assets (however small) and use, for example, an extended warranty to give them cover. Will not do anything themselves, prefer to curl up and wait for someone to come and fix it. Small offices (in small and big companies). Account for 28% of the market.
Teddy bears 	Lots of account management and love required from a single preferred supplier. Will pay a premium for training and attention. If multi-site, will require supplier to effectively cover these sites. (Protect me.) Larger companies. Account for 17% of the market.
Polar bears 	Like Teddy bears except colder! Will shop around for cheapest service supplier, whoever that may be. Full third party approach. Train me but do not expect to be paid. Will review annually (seriously). If multi-site, will require supplier to effectively cover these sites. Larger companies. Account for 29% of the market.
Yogi bears 	A 'wise' Teddy or Polar bear working long hours. Will use trained staff to fix problems if possible. Needs skilled product specialist at end of phone, not a clerk who books appointments. Wants different service levels to match the criticality of the product to their business process. Large and small companies. Account for 11% of the market.
Grizzly bears 	Trash them! Cheaper to replace than maintain. Besides, they are so reliable that they are probably obsolete when they bust. Expensive items will be fixed on a pay-as-when basis, if worth it. Will not pay for training. Not small companies. Account for 6% of the market.
Andropov big bears 	My business is totally dependent on your products. I know more about your products than you do! You will do as you are told. You will be here now! I will pay for the extra cover but you will . . . ! Not small or very large companies. Account for 9% of the market.

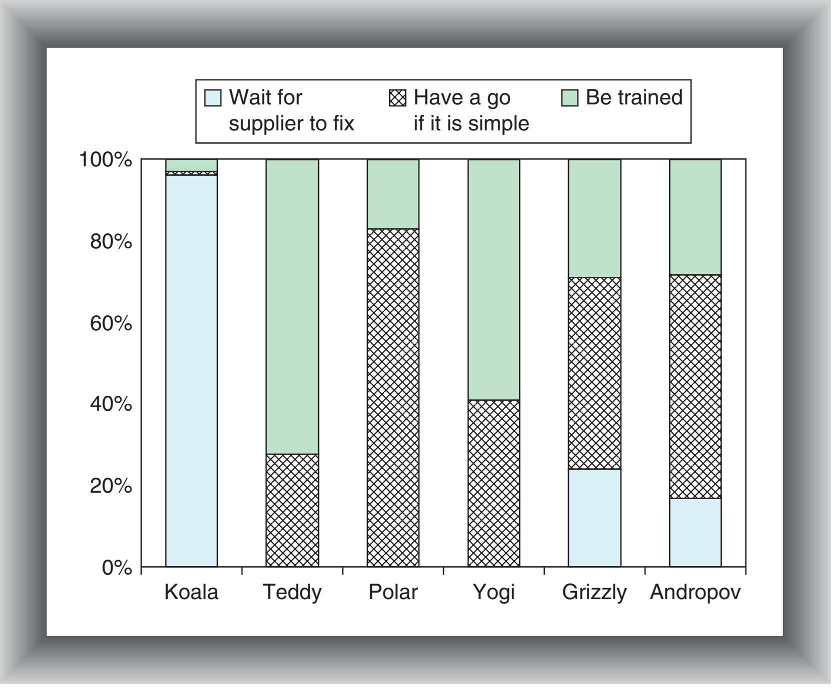

Figure 15.1
Differences in attitude between segments for three service requirements

Polarizations in attitude

The computer clustering generated the segments by grouping customers with similar attitudes and requirements. This resulted in some marked differences in attitude between segments. As illustrated in Figure 15.1, which presents three of the service requirements, the Koalas really did not want to know about being trained and having a go, but the Teddies, Polars and Yogis had an almost opposite attitude.

Satisfaction and loyalty

GlobalTech was measuring customer satisfaction for use both locally, as a business process diagnostic tool, and globally, as a management performance metric. These satisfaction metrics were averaged across all customers, both by geographic business unit and by product division to meet internal management reporting requirements.

However, the outputs from the quantitative study clearly showed that these traditionally well-accepted metrics were, in fact, almost meaningless. What delighted customers in one market segment would annoy customers in another, and vice versa. To make the metrics meaningful, they had to be split by key criteria and the market segments.

Loyalty was obviously highest where GlobalTech's 'one size fits all' service deliverable coincidentally best matched a segment's requirements, as illustrated in Figure 15.2.

