Original Article

Target market selection in B2B technology markets

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ABSTRACT This article examines how marketing executives employ target marketing strategy in business technology markets. This exploratory study evaluated market selection strategies (differentiated, single segment, segment-of-1 and undifferentiated) and target marketing success. Particular attention is paid toward choosing target markets by examining segment attractiveness criteria. The three most important criteria for target market selection were opportunities in the industry, sustainable differential advantage and profitability. The research also found that competitive analysis was a strong predictor of target marketing success. In addition, market-oriented firms (use customer needs or customer groups to define markets) are more successful in using technology than non-market-oriented firms when redefining markets. The work concludes with sections on strategic implications for business target marketing and a research agenda for segmentation scholars.

INTRODUCTION

According to Kotler and Keller (2010), the formula *segmentation, targeting and positioning* (*STP*) is the starting point for value creation and the essence of strategic marketing. Kotler (2003) adds, 'all markets consist of segments and niches'. Success results from the best prospects for an organization's goods or services – its target markets. Building on Darwinian theory, parallels between biological competition and business competition have been drawn. Just as no two species can coexist if they make their living in the identical way, firms that offer the same products, in the same territory, under the same conditions, with the same clientele cannot coexist equally. Eventually, one will dominate (Henderson, 1989).

Sound market selection can provide business marketers a strategic competitive edge. For example, Sportmed sells medical instruments and supplies to physicians who practice sports medicine – the treatment of sports–related injuries. Two psychographic segments emerged from a research study (Cleland and Bruno, 1996). Progressives were early adopters of new technology and willing to 'pay up' for the competitive edge this

equipment gave them in their medical practice. Traditionals were more cautious customers who waited to adopt new technology until it had been broadly accepted in the market; they were willing to forego possible competitive advantage in their medical practice and believe in 'playing it safe'. Using a value-added analysis, four high-tech segments were found in researching the mobile professional – specialized solutions, customized solutions, value solutions and packaged solutions (Dunn *et al*, 1999). In the context of a case study for Citrix Systems, Weinstein (2011) identified 17 B2B segmentation variables within a nested framework which helped management introduce a new product. Hence, strong target marketing relates to successful business performance.

Business segmentation: An assessment

Bill Neal, the founder of SDR Consulting (Atlanta, Georgia, USA) and former president of the American Marketing Association, explains, 'Business managers have relearned the benefits of target marketing. Most marketers now recognize that simplistic segmentation schemes based on demographics, geography or SIC codes are suboptimal at best – and disastrous at worse' (Neal, 2002, p. 37).

Organizational segmentation has gained momentum as firms recognize its power in forging customer relationships. Yet, few companies use this strategic planning tool effectively. Bossidy and Charan (2002) stated that less than 5 per cent of the plans they have seen contained useful segmentation information. Most voluminous marketing plans devote a majority of their pages to review product features and promotional material but offer only a limited discussion of customer profiles, benefits sought and what is valued in business relationships. According to Yankelovich and Meer (2006), 59 per cent of large companies commissioned

a major segmentation study within the past two years but only 14 per cent of the executives said they gained real value from them.

Research on segment-of-one marketing, niching, customer loyalty initiatives, customer relationship management (CRM) programs and web analytics advocate market segmentation by profit potential (Peppers and Rogers, 2004; Kaushik, 2007). As Wyner (2009) explains, ultimately, the value of segmentation 'should be based on its likelihood of achieving improved marketing and business performance'. With heightened attention given to personalization and relationship marketing, precision target marketing is a key marketing activity to create value-enhanced experiences that connect customers with brands. Clemons *et al* (2010) call this 'finding the sweet spot' – which, in turn, is a strategy that leads to superior profitability.

Hence, the purpose of this article is to critically examine the use and success of target marketing practices from the perspective of marketing executives in B2B technology companies.

