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Rethinking business segmentation: a conceptual model and strategic insights*

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ABSTRACT

Segmenting business markets is challenging but potentially highly rewarding. An in-depth understanding of how to segment markets is necessary to guide the best decisions leading to profitable targeting. Business markets are changing rapidly due to new technology and a more complex business environment. Current segmentation frameworks are not sufficient to guide business-to-business (B2B), business-to-business-to-business (B2B2B), and business-to-business-to-consumer (B2B2C) market analyses. Thus, new strategic segmentation insights are required. This paper introduces and tests a new six-cell business market typology building on two key segmentation dimensions – product use by intermediaries in their marketing (B2B, B2B2B, and B2B2C) and product standardization (standardized or customized products). Examples are developed showing how this model is used by organizational marketers, research findings are presented, and a research agenda is proposed to fill the gap in the literature – i.e. understand the new model and apply appropriate business segmentation criteria.

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Introduction

Market segmentation is a fundamental concept to identify profitable business opportunities. Segmentation divides markets into subsets of users who share a similar set of needs and wants. Marketers evaluate the segments and then implement strategies to target high value customers and prospects. Introduced to the business and academic communities more than half a century ago, today, segmentation is recognized by marketers and academics as one of the core concepts in the discipline – on par with the marketing mix (4Ps), product life cycle, and market orientation. It has evolved from a theoretical market partitioning idea directed to consumer markets into a viable real-world marketing planning strategy that is the basis for marketing strategy in business, technology, and service markets.

Business segmentation gained credibility and acceptance led by research by Bonoma and Shapiro (1983) and Plank (1985). In spite of this progress – more than 30 years later – B2B

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segmentation is often misunderstood or poorly utilized by marketers. Many B2B marketers do not to see segmentation from a strategic perspective – i.e. they fail to understand their pre-segmented market which is the broad definition of the market(s) in which they compete (Abell, 1980). As a result, many B2B companies obtain limited value from segmentation initiatives (Yankelovich & Meer, 2006). Importantly, B2B customers, whether final or intermediary, are changing too rapidly to permit old, stable segmentation analysis (Foss & Stone, 2001).

Addressing this gap, this article provides a framework for using segmentation strategy effectively in business markets based on an innovative 3 × 2 conceptual model which assesses marketing channel (B2B end user, B2B2B intermediate business user, or B2B2C intermediate consumer goods user) and product (standardized or customized). The resulting six strategic options provide important insights for marketing planning, analysis, and strategy.

Used effectively, segmentation strategy can be a significant competitive differentiator for a company. Intel, a pioneer in business segmentation (their 'Intel Inside' value proposition is legendary), taps the power of segmentation to target technology markets selling both B2B2B and B2B2C. Computer chip manufacturers market to Apple, Lenovo, Compaq, and Dell for B2B2C, and market to companies such as Amazon and HP Enterprises for B2B2B cloud computing. Intel segments its business units based on analyses of its customers' markets to determine where it should emphasize its sales and product development. In a recent report to analysts, Intel revealed they are reducing investment spending in software, personal computers, and phones and tablets while investing more in data centers with cloud computing, retail solutions, transportation and automotive, smart homes and buildings, and industrial and energy (Intel, 2015). Analysis of these markets will then focus on target companies well positioned in the growth areas they identified.

How business markets differ and segmentation approaches must change

There are several major differences between business and consumer markets. Business markets are different because they are based on the scope of the geographic trade area (concentrated customer bases), market factors (fewer customers, larger dollar sales per unit sold, and derived demand), nature of the purchase decision (complex decision-making, professional and informed buyers, buying centers involving expertise across various functional areas involved in decision-making, and longer selling cycles), and closeness of the customer due to relationship marketing and technology. In addition, in B2B markets, buyers are generally longer term customers, there is often less innovation, and there may be fewer needs-based segments.

Historically, B2B was viewed as the segmentation between the seller and buyer using a variety of segmentation bases including demographics (firmographics), operating variables, purchasing approaches, situational factors, and buyers' personal characteristics (Bonoma & Shapiro, 1983). Simply, whoever bought goods or services from the seller was the focus of the segmentation analyses. Today, however, B2B marketers recognize that there are many situations where the company buying the product is not the ultimate user. So, segmentation is more than just B2B.

