

**BUSINESS-TO-BUSINESS MARKETING**

**WEEK 4  
BUSINESSES MARKETS SEGMENTATION**

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## **WEEK FOUR**

### **BUSINESSES MARKETS SEGMENTATION**

#### **4.1 Introduction**

Welcome to week four lecture! This is another great week when we delve further into business marketing by examining how the business marketer subdivides the market to be able to choose the ones to serve and with what products and services. In our previous classes we discussed how organizations purchase goods and services and the implications of this to the business marketer. We also examined the knowledge the marketer should endeavor to get through marketing research to be able to effectively market his goods to business customer. It is this knowledge that prompts the marketer to subdivide the business markets.

Research has shown that it is difficult for any business marketer to serve all market segments effectively. This is the basis of market segmentation, targeting and positioning. In this lesson we will discuss the importance of market segmentation, basis for segmentation, market targeting and positioning.

#### **4.2 Intended Learning Outcomes**

At the end of this lecture, you will be able to:

1. Define business market segmentation and its importance.
2. Evaluate basis for business market segmentation.
3. Discuss segmentation criteria.
4. Examine Segmentation Process
5. Discuss Market Targeting
6. Examine positioning strategies used by business marketer.

#### **4.3 Definition and Importance of Business Markets Segmentation**

As mentioned earlier, it is difficult for any firm to please all customers. The firm must be decisive on the group of customers it wants to serve and leave others to be attended by other players in the industry. The firm must choose the most rewarding customers and offer them a set of unique benefits all of which gives the firm a competitive advantage. Business market segmentation is about identifying and targeting customer groups through their needs and wants as well as determining which customers and needs will be addressed and with what manner and intensity (Freytag & Clarke, 2001). It is the process of dividing the business market into smaller groups that the business marketer can serve efficiently and effectively. The concept of market segmentation is a strategy for selecting customers, for differentiating customers according to differences in the way they respond to marketing efforts, for choosing a more alternative market opportunity and for tailoring marketing strategies to those distinctive opportunities.

The drivers of business market segmentation are many and the following are some significance or importance of subdividing the market. First, segmentation enables the business marketer to

develop specific marketing strategies for one or several identified segments so that the product/service offering, the pricing, the promotion, and the distribution are tailored to satisfy each segment. Secondly, the marketer allocates his budgets properly making the largest expenditures on the most lucrative and responsive market segments and also monitor the success of his efforts which may lead to reallocation of resources or re-segmentation (Blythe and Zimmerman 2013). Ali (2021) notes that segmentation gives the business marketer a competitive advantage, increases sales and profitability, enables firm offer superior customer service to the targeted segment, builds the firm reputation and gives the firm ability to see and exploit opportunities in the targeted segment.

#### 4.4 Segmentation Criteria

Effective market segmentation requires the segment to meet identified criteria. These include measurability, accessibility, response, substantial, matching objective of the organization, resource capability, ethical, legal and moral perspective as well as being differentiated. Each of these criteria is briefly discussed.

1. **Measurability:** This implies that the variable used in including or excluding a customer or a consumer in a certain segment must be measurable. It requires that specific information about the size, expenditures and characteristics of any segment can be determined through primary or secondary research.
2. **Accessibility:** The segmentation variable should be able to generate a market segment that is accessible through existing institutions such as middlemen or intermediaries, advertising media, company sales forces, etc. within minimum cost, wasted effort and coverage. This criterion is also referred to as actionability and has the implication that the firm must be able to reach the segment through marketing efforts.
3. **Substantial:** The resulting segments should be substantially large enough to warrant attention and substantially large enough to warrant distinctive marketing strategies. In business markets, a single customer may be large enough and distinctive enough to be treated as a unique segment. However, in general segments make sense only when they have a reasonably large number of customers.
4. **Stable:** The segment should generally be stable to justify the investment by a firm in targeting that segment. This does not rule out that products and services can change in response to consumer demands.
5. **Response/ differentiated:** Differences identified among customers should relate to differences in customer preferences and buyer behavior that require a differentiated marketing approach. They may include unique products, selective pricing, alternative distribution arrangements, different selling approaches etc. In other words, the segment should respond differently from others to the marketing offerings being made and should therefore be homogenous within and heterogeneous without.
6. **Match objective of the organization:** Business marketing firms prefer to also look at market segments that are aligned to their mission and vision. If the segment would require

the firm to offer something that does not enhance its achievement of the corporate objective, it may not be considered.