MARKET SEGMENT ATTRACTIVENESS

Measuring segment potential helps business marketers in determining which segment(s) to pursue. Companies must carefully assess and weigh key discriminating criteria to find the 'best' market segments. Criteria for choosing targets can be quantitative or qualitative. Quantitative criteria include sales, profits, market share, growth rates and financial measures (for example, breakeven points, customer lifetime values, net present value, return on investment, and so on). Although MBA-trained managers tend to prefer such metrics, numbers alone can be misleading. Although multi-page spreadsheets often 'look great', frequently the sales forecasts or profit projections are based on

incomplete data, questionable assumptions or flawed research methodologies. Qualitative indicators can include nature of business preferred, an assessment of strengths and weaknesses or industry structure, geographic coverage, market trends, or strategic synergy – for example, 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 10 criteria (note, 23 items were tested). The authors conclude that businesses in the United Kingdom should replace their short-term financially oriented focus with a more long-term, analytical and objective 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 18 criteria were called occasionally cited considerations).

McDonald and Dunbar (2004) add that segment attractiveness factors be weighted based on the particular requirements of an organization. They also provide a list of 27 possible, generalized segment attractiveness factors in five major areas – segment factors, competition, financial and economic factors, technology and socio–political factors. Although growth rate, accessible segment size and profit potential offers a reasonable starting point in most markets, they advise that two or three additional metrics be incorporated into the market selection analysis.

RESEARCH QUESTIONS

A major objective of market segmentation analysis is to find growth opportunities. As the preceding research indicates, it is apparent that there is an opportunity to improve in this area. Building on the brief overview of the literature, this empirical study queries B2B marketing executives about their perceptions of how well target marketing is used in their technology companies. Technology markets are vital because of a transformation to an entrepreneurial, global and knowledge-based economy (Weinstein *et al*, 2013). Below are the four major research questions that guide this investigation:

Research Question 1: Are companies that use segmentation strategies (differentiated, single segment or segment-of-1) more effective in target marketing success than companies that use undifferentiated marketing strategies?

Research Question 2: What are the most important target market selection criteria to B2B technology marketers?

Research Question 3: Is there a significant relationship among the effective use of marketing activities (competitive analysis, customer relationship management, research, niching and social media) and target market success?

Research Question 4: Are companies that use market-oriented strategies for redefining markets (customer needs or customer groups) more successful in their use of technology than non-marketing-oriented strategies?

METHODOLOGY

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 (major publications and work experience in this area) evaluate the research instrument to ensure that it clearly specified the domain. From an external validity perspective, the research instrument was pretested in person with 14 marketing executives at five leading Silicon Valley B2B technology companies – Infoblox, National Semiconductor, Sun Power, Symantec and Trend Micro. Two respected marketing practitioners affiliated with the Business Marketing Association (BMA) of Northern California assisted the researcher by facilitating these group in-depth interviews which lasted from one to two hours. The author spent two full days dialoging with senior-level technology managers on market segmentation challenges and strategic marketing opportunities. Based on these inputs, the questionnaire was refined, as needed.

Given the exploratory nature of this research, a snowball sampling technique was employed to collect the data. According to Churchill (1995, p. 19), snowball sampling is a judgment approach that is useful for sampling special populations (for example, business marketing managers). He adds,

> This sample relies on the researcher's ability to locate an initial set of respondents with desired characteristics … those initially asked to participate would also be asked for others whose cooperation would be solicited. Thus, the sample 'snowballs' by getting larger as participants identify still other possible respondents.

Although snowball sampling may introduce some non-probabilistic sample bias, this technique is useful to locate and target relatively difficult-to-reach respondents such as technology executives (Kahan and Al Tamimi, 2009). As Lamm and Meeks (2009) explain, garnering information from a broad cross-section of organizational and industry characteristics improves the generalizability of the research findings.

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

As Table 1 shows, three major sectors – technology, B2B/professional services and computer-related – accounted for 83 per cent of the respondents (17 per cent were in the medical/ pharmaceutical business). Fifty-seven per cent of the participants worked for small companies (less than $25 million in revenue), the other 43 per cent was split between medium-sized and large organizations. More than 80 per cent of the respondents were male. Nearly half of the sample was 30–49 years old with the other half being 50+ (only 4 per cent 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.