The addition of a channel intermediary means that it is, at times, business-to-business-to -business (B2B2B) or even business-to-business-to consumer (B2B2C) – thus, B2B segmentation requires a different approach. Hence, there are three types of business buyers: end users, intermediate industrial users, and intermediate consumer goods firms. This is illustrated below:

- B2B in its simplest form, is when a business sells products to another business who uses the product themselves – e.g. selling commercial dishwashers directly to restaurants with a seating capacity of at least 150 people.
- B2B2B – an electric motor manufacturer sells its motors to an elevator manufacturer who incorporates the motor into its elevator product and in turn, sells its completed elevator to a construction company.
- B2B2C – a computer chip maker sell its chips to a cell phone manufacturer who incorporates the chip in its cell phones and in turn, sells its cell phones to consumers.

Therefore, B2B direct segmentation (two parties) differs significantly from B2B indirect segmentation – i.e. B2B2B or B2B2C (three parties). As Stines (2003) notes, in the latter cases, organizations must carefully examine their customers' customers to making sound segmentation decisions – hence, two-levels of segmentation analyses are required. Since demand is derived, these companies would, ideally, analyze end markets first and then work backward to segmentation dimensions impacting the intermediary company.

Segmenting B2B2B and B2B2C business markets no longer means just looking at a company's customers or potential customers. It now requires new strategic segmentation insights. With the recognition of B2B2B and B2B2C as viable strategic segmentation alternatives, business segmentation should focus on the market segments served by both sets of 'customers/prospects' to drive solid investments in product development, sales, and marketing communication. Consistent with the relationship marketing paradigm and trend toward co-creation of value, we would expect B2B organizations to collaborate more with their current and prospective customers on end user needs.

Research questions

A major objective of market segmentation analysis is to find emerging growth opportunities. As the preceding discussion indicates, it is apparent that there is an opportunity in business markets to improve in this area. Here are the three major research questions that guide this investigation:

RQ1. Premise: B2B segmentation differs from B2B2B or B2B2C segmentation. Are there differences in target marketing success by sub-group (B2B, B2B2B, or B2B2C)?

RQ2. Premise: business segmentation differs for standardized and customized products. Are there differences in target marketing success for business marketers that sell standardized versus customized products?

RQ3. How should target market selection criteria be used by business marketers (B2B, B2B2B, and B2B2C) to select the best target markets?

Building a new B2B segmentation strategy typology and process

There has been limited work done on B2B segmentation modeling with the exception of Bonoma and Shapiro's (1983) nested approach which essentially develops one type of business segmentation scenario, B2B. The typology developed in our paper identifies two additional segmentation scenarios based on intermediaries and product customization. These typologies have been given little recognition in the academic and practitioner literature.

Typologies consolidate the development of knowledge in particular fields (Paswan, Guzman, & Kennedy, 2016). Clearly, there is a need for new ways of thinking about business markets. According to Accenture (2014), 80% of firms hope to grow by developing new business models by 2019. Hence, we offer the following model for explicating the initial business segmentation challenge which is largely based on this two-part question, 'how and where should we compete.'

In developing the typology, as Table 1 shows, there are two key dimensions based on marketing intermediary (product use by customer) and level of product customization (product type). This results in a six-cell, 3 × 2 matrix consisting of three market use scenarios and six product type cases. Scenario A is direct, single-level business segmentation for standardized (case 1) or customized products (case 2). Scenarios B and C (cases 3–6) have intermediaries and require dual segmentation approaches. Managerial applications of the B2B segmentation typology are offered in Table 2. Large companies will typically compete in multiple arenas (cases) while small and medium companies may have a more focused strategy and limit themselves to a single scenario. This model identifies the various strategic market definition options in business markets and provides a useful springboard for segmentation analysis.

We suggest that B2B, B2B2B, and B2B2C marketers use a different segmentation process for developing market targets and customers. Traditional B2B marketers (A1 scenario) segment their customer, but successful B2B2B and B2B2C (B and C scenarios) identify their customer's or potential customer's end user segments first, and then secondarily segment their direct customer or potential customer.

