

B2B MARKET SEGMENTATION

5 KEY SEGMENTATION DIMENSIONS

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B2B SEGMENTATION STRATEGY DEVELOPMENT

VITAL INGREDIENTS + CREATIVE COOKING

Effective b2b segmentation is like gourmet cooking – you need a nice variety of ingredients to create a delicious balance of flavors and a certain unexplainable artistic skill to combine the ingredients into a crowd pleasing experience.

The primary purpose of this whitepaper is to introduce a list of b2b segmentation ingredients that should be considered when you develop your unique b2b segmentation strategy. We have sorted the ingredients into five major groups that we call segmentation dimensions.

We recommend that you carefully select ingredients from each of the five dimensions to assure that you create a balanced view of your market and target audience. At the same time we also recommend that you avoid selecting too many variables – that would be similar to selecting too many ingredients for a gourmet recipe – it will result in more confusion than enlightenment.

We also want to warn you in advance that reviewing our list of b2b segmentation variables is somewhat like looking in your kitchen pantry and having your heart sink as you realize that it takes a great deal of creativity to put those ingredients to good use.

The secondary purpose of this whitepaper is to give you some suggestions on how to creatively combine segmentation variables. We offer these suggestions as a starting point to motivate you to do what you need to do – create a truly unique and creative segmentation strategy that is unlike your competitors - “me too” b2b segmentation strategies rarely result in sustainable competitive advantage.

Let’s first quickly review the five segmentation dimensions to illustrate why you should select variables from each of the five separate dimensions. The five b2b segmentation dimensions are as follows: Geographics, Firmographics, Product Usage, Benefits Desired, and Purchase Behavior. Each dimension answers a different question about your market and target audience. Geographics answers the “where” question. Firmographics answers the “who” question. Product Usage answers the “how much” question. Benefits Desired answers the “why” question and Purchase Behavior answers the “how” question. When you select key variables within each dimension you will be building an accurate representation of your market and target audience.

We have worked hard to create a very extensive list of b2b segmentation dimensions and variables however we do not believe that any list of this sort can be absolutely exhaustive. Similar to gourmet cooking, there are endless possibilities for adding exotic ingredients that may make no sense to some people but all the difference to others, so we encourage you to view our list as a well balanced set of ingredients that can serve as a solid foundation for segmentation strategy development and also as a launch point for more exotic segmentation variable ideas.

Finally, it is important to say that the selection of segmentation variables must be validated by your observation of your market and target audience - they should not be selected because you like them. They should be selected because they are important and relevant to your market and target audience.

“GEOGRAPHICS” – SEGMENTATION DIMENSION - ANSWERS “WHERE” QUESTION

MARKET SCOPE – *describes the geographic scope of your market*

GLOBAL

Worldwide
North America
Europe
Asia
Latin America
Selected Countries

NATIONAL

Aggregation of States

REGIONAL

New England
Plains States
Southeastern States
Western States

LOCAL

Zip Code
MSA
County
City

CULTURAL

Example - French Speaking Canadians

MEASUREMENT UNITS – *describes how geographics will be measured*

CENSUS

MSA
PMSA
CMSA
Census Tract
Census Block Group

POSTAL

5 digit zip code
3 digit zip code

GOVERNMENT

City
County
State

URBANICITY

Urban
Suburban
Rural
Exurbia

MEDIA

ADI = Arbitron = Area of Dominant Influence
DMA = AC Nielson = Designated Market Area

TRADE AREA

Primary
Secondary
Tertiary
Marginal

CLIMATE

Climate Zones

“FIRMOGRAPHICS” - SEGMENTATION DIMENSION – ANSWERS “WHO” QUESTION

AGE

Years in Business

SIZE

Number of employees
Number of Locations
Number of Plants

FINANCIAL

Sales
Profits
Credit Rating

DECISIONS

Headquarter / Subsidiary
Branch

INDUSTRY

SIC Code
NAICS Code
NACE (EU)
ISIC – International

OWNERSHIP

Public Company
Private Company
Government
Non-Profit

MARKET

Market Size
Number of Potential Customers
Market Structure

POSITION

Market Share
Industry Position

STAGE

Product Life Cycle
Industry Life Cycle

TRENDS

Growth
Decline
Stability

CUSTOMERS

Business to Business
Business to Consumer
Business to Education
Business to Government

PROPERTY

Lease – Plant & Equipment
Own – Plant & Equipment

RESIDENCY

Length of Residency

MANUFACTURING

Discrete Manufacturing
Process Manufacturing

TECHNOLOGY

High Tech
Low Tech

“PRODUCT USAGE” - SEGMENTATION DIMENSION – ANSWERS “HOW MUCH” QUESTION**VOLUME**

High
Medium
Low

VARIETY

Single Product versus Multiple Products
High
Medium
Low

FREQUENCY

First Time
One Time
Regular
Continuous
Seasonal
Occasional

RFM (good measure of usage and loyalty)