MAJOR FINDINGS

Research Question 1 assessed the effectiveness of B2B target marketing success based on market selection strategy employed segmentation base (see Table 2). Overall, three out of four companies (75 per cent) use a differentiated strategy (target two or more market segments with multiple marketing strategies). The remaining three market selection options were split fairly evenly among the two highly targeted approaches – single segment (10 per cent) and segment-of-1 (7 per cent) – and the undifferentiated option (7 per cent). These results are encouraging because previous studies in B2B technology markets found rates for undifferentiated marketing to be

Table 1:   Sample profile

A. Industry sector		%				n
Technology		30				21
B2B/professional services		29				20
Computer-related		24				17
Medical/pharmaceutical		17				12
B.Company size	*Number of employees*	*%*	*n*	*Annual revenues*	*%*	*n*
Small	< 100	57	40	< $25million	60	42
Medium	100–499	16	11	$25–500 million	14	10
Large	500+	27	19	> $500 million	26	18
C. Gender		*%*				*n*
Male		83				57
Female		17				12
D. Age		*%*				*n*
< 30		4				3
30–49		49				34
50+		46				32
E. Years in a marketing position		*%*				*n*
3 or less		16				11
4–9		17				12
10 or more		67				47

Table 2:   Market selection strategy and target marketing success

Targeting success market strategy	Unsuccessful	Somewhat successful	Successful	Very successful	N/%
Undifferentiated	0	4	1	0	5/7%
Differentiated	7	17	21	7	52/75%
Single segment	0	3	2	2	7/10%
Segment-of-1	0	1	2	2	5/7%
Totals/Distribution	7/10%	25/36%	26/38%	11/16%	69/100%

two-and-a-half to four times that – that is, 18 to 28 per cent, respectively (Weinstein, 1993; Kalafatis and Cheston, 1997).

Although the number of responses was limited in this exploratory study, some interesting findings were evidenced, nonetheless. Most B2B technology firms utilize a differentiated strategy and more than half (54 per cent) were successful or very successful in targeting markets. Another third (33 per cent) were somewhat successful and

only about 13 per cent of the differentiaters were unsuccessful. In this latter case, it is likely because they are unfocused and/or over-extended and pursue too many market segments or niches.

Based on limited observations, single segmenters understand their business and sole target market and were successful. Segment-of-1ers were the most successful group – these precision target marketers personalize the experience and really know

their customer needs and wants. Non-target (undifferentiated) marketers deliver a one-size-fits-all solution which in some cases may be 'good enough', but often they are not overly successful. Illustrations of the four strategic market possibilities in the words of the marketers follow (note the advantages of target marketing and the peril for failing to do so):

> We serve companies with different purchasing behaviors and needs. In order to serve them efficiently, we develop promotion campaigns and sales programs for each particular segment. (computer supplies, medium-sized company(differentiation))

> What works for us is to concentrate on one industry segment and focus on buyer needs for the service we offer … we have a very high level of expertise and contacts in one industry, pharmaceuticals so developing businesses in other industry segments has been difficult. (service provider to the pharmaceutical industry, small company (single segment))

> We respond to comments via delivered content and white paper downloads and track webinar attendance followed by visits to our website. Prospects are ranked by frequency of visit and content viewed. (networking/computers, medium-sized company (segment-of-1))

> In this day and age 'one size fits all' will cost you market share, if not your entire market. (government services provider, medium-sized organization (undifferentiated))

Research Question 2 explored 10 generally accepted criteria B2B technology marketers use to target markets. Selection criteria rated as first received three points, those cited as second earned two points and those mentioned as third in importance garnered one point (non-top three criteria did not get any points). This rating mechanism is similar to the approach employed by Simkin and Dibb (1998). The top five criteria were as follows: (1) opportunities in the industry, (2) sustainable differential advantage, (3) profitability, (4) product differentiation and (5) customer satisfaction. Consider this insightful comment from one participant in the study.