Honda gasoline engines offer an excellent example of how the B2B2B segmentation process is executed. Honda sells its engines to companies who incorporate the engine into their own equipment for sale to business customers. One of Honda's customers incorporates the engine into a spraying unit for grass maintenance in golf courses (Minnesota Wanner Company, 2016). When Honda segments markets by customer use (e.g. golf course maintenance), it is able to effectively forecast demand and analyze opportunities, Honda will learn the opportunities for that market segment for both new golf course construction and replacement equipment are limited. For eight years in a row, more golf courses closed than opened. In 2013, 14 golf courses opened and 158 closed (Bloomberg, 2014). Thus, by looking at its customer's market segment, Honda understands the opportunity or lack of opportunity in potential target markets and may decide to reduce emphases in selected areas.

A key part of Qualcomm's business is in B2B2C. Qualcomm sells technology to mobile phone manufacturers; they do not sell mobile phones themselves. Based on consumer

Table 1. B2B segmentation typology.

Product type >SCENARIO product use by customer	Standardized products case		Customized products Case	
A. End user business – B2B	B2B – STANDARD	**1**	B2B – CUSTOM	**2**
B. Intermediate and end users business – B2B2B	B2B2B – STANDARD	**3**	B2B2B – CUSTOM	**4**
C. Intermediate business and end user consumer – B2B2C	B2B2C – STANDARD	**5**	B2B2C – CUSTOM	**6**

Table 2. B2B segmentation typology – examples.

Product type >product use by customer	Standardized products	Customized products
End user business – B2B	Wheelchairs for transporting patients in hospitals	Customer relationship management solutions software
Intermediate and end users business – B2B2B	Standard computer chips for business telephone systems	Customized diesel turbochargers for use in new heavy duty trucks
Intermediate business and end user consumer – B2B2C	Gortex lining used in wearing apparel	Specialized flavorings sold to Starbucks for use in Frappuccino

demand forecasts for mobile phones and insight into consumer needs, the company develops mobile phone technologies ranging from faster speeds, to fingerprint recognition, to improved WiFi. Qualcomm is now moving into mobile communications for the automobile market. They understand their customer's customer segments and needs (Qualcomm, 2016).

While the above B2B2B and B2B2C scenarios demonstrate that astute marketers examine their customer's customer, the extent to which this is used in segmentation and the extent to which these segmentation processes impact firm performance is uncertain. Hence, there is a need to understand these measures.

The proposed typology recognizes the growing importance of customization as adding value and differentiation in business marketing. Syam and Kumar (2006) found that firms can increase their profits by offering customized products in a competitive setting. In the area of digital technology, B2B companies can customize offerings so as to serve customers efficiently, differentiating offerings from competition, and locking in customers (Pine, 2015).

Companies such as General Electric moved from an industrial company to a customized software company with the Predix software system. In B2B2C, the GE Predix customized software system is used by Procter and Gamble, the leading consumer packaged goods marketer, to provide a 'smart automation and digitized manufacturing platform' which provides P&G with 'Increasing manufacturing productivity, facilitating speed of innovation.' In B2B2B, GE has identified 30 key intermediaries ranging from accounting firms to technology companies to target 275 customers for customized Predix software (General Electric, 2016).

Research study

A small scale exploratory study was conducted to begin to gather information on segmentation and targeting practices, particularly in the business arena. We conducted the research across all three typologies with particular interest in determining the relative success in achieving target market objectives.

Methodology and sample

An e-mail survey was used to collect data from marketing managers in business technology markets. The questionnaire was distributed via SurveyMonkey™ and data analyzed through SPSS 17.0.

Content validity was assessed by having two marketing professors with expertise in B2B segmentation and technology markets evaluate the research instrument to ensure that it clearly specified the domain. (Both of these outside reviewers had articles published in leading academic journals and more than ten years of real-world marketing experience in this area). From an external validity perspective, the research instrument was pretested in person with 14 marketing executives at 5 leading Silicon Valley B2B technology companies – Infoblox, National Semiconductor, Sun Power, Symantec, and Trend Micro at a trade conference.