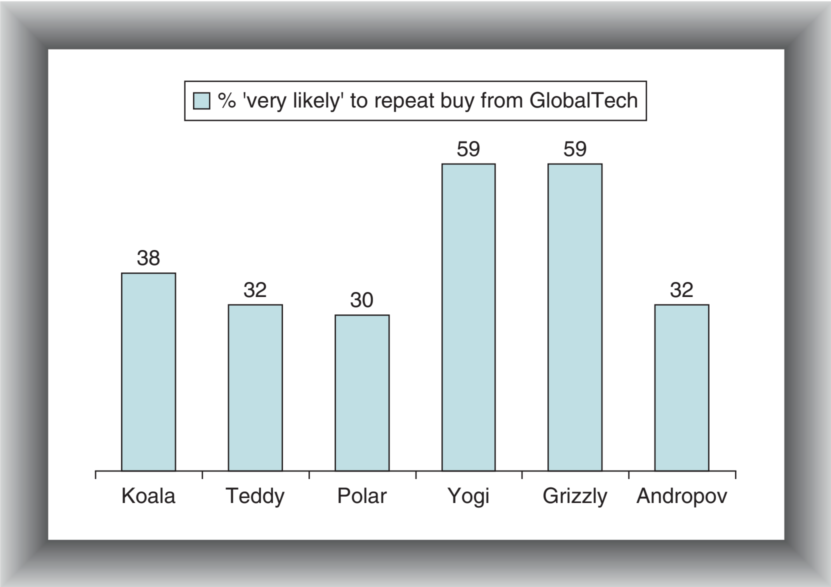

Figure 15.2
Loyalty to GlobalTech by segment

Correlation between loyalty and customer satisfaction

The life cycle for many of GlobalTech's products in the market was moving into the 'commodity' phase. Therefore, not surprisingly, customers were becoming less loyal.

Each percentage point increase in loyalty translated into almost the same increase in market share. Each percentage point in market share added many millions of dollars of gross revenues. The cost of reselling to a loyal customer was about one sixth the cost of winning a new customer. Consequently, each percentage point increase in loyalty had a significant impact on the bottom line.

Because of this, the quantitative study included correlating the key drivers of satisfaction and loyalty within each market segment. The qualitative study identified some 28 key customer requirements of their service provider. The quantitative study prioritized these to provide a shorter list of 17 common requirements. The correlation exercise reduced this to only two requirements that drew a significant correlation between satisfaction and loyalty:

- Providing service levels that meet your needs.
- Providing consistent performance over time.

Although GlobalTech was achieving the second, it was really only delivering the first in two of the market segments.

Segment attractiveness

As an aid to deciding where best to invest, a chart of segment attractiveness was produced using attractiveness factors determined by

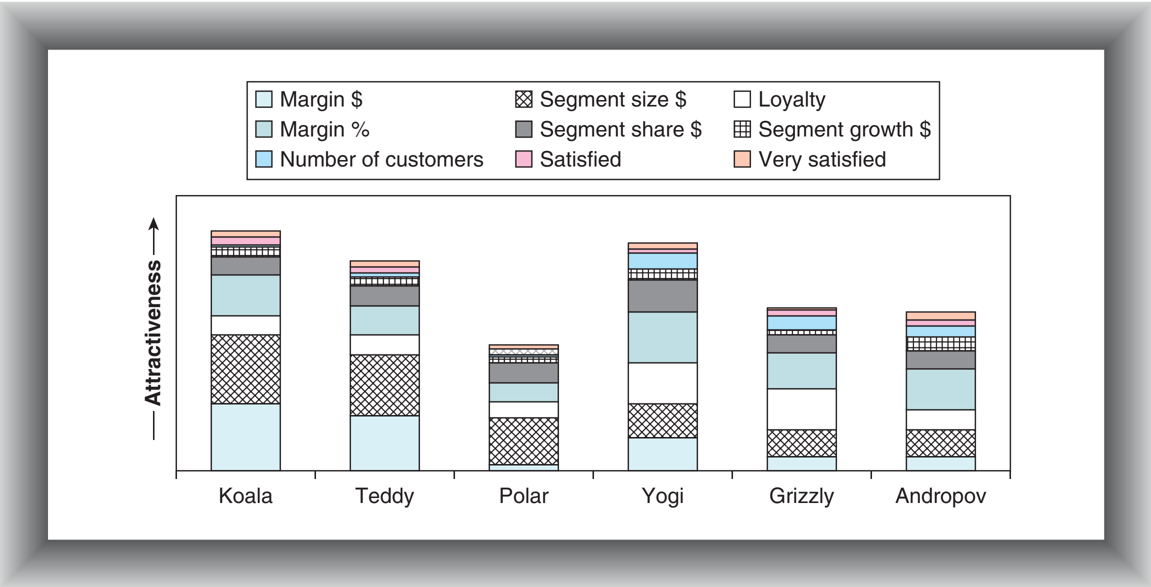

Figure 15.3 Segment attractiveness for GlobalTech

GlobalTech. Demographic data from the quantitative study was combined with internal GlobalTech financial data. Each factor was weighed to reflect the relative importance to GlobalTech. This highlighted quite a few issues and some opportunities. For instance, the highest margins were coming from some of the least loyal segments. The resulting attractiveness chart appears in Figure 15.3.

Competitive positioning

Fortunately for GlobalTech, its competitors did not appear to have an appreciation of the market segments or the different requirements of their customers. They were also mainly delivering a 'one size fits all' service offering. However, there were some noticeable differences in their offerings. These resulted in each major competitor being significantly stronger in just one or two segments where their deliverables best matched the segment's needs.