> We evaluate opportunities in the industry. Our available/addressable market is overlayed with our product capabilities and distribution strengths. We often pass on large markets that might force us to use a distribution method that does not fit well with our business. (oil and gas transporter, small company)

As Table 3 indicates, these results vary somewhat from Simkin and Dibb's findings in the United Kingdom more than a decade earlier. They also found profitability (ranked first) and customer satisfaction (ranked fourth) as top five selection criteria. Their three remaining top five factors – market size, market growth and sales volume – fared considerably worse in the follow-up research. Ease of access of business and competitive

Table 3: Criteria for target market selection

Selection criteria	Count	Rated 1st	Rated 2nd	Rated 3rd	Overall measure	Attractiveness criteria (Simkin/Dibb)
1.Opportunities in the industry	32	9	13	10	63	Occasional
2. Sustainable differentiated advantage	29	13	8	8	63	Occasional
3. Profitability	30	12	6	12	60	Top
4. Product differentiation	22	8	9	5	47	Occasional
5. Customer satisfaction	19	9	8	2	45	Frequent
6. Market size	21	5	10	6	41	Frequent
7. Ease of access of business	18	6	4	8	34	Frequent
8. Market growth	18	5	3	10	31	Occasional
9. Sales volume	10	2	5	3	19	Frequent
10. Competitive rivalry	6	0	2	4	8	Occasional

rivalry had limited support in both research studies.

There were 13 write-in criteria by respondents although none received multiple mentions.

An interesting finding, however, is that firms that are more creative in their market selection criteria (that is, use one or more different criteria such as relationship potential of projects, product synergy, turnaround time, focus on largest resellers, and so on) are more successful in target marketing success. Sixty-two per cent of these companies were successful or very successful in their target marketing versus 54 per cent for the sample.

The third research question investigated the relationship among five key marketing activities – competitive analysis, customer relationship management, market research, niche marketing and use of social networking/media – and target marketing success. Although correlations (see Table 4A) revealed statistical significance for three variables (competitive analysis, customer relationship management and market research) with respect to target market success, only competitive analysis ($t = 4.12$, $P = 0.000$) was found to be a predictor of

target market success via a stepwise regression analysis. This model explained 22 per cent of overall variance (Table 4B). An example of how one company views strategic marketing challenges is briefly stated:

> Segmentation is a key way to establish a competitive strategy. (automotive tire manufacturer, small firm)

The fourth research question assessed the concept of market redefinition. Market definitions are built on three fundamental elements – customer groups (market segments), customer functions and uses (market needs), and technologies (Buzzell, 1978; Abell,1980). The first two options are market-oriented approaches while the third alternative is production-oriented. When redefining markets, business executives select one of these three choices as a primary change agent.

Table 5 found that 78 per cent of the companies using marketing-oriented approaches were successful in their overall use of technology (this includes product and process innovation, management know-how, and use of research and development funds). In contrast only

Table 4: Target marketing success and marketing activities

A. Correlation matrix

Competitive analysis (CA)	Customer relationship management (CRM)	Research (RES)	Niching (NICHE)	Social media (SOCMED)	Targeting (TARGET)
CA 1.000	0.353**	0.487**	0.127	0.154	0.388**
CRM	1.000	0.198	0.192	0.435**	0.304*
RES	—	1.000	0.265*	0.155	0.323**
NICHE	—	—	1.000	0.220*	0.159
SOCMED	—	—	—	1.000	0.190
TARGET	—	—	—	—	1.000

B. Stepwise regression analysis

Variables entered	Unstandardized coefficient	Standard error	T-statistic	Significance
Constant	1.936	0.422	4.587	0.000
CA	0.486	0.118	4.125	0.000

*P<0.05, ** P<0.01.
Dependent variable: TARGET.
Variables excluded from the model: CRM, RES, NICHE, SOCMED.
F-value, significance = 17.02, $P = 0.000$.
R^2 (1, 65 degrees of freedom) = 0.221.