Two respected marketing practitioners affiliated with the Business Marketing Association (BMA) of Northern California assisted the researchers by facilitating in-depth group interviews which lasted from one to two hours. One of the co-authors spent two full days dialoguing with senior level technology managers on market segmentation challenges and strategic marketing opportunities. Based on these inputs, the questionnaire was refined.

Given the exploratory nature of this research, both a convenience sample and a snowball sampling technique (where respondents provide names of other potential respondents) were employed to collect the data. Snowball sampling is a judgment approach which is useful for sampling special populations or those difficult to reach such as B2B marketing managers and technology executives (Churchill, 1995, p. 19; Kahan & Al-Tamimi, 2009).

Two hundred and fifty (250) B2B technology marketers were contacted through personal networks, referrals by respondents, business advisory councils at the sponsoring university and members of professional organizations (BMA and the American Marketing Association Marketing Strategy and LinkedIn special interest groups). Seventy (70) marketing managers responded to the survey resulting in a respectable 28% response rate.

Three major sectors – technology, business and professional services, and computer-related – accounted for 83% of the respondents (17% were in the medical/ pharmaceutical business). Fifty-seven percent of the participants worked for small companies (less than $25 million in revenue), the other 43% was split between medium-sized and large organizations. More than 80% of the respondents were male. Nearly half of the sample was 30–49 years old with the other half being 50 + (only 4% of the respondents were under 30). This reflects the experience level of the sample since two-thirds of the respondents worked 10 or more years in a marketing position. Further detail on the sample profile may be found in Weinstein (2014a, p. 262).

Findings

RQ 1 discussion – product use by intermediaries

We collected information in a pilot study from 70 companies across three typologies, B2B, B2B2B, and B2B2C. Of particular interest is the relative success in achieving target market objectives. We asked, 'to what extent have you achieved your target market objectives on a five-point scale'? As the ANOVA in Table 3 illustrates, there is no statistical difference based on target marketing success for the three sub-groups ($p > .05$). For the most part, the sample demonstrates that overall target marketing strategies are somewhat effective ($\bar{x} = 3.6/5.0$). The B2B2B sub-group ($\bar{x} = 3.4/5.0$) fared somewhat worse than the B2B and B2B2C

Table 3. B2B target marketing success.

	B2B	B2B2B	B2B2C	B2B – All
N	21	35	13	69
Mean	3.81	3.43	3.85	3.62
Std. Deviation	.87	. 92	.80	.88

Note: One-way ANOVA: *F*-test = 1.73/ *p*-value = .185 (n/s).

sub-groups ($\bar{x} = 3.8/5.0$ for both), although this was not statistically significant. Perhaps, larger samples might confirm such a difference.

To add additional insight, a top box analysis was conducted. Rating scales including Likert scales using means and grouping of data into top box and top two boxes are widely used by marketing researchers. The top box or top two box scores show the percentage of respondents falling into the top one or top two numeric ratings. Top box scores are often used during new product development to measure purchase interest and customer satisfaction (McDaniel & Gates, 2013). The A.C. Nielsen BASES model which forecasts purchase rates applies the top box purchase intention approach (Chandon, 2005). Customer satisfaction is generally measured via a five-point satisfaction scale ranging from very dissatisfied to very satisfied with satisfaction levels often reported as top box or top two box (Bendle, Farris, Pfeiffer, & Reibstein, 2016). And, the Net Promoter Score measures the degree to which customers will recommend a business or service by subtracting the percentage of 'promoters' (ratings of 9 or 10) from the percentage of 'detractors' (ratings of 0–6) thus using a top box approach (note: 'passives' with ratings of 7 or 8 are excluded in NPS analyses) In B2B markets, the use of top box or top two box expectancy disconfirmation provides deep insights into customer satisfaction (Briggs, Landry, & Daugherty, 2016).