7. **Resource capability:** This criterion looks at the firm's capability to serve the selected segment. If the firm does not have required resources in terms of skills, knowledge, finances and other capabilities, the potential segment may not be considered. Business marketer will be interested in segments where they can exploit the opportunities and gain competitive advantage.
8. **Ethical, legal and moral perspective:** A segment may not be considered if it is viewed as illegal or demanding goods and services that the business marketer views as unethical to engage in. The marketer will have core values that guide his business engagements and if a segment is not aligned to his moral values, the marketer will be better off not to consider it.

#### **4.5 Basis for Business Market Segmentation**

The basis of market segmentation for business marketers, also called segmentation variables can be described under various categories. The first category is Priori (identifier) or macro variables. The second basis is called micro and third posterior (response profile) variables. Each of these is hereby briefly discussed.

##### **4.5.1 Macro segmentation**

Macro segmentation is based on factors that distinguish one sector from another, one industry from another and one type of organization from another. Ali (2021) considers variables that include geographical segmentation, industry/consumer markets segmentation, manufacturing/agriculture/services sectors segmentation, public/private/not for profit sectors segmentation, segmentation by company size and segmentation by products and services offered.

Blythe and Zimmerman (2013) classify the macro segmentation variables for business marketer to include demographic, operations, product required and purchasing situation. The demographic classification considers industry classification, firm type – OEM, end user aftermarket (MRO) company size, geographic location, and financial info/credit rating. Segmentation by operations will consider technologies used, level of use to comprise heavy, light, non-user, and centralized/decentralized purchasing. Segmentation by product required considers whether the products are standardized or customized while segmentation by purchasing situation will consider buying situation that include new task, modified rebuy, straight rebuy, current attitude toward our firm and relationships.

##### **4.5.2 Micro segmentation**

This is sub-division of the market based on the behavioral characteristics of the buyers. According to Ali (2021) some of the variables used here include organizational buying behavior that consider user history, buying policies, nature of relationship, repeat purchase and payment record. The other variable is segmentation by group and individual buying behavior considering characteristics of purchase situation and individual buyer characteristic. The characteristic of purchase situation

segmentation will evaluate type of purchase being made, stage in the buying process, purchase criteria, purchase policy, value in use as well as decision making unit requirements. The individual buyer characteristics segmentation evaluates such characteristics as ambition, personality, experience, lifestyle, attitude, self-image, risk tolerance and job responsibility among others.

#### **4.5.3 Response Profile**

This model was developed by Day (1990) and considers vendor product attributes, customer variables, application, and DMU/buying center personal characteristics. The vendor product attributes consider aspects such as overall value, product quality, vendor reputation, innovativeness, on-time delivery, and lowest cost. Customer variables considered under this model include: DMU (buying center) make-up, purchase importance, attitude toward product, corporate and cultural characteristics. The other variable is application where end use and importance of value in use are factored in the segmentation process. The final segmentation variable according to this model is the buying center characteristics that features DMU/buying center personal characteristics, risk tolerance, loyalty to current vendor, age, experience, education, and national culture.

Having looked at the three models of segmentation of industrial marketing, Malhotra (1989) argued that the macro variables segmentation model is the most preferred. This is because of its simplicity in terms of measurability and accessibility. The model is particularly good for institutional markets, where the number of establishments is small, and the number of variables is large. The Internet has also made it easier to segment markets using the macro variables.

#### **4.6 Segmentation Process**

The process of business markets segmentation may be expressed through several models. For purpose of this class, we shall narrow down to Bonoma and Shapiro (1984) model usually referred to as Nested Approach to market segmentation. The model has 5 steps which are discussed briefly.