Table 5: Technological success by market definition strategy[a]

Market definition strategy	Successful using technology	Not successful using technology	Totals
Customer Needs	23	6	29
Customer Groups	19	6	25
Technology	6	7	13
All companies	48	19	67

[a] $\chi^2 = 5.23$, 2 DF, $P = 0.073$.

46 per cent of companies using a production emphasis were successful in applying technology; this is likely due to failing to understand market desires. As Table 5 demonstrates, this finding was marginally statistically significant ($P = 0.07$). One entrepreneur explained his simple yet effective research process for rethinking his company's view of the market.

> We ask nice clients twice a year (we visit them) and ask them why they use us or what do they need. (personalized printing, small firm)

TARGET MARKETING – STRATEGIC IMPLICATIONS

Although market segmentation is renowned as a legendary academic marketing concept and is a widely accepted industry practice, the corporate performance of segmentation initiatives are often disappointing. This study found, however, that the value of target marketing has been realized by business technology firms as more than 90 per cent of them know that customers' characteristics, needs and wants differ. The small minority of firms that use a one size fits all (undifferentiated) strategy were least effective in target marketing success.

The three targeting options merit further discussion. Most companies prefer having multiple marketing programs directed at multiple market segments. Although about half of the companies are

successful with this approach, the other half are not. For those latter organizations, changes are recommended. This might require new approaches to segmentation (for example, employing different segmentation bases), reducing the number of segments targeted or in some cases switching to single segment or segment–of–1 marketing.

The single segment strategy also had mixed success. This market selection option may be ideal for new or small companies or those entering a new line of business. In many cases, however, a more varied strategy to reach customers with varying desires is suggested (that is, two or more marketing programs or customerization). Marketers must select from the alternative market segments one or more groups to target for marketing activity. Each of the individual segments must be evaluated on its own merits and in conjunction with the capabilities and environmental situation surrounding the firm. This evaluation recognizes that the options are unique and have varying degrees of attractiveness to organizations. Of the four possibilities, the segment–of–1 strategy was the most successful (based on limited observations). If feasible, this market selection option should be carefully considered as a potential competitive edge.

Market selection criteria has the potential to be a powerful determinant of segmentation success in business and technology markets. Although this issue has received some attention in the academic marketing literature, few practitioners have embraced the benefits of employing such criteria to their segmentation analyses. McDonald and Dunbar (2004) advise that several market selection criteria be used to choose appropriate segments. This study reaffirmed support for profitability and customer satisfaction as key selection criteria.

In addition to profitability (ranked third in Table 2) which was the most widely cited criterion according to Simkin and Dibb, other frequently used market selection attractiveness criteria include customer

satisfaction, market size, ease of access of business and sales volume (Simkin and Dibb, 1998). These traditional, generally well-accepted, and largely performance-oriented metrics were deemed less important and ranked fifth through ninth in the current study. In contrast, other strategic criteria such as opportunities in the industry, sustainable differentiated advantage and product differentiation – which were used only occasionally in the Simkin and Dibb study – were quite popular, ranking in the top four. The need to distance one's company from rivals in intense competitive environments, which typify today's business technology markets, likely accounts for this dramatic shift in priorities over the past 15 years by B2B technology marketers.

Creativity in market selection is highly encouraged. Tapping innovative market selection criteria may be a useful activity to pursue since these firms were generally more successful than those working only 'from the list'. Positioning is increasingly critical to technology marketers (Nesbit and Weinstein, 1989). Although most marketing executives feel comfortable with 'accepted' or recognized industry segmentations, these are often product-based rather than customer-focused. Seldom do they provide a firm with a competitive advantage. Marketing managers should be encouraged to pursue new lines of thinking and build original, proprietary segmentation models, where possible. Innovative segmentation bases or multi-stage models that 'break the mold' differentiate the firm and help find market segments and/or niches that the competition has overlooked.