Across the three typologies (69 of 70 respondents reporting), only 54% achieved a top two box rating in achieving target market success with only 17% achieving a top box score – see Table 4 for a summary of the aggregate sample scores and the three sub-groups. This finding indicates that segmentation in the overall business-to-business environment deserves continued attention in achieving targeting and segmentation objectives. Among those companies that deal only with business customers (B2B), 62% achieved a top two box rating with one out of four (24%) achieving a top box score. These firms deal directly with the end user and may have a better assessment of their customers and the success of their targeting efforts.

In contrast, the companies in the B2B2B group scored the lowest, with only 46% achieving a top two box score and only one in nine (11%) achieving a top box rating. It may be that the targeting approach used by these firms is directed mainly at 'their customer' with little information about the end user of their product. Identifying end users segments and then backing in to customers who serve them is likely to improve targeting success.

Sixty-two percent of those B2B2C companies in the pilot study achieved a top two box score for targeting success with less than one in four (23%) hitting the top box rating. These companies may have the benefit of easier to define end user market segments such as computers or cell phones. Thus, they may be able to develop products for specific target segments.

Table 4. Target market success.

	Total Sample (%)	B2B (%)	B2B2B (%)	B2B2C (%)
Top Box (5)	17	24	11	23
Top 2 Boxes (4 or 5)	54	62	46	62

Notes: Measured on a 5-point success scale where '1' is unsuccessful, '2' is somewhat unsuccessful, '3' is somewhat successful, '4' is successful, and '5' is very successful.

RQ2 discussion – product customization

The trend towards mass customization, a flexible process designed to provide customers in B2B or consumers in B2C with individualized products or services is a growing marketing practice. Accelerating this trend are advances in flexible manufacturing and internet-based information and communication technology (Syam, Ruan, & Hess, 2005). In business markets, almost every customer needs a customized product, whether it is the quantity of product purchased, the features and benefits of the product, shipping and delivery requirements, using machines and materials differently, and/or requiring custom specifications (Narayandas, 2005). Customization in business markets is not limited to industrial goods. Professional services targeted to businesses customize their offerings using the intellectual capital of employees of the firm to provide specialized value-added services to clients (Madhavaram & Hunt, 2017).

Our research confirmed this growing trend toward customized, differentiated products in business markets. More than 91% of B2B firms (63 of 69) offered customized products. Only 1 in 11 companies (6 of 69, 9%) market a standardized product mix. This approach is consistent with targeted marketing thinking. There was no difference in target marketing success based on product strategy employed (customized or standardized).

RQ 3 discussion – using B2B target market selection criteria

B2B companies must identify and then assess segmentation criteria to find the best market segments to target. Weinstein (2014b) found that competitive advantage explained 22% of market segment performance. McDonald and Dunbar (1998) provided a list of 27 possible, generalized segmentation criteria, both qualitative and quantitative, in 5 major areas – market factors, competition, financial and economic factors, technology, and socio-political factors.

Quantitative criteria include sales, profits, market share and competitive intensity, market size and growth rates, and financial measures (e.g. break-even points, customer lifetime values, net present value, return on investment, etc.). Although many managers often embrace such metrics, numbers alone can only show part of the segmentation picture, or worse, organizations may suffer from sales forecasts or profit projections based on incomplete data, questionable assumptions, or flawed research methodologies.

Qualitative criteria can provide powerful input for segment selection decisions. The overall strategy of the company and its capabilities are a good starting point. For example, are the segment opportunities consistent with the firm's capabilities to allow the firm to compete on high quality, profitable margins, or exploit the company's sales skills or customer knowledge? Other qualitative segmentation criteria may include an assessment of strengths and weaknesses, industry structure, geographic coverage, market trends, or business synergy – e.g. the ability to use existing distribution channels, build on process strengths, or capitalize on excess factory capacity.

Based on research of *UK Times* 1000 companies, Simkin and Dibb (1998) found that the three most important criteria for selecting target markets were *profitability, market growth*, and *market size*. Likely customer satisfaction, sales volume, likelihood of sustainable competitive advantage, ease of access of business, opportunities in the industry, product differentiation, and competitive rivalry rounded out the top ten criteria (note, 23 items were tested). The authors conclude that businesses in the United Kingdom should replace their short-term and financially oriented focus with a longer term and more analytical view of market segmentation. A decade later, Dibb and Simkin (2008) concluded that profitability was the number one market selection criterion followed by four frequently cited drivers – market growth, market size, likely customer satisfaction and sales volume (the remaining criteria were called occasionally cited considerations).