The quantitative study provided detailed rankings of the decisive buying criteria (DBCs) and their constituent critical success factors (CSFs) for each market segment. These were to prove invaluable during the phase of designing the service products and developing the strategy to achieve competitive advantage.

Reachability

Key to GlobalTech successfully implementing any strategies or communications that were to be segment based would be the ability to identify each customer by segment. As part of the quantitative study, two statistical reachability tasks were conducted. The results were as follows:

1. A sampling of internal GlobalTech databases showed that there was sufficient relevant data to achieve better than 70% accuracy, using computer imputation methods, to code each customer with its market segment. This was considered to be good enough to enhance marketing communications measurably, but might not be sufficiently accurate to ensure that the most appropriate offer was always made.
2. Statistical analysis identified four 'golden questions' that would provide acceptable accuracy in segment identification. These questions could then be used during both inbound and outbound call centre conversations until all customers had been coded.

The recommendation was to use both methods in parallel so that accuracy would improve over time. The coding of larger customers, however, should be given priority.

Company insight 4

Understanding the different market segments helps in designing the required offers. But do not get hung up on reachability. It is not essential to code every customer to the right segment from day one. Where you are not really sure, let them see different offers and so position themselves. Similarly, be willing to accept that within a large organization some buyers may fall into different market segments, though the difference will only be on one or perhaps two buying criteria rather than across all the buying criteria.

Strategy development and implementation

Market understanding and strategy development

The challenge now was for the project team to absorb and understand all the findings from the two research studies. The team then had to turn that understanding into realizable strategies. To achieve this, a workshop process covering opportunities, threats and issues (OTIs) was used.

Briefly, the process involved an extensive, but controlled, brainstorming session followed by a series of innovative strategy development workshops.

- A facilitator took the team systematically through every piece of relevant information available.
- Using brainstorming, the team tried to identify every conceivable opportunity, threat or internal issue associated with each item of information.

- The information was also then tested against a predetermined list of business behaviours and processes in an endeavour to entice additional and creative ideas out of the brainstorming.
- Using the decisive buying criteria and critical success factors from the market model, strengths and weaknesses were added, thus turning the process into a strengths and weaknesses, and opportunities and threats (SWOT) analysis.
- Similar ideas were merged and de-duplicated.
- Each idea was given two scores in the range of one to nine. The first ranked the probable financial impact; the second ranked the probability of success.
- The ideas were then grouped by the similarity of activity and where they had the same or an overlapping financial impact. This ensured that double counting was eliminated and that opportunities and threats were offset as appropriate. Any one group of ideas would take on the highest single financial impact score and a reassessed probability of success score.
- If the resolution of an internal issue was a prerequisite for capturing an opportunity or overcoming a threat, then the issue plus associated costs and resources was included in the same group as the opportunity or threat. The norm was for a single issue to be attached to many groups.
- The groups were named and then ranked both by financial impact and probability of success. This provided a prioritized shortlist of imperatives that should deliver the maximum realizable benefits to both GlobalTech and its customers.
- Iterative discussions developed this into an overall strategy with a number of prioritized sub-strategies.
- Each sub-strategy was supported by a documented description of the opportunity. At this stage encouragement was given to creating innovative, yet simple, implementation options that would maximize the chances of success. Each implementation option was supported by market, revenue and organizational impact data, associated issues, resources, costs and required control metrics.
- Board members were involved in an option selections and investment approvals process.
- Finally, the implementation programmes and project plans were created.

The strategy

The overall recommendation was to create a set of service deliverables tailored to the individual needs of each segment. These would be complemented by a set of premium add-ons that could be offered to the appropriate segments. By focusing on business process simplification during the design of the offering for each segment, redundancy was eliminated.

The objective of each offering was to increase customer satisfaction significantly, with an emphasis on those items that would most positively impact on loyalty. Some offerings were quite different from others, both in terms of the deliverable and the internal processes that made it possible. This differentiation was also intended to create a measurable competitive advantage in a number of the market segments.

A key to the implementation of the project was a recommended change to the customer satisfaction metrics, so that they became an effective diagnostic tool for tuning the ongoing deliverables for each market segment.

Implementation

Throughout the project, the same core team had been intimately involved with each stage of the project. They guided the work and took on board the results. They delved deeply into the analysis and did their best to understand the markets, their customer requirements and likely competitive impacts. Finally they worked hard at developing the proposed strategies. They thought buy-in had been achieved by being sponsored by a main board director.

The implementation roll-out across country boundaries became difficult. Each country wanted their say. They had different views of their customer needs and how things should be done in their country. They did not easily understand or even accept the findings of the research and the meaning of the outputs.

The majority of these internal barriers were eventually overcome. Inevitably there were compromises. These led the project team into believing that not all the market segments would be fully satisfied with the new offerings in all countries.

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