Recency
Frequency
Monetary Value

TRENDS

Growth
Decline
Stable

APPLICATION

Raw Material
Work in Progress
Finished Good

PRODUCT USES

Single Application
Multiple Applications

VALUE CHAIN

Location within
Customer's Customers
Intermediary Sales
End Users

IMPORTANCE

Critical Component
Insignificant
Replaceable

SHARE

Share of Customer
Share of Market

MARKET

OEM - Original Equipment Manufacturer
MRO – Maintenance, Repair, Overhaul – (aftermarket)

ADOPTION

Product Use by Adoption Category
Innovators
Followers
Laggards

HEURISTICS

Heavy Half Segmentation
Pareto - 80/20 rule

KEY WORDS

Internet Search Words
Key Words Represent Product Research
Indication of Product Usage

USER TYPE

Current
Former
Non-User

BUYER SIZE

Large
Medium
Small

COMPARISONS

Users versus Non-Users
Users versus Competitor Users
Heavy Users versus Light Users
Usage Level versus Profit Level

“BENEFITS DESIRED”- SEGMENTATION DIMENSION – ANSWERS “WHY” QUESTION**BUYER MOTIVES**

Physical
Emotional
Psychological

PRIORITY

Primary Benefits
Secondary Benefits

MULTIPLICITY

Usually only one use for product
There can be many benefits associated with one product

VARIABLES

Price
Value
Quality
Reputation
Service
Delivery
Timing
Relationship
Reliability
Durability
Ease of Use
Innovation
Warranty
Customization
Payment Options
Experience

VARIABLES (continued)

Scalability
Geo-Scope
Vendor Size
Expertise
Technology
Patents

4 MAJOR BENEFITS

Service
Quality
Image
Price
Must excel in at least one
Must be acceptable in all

“PURCHASE BEHAVIOR” - SEGMENTATION DIMENSION – ANSWERS “HOW” QUESTION**ORGANIZATIONAL**

Centralized
Decentralized

POWER STRUCTURE

Engineering
Finance
Sales
Marketing
Manufacturing

BUYER SELLER RELATIONSHIP

Strong
Weak
Similarity between buyer and seller

PURCHASE POLICY

Bid
Price
Lease
Purchase
Vendor approval process

RISK ATTITUDE

Risk Taker / Risk Averse

PURCHASE CRITERIA

Price
Quality
Image
Service
Specifications
Vendor Capacity

DECISION MAKING UNIT

DMU = Decision Making Unit
Number of DMU Stakeholders
Roles of DMU Stakeholders
DMU Seniority Level

SITUATIONAL ISSUES

Order urgency
Fast / Slow Delivery
Product Application

ORDER SIZE

Large
Medium
Small

RISK ATTITUDE

Risk Taker
Risk Averse

PURCHASE LOYALTY

High / Medium / Low

MARKET STRUCTURE

Number of Buyers in Market
Buyer Industry Consolidation
Buyer/Seller Power Continuum

COMPLEXITY

Simple Sales Process
Complex Sales Process
Sale Cycle Time

COMPETITION

Market competition

GEO-CLUSTERING

Buyer Geo-Clustering
Silicon Valley – example

PSYCHOGRAPHICS – cultural component of purchase behavior

CORPORATE CULTURE

Attitudes
Opinions
Personality
Values
Beliefs
Interests
Motivations
Self-concept
Ideology
Lifestyle
Psychological
Sociological
Anthropological

BUYER CLUSTERS

Social Buyers
Factual Buyers

STRATEGIC CLUSTERS

Defenders / Prospectors / Analyzers / Reactors

ORIENTATION CLUSTERS

Customer Orientation
Financial Orientation
Internal Orientation
Research & Development Orientation

PRODUCT ADOPTION CURVE

Innovators
Early Adopters
Early Majority
Late Majority
Laggards

SUGGESTIONS ON HOW TO GET STARTED

As previously mentioned, the secondary purpose of this whitepaper is to give you some suggestions on how to creatively combine segmentation variables to develop a unique and effective segmentation strategy for your company. A potential benefit of these suggestions is to help organize your thinking about segmentation strategy development.

Before going any further we want to emphasize that there is no “right way” to do segmentation. The key issue is to better understand your current markets and to identify new market segments that can be successfully and profitably exploited.

The second insight that we want offer prior to digging into suggested methodologies is how to start. There is no “right way” to start – you can begin piece meal or you can do an extensive analysis – it all depends on your internal resources and your unique needs.

Below we briefly describe four suggested approaches to b2b segmentation strategy development. These methods have been well researched and validated with positive market experience.