In our exploratory study, we used Simkin and Dibb's (1998) top 10 list as a basis for testing B2B segmentation criteria. Overall, B2B firms use varied segmentation criteria based on market scanning, competitive strategy, product strategy, and financial performance (see Table 5). Profitability, considered a 'top tier' segmentation criterion according to Dibb and Simkin (2008), is the only one of the top four criteria evidenced in all three sub-groups (B2B, B2B2B, and B2B2C). B2B2C marketers use the most widely accepted business segmentation criteria – they utilize one 'top tier' criterion (profitability) and three 'frequently used' criteria (ease of access of business, customer satisfaction, and market size). Other B2B and B2B2B (non-B2B2C) companies use a more varied approach to segmentation emphasizing 'occasionally used' criteria in their analyses. This is likely due to their need to tailor their targeting efforts to their unique market situations. In business markets, we conclude that there has been a movement from quantitative to strategic segmentation criteria during the past two decades.

B2B segmentation strategy – a research agenda

The introduction of a more thoughtful process for B2B market selection can assist marketers design winning target marketing strategies. As this exploratory work demonstrates, business segmentation takes three major forms – B2B, B2B2B, and B2B2C – which are either direct B2B or B2B with business or consumer goods firm intermediaries. Thus, research is needed to understand the salient differences in segmentation approaches. Three important academic marketing implications follow.

Product and brand considerations

Product decisions play a significant role in B2B segmentation as companies may offer standardized or customized offerings to their customers. While our conceptual model offers a logical starting point, research is called for to better understand the six-cell typology. This

Table 5. Top 4 criteria for B2B segmentation.

B2B ($n = 21$)	B2B2B ($n = 36$)	B2B2C ($n = 13$)	Overall B2B ($n = 70$)
1. Sustainable differentiated advantage (O)	1. Opportunities in the industry (O)	1. Ease of access of business (F)	1T. Opportunities in the industry (O)
2. Customer satisfaction (F)	2. Profitability (T)	2. Customer satisfaction (F)	1T. Sustainable differentiated advantage (O)
3. Opportunities in the industry (O)	3T. Competitive rivalry (O)	3T. Market size (F)	3. Profitability (T)
4. Profitability (T)	3T. Product differentiation (O)	3T. Profitability (T)	4. Product Differentiation (O)

Notes: T = tie based on overall segmentation use criteria measure (T) top, (F) frequent, (O) occasional 'Segment attractiveness criteria' based on Dibb/Simkin (1998).

may include quantitative studies based on highly targeted industry-specific mailing lists, panel data or qualitative research at practitioner-oriented trade conferences.

Companies marketing trademarked products through B2B2C such as Dolby, Nutrasweet, Teflon, Paypal, and Lycra, require certain capabilities when they want to segment markets including branding and consumer market research. B2B2B marketers such as Rolls Royce jet engines require similar skills in convincing airplane manufacturers such as Airbus and Boeing to use their engines when selling to the major airlines. The extent to which these capabilities have been adopted as part of a firm's segmentation strategy, product mix, and firm performance remains to be studied as part of the proposed framework.

Segmentation selection criteria

Are there differences between market segmentation criteria for industrial goods versus services, high-tech versus low-tech products, consumer products, or domestic versus international market segments? Are there segment criteria that are more important than others? Is there an order in which companies evaluate criteria, perhaps in a linear stage-gate process? Or, is the process nested? Additional topics for research include the number of segmentation criteria typically used, which are most frequently used, the impact of intermediary capabilities such as sales force on segmentation effectiveness, and the impact of innovation and technology on product differentiation and segmentation. How these differ based on market scenarios can provide useful insights for marketing managers.