1. Group companies by industry classification: Industry classifications give a firm a start on the grouping of customers and prospective customers into potential segments. The marketer will also divide their customers into heavy, medium, and light users. The use of industry demographics also makes the firm divide customers into types (OEM), end user, and aftermarket (MRO) and also by company size, geographic location and by specific financial factors such as credit worthiness. This will ensure the segmentation process considers not only macro factors but also specific areas that allow different firms with a higher degree of homogeneity to be brought together and exclude those with higher heterogeneity.
2. Customer operations: The marketer will seek to understand the segments operations in terms of technologies used, usage rate, purchase policy and product requirement in terms of being standardized or customized. This will help the marketer narrow the segments to more specific areas that he can serve easily.
3. Purchase situation: This variable enables the firm to determine whether the firm will be dealing with a new task, a straight rebuy or a modified rebuy, whether the potential

customer has positive attitudes toward the firm, and what relationships have been established by the marketing firm with potential customer.

4. Vendor attributes: In this step, the marketer will determine what is common among his customers. The marketer will examine value, quality, reputation and application as some of the attributes that will bring commonality among potential customers.
5. Customer variables: This may be difficult to determine but will impact purchase decision heavily. The marketer will have to consider DMU/buying center make up, purchase importance, corporate culture and attitude toward product.
6. Personal characteristics of members of buying center: these are also difficult to determine and include risk tolerance, loyalty to the marketer, and personal demographics all of which contribute to the way a firm makes a purchase decision.

By going through this process thoroughly, the marketer is likely to make the best choice of the most viable segment to serve. The process of selecting the most viable segments requires the business marketer to answer a few questions (Freytag and Clarke 2001 & Fry and Killing 1995):

1. Will the segment be attractive in the future? Attractiveness of a segment is assessed through variables such as size and growth, profitability, relative risk, competition, government/environmental considerations, customer demands/technology, present relationships, and possibility of development of new relationships. If the segment is rated highly on most of these items, then it's worth considering.
2. What is the demand for the resources and can the business cope with it? In this context the business marketer assesses technology, relationships, human resource, purchasing, sales, service, production, image, capital investment and product development to determine whether they have what it takes to invest in that segment.
3. What is the demand of management and does this match their preferences? The demands placed on management and their strategic direction must be assessed in this step. The current and potential gaps between the segment's demands and the management's preferred direction should be identified and if any gap exists, the management must make decision whether the segment is or not attractive.
4. What is the demand on the organization, and can the demand be met? This requires examining whether there is a strategic fit between the segment demands and organization strategy. The business marketer reviews the corporate direction, management commitments and organizational requirements to determine whether to commit himself to the segment or not.
5. Has the segment met all the above requirements? If so, then the segment can be selected and necessary actions taken to exploit the opportunities in the segment.

#### 4.7 Barriers to Effective Market Segmentation

Dibb and Simkin (2001) have identified three major categories of barriers to effective segmentation: infrastructure, process and implementation which are further subdivided into culture, structure, and resources. Infrastructure barriers include support (or lack of it) from senior management, lack of intra-functional communications, entrenched organizational structures and the lack of financial and human resources. Process issues include the lack of practical advice on how to implement segmentation, unwillingness to share ideas and information, lack of fit with corporate strategy, and misuse of the process due to poor understanding of it. Implementation barriers include the difficulty of changing present segmentation in the firm. Other barriers include poor identification of responsibility, poor communications and lack of senior management involvement. These barriers are summarized in table 4.1 from Blythe and Zimmerman (2013).