NESTED APPROACH – SUGGESTED METHOD #1

This approach was developed by two Harvard professors, Bonoma and Shapiro. Its attractive benefits include multi-dimensional descriptive qualities and a systematic progression from observable variables to subtle buyer behavior variables. Below is a summary of the nested approach.

DEMOGRAPHICS

Industry
Company Size
Customer Location

OPERATING VARIABLES

Technology
Product Usage
Customer Capabilities

PURCHASING APPROACHES

Purchasing Procedures
Power Structure
Buyer/Seller Relationships
Purchase Policies
Purchase Criteria

SITUATIONAL FACTORS

Order Urgency
Order Size / Product Applications

BUYER PERSONAL CHARACTERISTICS

Buyer/Seller Similarity
Attitude toward Risk
Buyer Motivations
Buyer Perceptions

3 LEVEL –MARKET DEFINITION MODEL – SUGGESTED METHOD #2

The 3 Level Model is a nice way to identify the appropriate level of market segment abstraction to define attractive market segments given your resources, objectives, and marketing environment. A key benefit of this model is avoiding myopia (too narrow segment definitions) and also avoiding mass marketing (too broad definition) so that the best definition balance is achieved.

LEVEL 1 – RELEVANT MARKET

Define Geographic Trade Area = current market served
Define Product Market = current products offered (myopia)
Define Generic Market = mass marketing definition (mass market)
Relevant Market = Larger than Product Market / Smaller than Generic Market

LEVEL 2 – DEFINED MARKET

Defined Market = Relevant Market containing customers and non-customers

LEVEL 3 – TARGET MARKETS

Apply Segmentation Dimensions to Defined Market
Identify Multiple Segments within Defined Market
Select Attractive Segments within Defined Market

SEGMENT SELECTION CRITERIA – SUGGESTED METHOD #3

The Segment Selection Criteria Method is a simple check list of qualitative and quantitative criteria that can help you select the best market segments for your business.

QUALITATIVE CRITERIA

Nature of business preferred
Strategic synergy
Strengths and Weaknesses
Market trends
Geographic coverage
Industry structure

QUANTITATIVE CRITERIA

Sales growth rates
Sales within market

QUALITATIVE CRITERIA (continued)

Market share
Profit potential
Customer lifetime value (LTV)
Customer retention indicators
Return on investment (ROI)
Breakeven analysis (BEA)
Net present value analysis (NPV)
Payback time frame

3 KEY CONSIDERATIONS

Growth
Profits
Segment size

4 "R" TEST

RANKABLE

Ability to objectively rank segments
Ability to subjectively rank segments

REASONABLE SIZE

Large enough to pursue
To justify differential treatment

REACHABLE

Ability to communicate with segments

RESPONSIVE

Segment responds to marketing communication

MARKETING AUDIT – SUGGESTED METHOD #4

The final suggested method is a great way to start the segmentation process by asking yourself a series of pointed questions about your current marketing situation. The answers will identify areas that need improvement – a great starting place for your market segmentation strategy development.

SALES HISTORY

How do sales break down by product line?
Do you break down sales by customer segments?
What products are not meeting potential?
What markets are not meeting potential?
What segments are not meeting potential?

MARKETING COMMITMENT

Do you develop and implement formal marketing plans?
Are your marketing plans based on market segmentation?

MARKETING ENVIRONMENT

What major developments/trends represent opportunities?
What major developments/trends represent threats?
What actions have been taken in response to opportunities?
What actions have been taken in response to threats?
What major technology developments/changes are occurring?
How have you responded to technology developments/changes?
What are competitor's strengths within markets you serve?
What are competitor's weaknesses within markets you serve?
What are competitor's strategies within your markets?
What is happening relative to market size?
What is happening relative to market growth rates?
What is happening relative to market profit rates?

MARKET SEGMENTS

What in your view are your major market segments?
How do different customer segments make buying decisions?
Who are new potential customers for your products?
Are segments identified, measured, and monitored?
Are any small but profitable segments over-looked?
How do you presently segment your markets?
Is your present market segmentation approach effective?
How does competition define market segmentation definitions?
Have you created customer profiles for major market segments?
Should your company withdraw from any business segment?
What would be short term / long term consequences?
Are market segment definitions based on research?

PRODUCT

What are objectives for current product lines?
How do you gather, generate, and screen new product ideas?
Do you do market research prior to new product launches?
Do you weed out unprofitable products and add new ones?

MARKETING MANAGEMENT

Do you have a marketing intelligence system in place?
Is marketing research effectively used by decision makers?
Do you regularly analyze profitability of market segments?

MARKET SEGMENTATION – RECOMMENDED RESOURCE

The basis and foundation of all information presented in this whitepaper has been the following book:

Handbook of Market Segmentation – *Strategic Targeting for Business and Technology Firms*

Author: Art Weinstein PhD, Professor of Marketing – Nova Southeastern University

Publisher: Haworth Press – 2004 – third edition