Firms that have a strong competitive analysis function are more successful in target marketing (Weinstein, 2014b). Market and industry research, competitive scanning and intelligence, contingency planning, market segment mapping, simulations, and other competitive-based strategic marketing planning activities can play a useful role in target market decisions. Do these differ depending on the typology? Hence, it is more than just knowing the customer. If the competitive analysis is favorable, further analysis of internal performance (segmentation criteria) is called for to assess sales potential, profitability, required investments, capabilities, and related metrics.

Creativity in market selection is also highly encouraged. Tapping innovative market segmentation criteria may be a useful activity to pursue since these firms were generally more successful than those working only 'from the list' (Weinstein, 2014b). Marketers should be encouraged to build innovative, multi-stage segmentation models which break the mold to help organizations find market opportunities.

For B2B2B or B2B2C companies, the segmentation process, that is, the criteria selected and the order of the criteria are areas needing considerable research. The process might start first with the firm's strategy and capabilities. Second, segmentation criteria are developed for the end-user market segments. These are both qualitative and quantitative issues. Importantly, relevant criteria include competitive advantage, competitive rivalry, market size and growth potential, sales volume, and strategic fit with capabilities. The criteria and evaluation may be at a level where the focal firm would consider entering the market themselves except the market may be best served by employing an intermediary as shown in scenarios B and C (see Table 1). Third, once the end market segments are determined as viable for targeting, customers who serve or who can serve these targets are identified. These may be current customers or potential new customers.

Segmentation criteria are used to help focus on identifying and evaluating direct customers to serve the end market. Segmentation criteria will include customer capabilities to serve the target market as well as traditional segmentation bases including demographics (firmographics), operating variables, purchasing approaches, situational factors, and buyers' personal characteristics (Bonoma & Shapiro, 1983). There has been limited research to test and refine the classic nested model – exceptions include Christ (1997) and Weinstein (2011). We strongly advocate follow-up studies in this area.

The benefit of the dual approach (customer capabilities and traditional business segmentation bases) will be twofold: 1) the elimination of certain market segments because they fail to meet pre-determined segmentation benchmarks, and 2) the selection of those segments worth targeting to fulfill strategic direction and business objectives. This means B2B2B and B2B2C firms must develop segmentation capabilities for their end markets as well as for their direct customers. To date, such a segmentation process has not been developed.

Firm capabilities and strategies impact segmentation effectiveness

It has been suggested that organizations objectively evaluate their level of segmentation sophistication and strive for strategic segmentation (Jenkins & McDonald, 1997) – i.e. a company rates high on both customer-driven and organizational integration dimensions. Dibb and Simkin's (2001) proposed response to segmentation problems in infrastructure (prior to undertaking segmentation), procedures (during the segmentation process), and operations (facilitated segmentation implementation) can be enlightening in this evaluation.

While our model treats product customization as a discrete variable (customized or not), a degree of customization continuum may better represent market realities (e.g. standardization, some customization, mostly customized, and fully customized). The development of customized products as a segmentation variable and its relationship to firm performance, i.e. profitability, margins, differentiation, market share, and competitive advantage needs to be better understood.

It should also be noted that organizations do not need to limit themselves to a single cell (e.g. B2B standardized). Many market leaders may choose to compete in multiple scenarios. Case in point – Intel which requires both B2B2B and B2B2C segmentation skills. If they want to understand opportunities for their technology in the mobile phone market, they will assess market penetration, buyer behavior, use segments, and even psychographics. They will do gap analysis among current users to identify benefits sought. Intel can then speak the consumer language to Apple or other cell phone manufacturers for new ideas for product development such as security, voice recognition, fingerprint identification, wireless charging, and machine intelligence. So, organizations pursuing a B2B2C strategy must have both business segmentation skills and consumer segmentation skills.

Concluding remarks

Technology is rapidly changing and business is moving faster with more complexity; therefore, existing segmentation frameworks and criteria are in need of a major reexamination. In response, a new, in-touch, and comprehensive B2B typology is proposed which relates to the emerging business environment and important strategic segmentation questions that marketing managers face today. Currently, there is a gap in the academic literature and practitioners' best practices in bringing B2B, B2B2B and B2B2C segmentation up-to- date. This article represents an important first step in this endeavor.

Disclosure statement

No potential conflict of interest was reported by the authors.

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