**Table 4.1 Barriers to effective market segmentation**

<i><b>Problems</b></i>	<i><b>Infrastructure</b></i>	<i><b>Process</b></i>	<i><b>Implementation</b></i>
<b>Culture</b>	<ul style="list-style-type: none"> <li>• Inflexible, resists new ideas.</li> <li>• Not customer focused.</li> <li>• Doesn't understand segmentation rational.</li> </ul>	<ul style="list-style-type: none"> <li>• Not committed to sharing data/ ideas.</li> <li>• Lack of "buy in."</li> <li>• Not fit with corporate strategy marketing.</li> </ul>	<ul style="list-style-type: none"> <li>• Product focus.</li> <li>• Insufficient belief in the process.</li> <li>• Unwillingness to change current segmentation.</li> </ul>
<b>Structure</b>	<ul style="list-style-type: none"> <li>• Lack intra-functional communication.</li> <li>• Low senior management interest or involvement.</li> <li>• Entrenched organizational structures.</li> </ul>	<ul style="list-style-type: none"> <li>• Misuses of segmentation process.</li> </ul>	<ul style="list-style-type: none"> <li>• Poor demarcation of responsibilities.</li> <li>• Ineffective communication of segmentation solutions.</li> <li>• Poor senior management involvement.</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Too few or untrained people.</li> <li>• Insufficient budget.</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate data available.</li> <li>• Insufficient budget.</li> <li>• Too few or untrained people.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of alignment of budgeting with segmentation.</li> <li>• Insufficient time allowed.</li> </ul>
<b>Solutions</b>	Prior to process: <ul style="list-style-type: none"> <li>• Find available data.</li> </ul>	During process: <ul style="list-style-type: none"> <li>• Specify segmentation steps.</li> </ul>	Facilitate implementation:

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| <ul style="list-style-type: none"> <li>• Identify people or skills.</li> <li>• Get senior management support.</li> <li>• Develop communications.</li> <li>• Establish adequate budgets.</li> <li>• Train people; basic segmentation skills.</li> </ul> | <ul style="list-style-type: none"> <li>• Fill gaps in education/skills.</li> <li>• Collect data; internal and external.</li> <li>• Establish regular communication meetings.</li> <li>• Review for fit with corporate strategy.</li> </ul> | <ul style="list-style-type: none"> <li>• Identify and communicate findings.</li> <li>• Make changes to plans and programs.</li> <li>• Identify required changes to culture and structure.</li> <li>• Specify budget, responsibilities and timing to roll out solutions.</li> <li>• Develop method for monitoring roll out.</li> </ul> |
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Adopted from Dibb and Simkin (2001).

#### **4.8 Market Targeting**

Once the firm has finished segmentation process, it must select the segments to invest in. This is guided by the segment attractiveness, availability of resources to serve that segment and how well the segment fits with the company's overall objectives (Blythe and Zimmerman 2013). There are three basic targeting strategies that include undifferentiated, concentrated (niche) and differentiated marketing.

Undifferentiated marketing focuses on serving all identified segments with only one marketing mix. The strategy is particularly useful when the product or service is in the early stages of product life cycle. Undifferentiated marketing usually only lasts as long as competition is limited.

Differentiated marketing is applied when the firm designs specific marketing mixes to serve each segment. It is a more costly strategy but likely to meet customer expectations more leading to satisfaction.

Concentrated or focus or niche strategy is applied when a firm concentrates on one or very few segments. It is chosen when a firm has limited resources and wants to dominate that sector. This strategy is said to be the riskiest targeting strategy since the possibility exists that the segment may experience economic difficulties or choose to use a substitute product and that firms using this strategy must be vigilant about the possibility of new segments evolving.

#### **4.8 Market Positioning**

Market positioning implies developing a theme which will provide a "meaningful distinction for customers" (Day, 1990). Ries and Trout (2001) note that many products already have a distinctive position in the mind of the customer which are difficult to dislodge. The process of positioning

involves four critical steps (Day, 1990). The first step is identifying alternative positioning themes. We may want to position as market leaders in quality, price or even customer service. The marketer may want to confirm what customers already think or change that position to fit with his current offerings. The second step is to screen each alternative according to whether it is meaningful to customers by examining themes feasibility given the firm's competencies and customer perceptions of the firm, its superiority/uniqueness against competition, and whether it is congruent with the company's objectives. The third step is choosing the position that best satisfies the criteria and generates the most enthusiasm and commitment within the organization while the fourth step is designing the programs needed to implement the position which may require the firm to compare costs of these programs with likely benefits.

#### **4.9 Review Questions**

1. What are the major differences between consumer and business to business segmentation techniques?
2. Discuss the tests of a good market segment.
3. Compare and contrast identifier segmentation variables and response profile segmentation variables.
4. Demonstrate how you would apply the nested approach to segmentation to a multinational firm.
5. Discuss main consideration in selecting a segment to serve.
6. What obstacles might a firm expect in implementing its segmentation, targeting, and positioning procedures?

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