Although target marketing is generally perceived as a customer focus activity, this research found that another market orientation variable (competitive focus) moves to the forefront. Those firms that had a strong competitive analysis function were more successful in target marketing success. The implication here is that market and industry research, competitive scanning and intelligence, contingency planning, scenario building, market segment mapping and other competitive-based strategic marketing planning activities can play a useful role in target market decisions as well as future market redefinitions. (Hence, it is more than just knowing the customer.)

AREA FOR FURTHER RESEARCH

The introduction of a more thoughtful process for market selection into the B2B segmentation plan can assist marketers design winning target marketing strategies. As a starting point, the sample size should be increased. In lieu of a snowball sampling methodology, future researchers may consider respondent-driven sampling to minimize potential non-probabilistic sampling bias (Heckathorn, 1997). Highly targeted industry-specific mailing lists, panel data or involvement in practitioner-oriented trade conferences can be used to widen the scope of the study. This exploratory project was limited to US companies. Expanding the research to other industrialized markets (Canada, European Union or Japan) is a logical next step. This will likely necessitate the use of research collaborators from these regions.

A larger sample would permit more sophisticated data analysis techniques such as factor and cluster analyses, regression and discriminant analyses or structural equation modeling. Multiple correspondence analysis (MCA) is another powerful technique that has found to be useful in segmentation analysis (Duckworth Analysts, 2014). MCA employs a set of categorical variables that allow for the detection and mapping of large data sets via rich tables and statistical interpretation.

These approaches can add great insight into how marketing managers select and target B2B technology markets.

Measurement improvements are also advisable. As Dibb and Simkin (2010) note,

segmentation effectiveness is challenging to measure because it includes 'hard' (statistical) and 'soft' (segment quality) measures. Foedermayr and Diamatopoulos (2008) add that segmentation effectiveness is difficult to capture and is often confused with marketing performance and success metrics. Based on the current study, measures should be refined for the target marketing success variable. A multi-item scale is advisable. A more robust measure may include customer perceptions, competitive benchmarks, or even financial comparisons. Similar to the PIMS stream of research (Buzzell and Gale, 1987), this latter component may assess how successful focal B2B technology companies are in market definition versus strategic groups (that is, above, below or meet industry sector average performance).

In addition to market selection options (undifferentiated, differentiated, single-segment concentration or segment-of-one), target market selection criteria (see Table 3) and marketing activities, other relevant variables can be built into the research program. This includes business segmentation bases (firmographics, psychographics and other behavioral dimensions); technological success variables (for example, product, process and management know-how) and redefinition strategies.

It has been suggested that organizations objectively evaluate their level of segmentation sophistication and strive for strategic segmentation (Jenkins and McDonald, 1997) – that is, 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. It is critical that segmentation researchers get buy-in from management and the marketing team to develop viable target marketing strategies (Openview, 2012).

These ideas can be incorporated into follow-up studies on market selection in B2B technology markets.

Kim and Mauborgne (2005) assert that market leaders in the New Economy will succeed not by beating competitors but by offering powerful leaps in value in uncontested market spaces. Hence, creative market definition of emerging/imagined markets will take precedence over segmenting existing markets. This argument dovetails the recent stream of research on market-driving behavior advocated by Jaworski *et al* (2000), Kumar *et al* (2000) and Weinstein (2006).

Other new B2B segmentation and targeting challenges have risen to the forefront in the past decade and are worthy areas of scholarly work. These include relationship segmentation (Freytag and Clarke, 2001), dynamic segmentation (Schultz, 2002), strategic segmentation (Goller *et al*, 2002), understanding customers' customers (Stines, 2003), creating segments out of sectors (Simkin, 2004) and B2B psychographics (Barry and Weinstein, 2009; Kenney and Weinstein, 2010). Segmentation accountability and measurement as well as model refinement should be major priority areas for research and practice (Dibb and Simkin, 2010). Finally, Canhoto *et al* (2013) believe that social media may be useful in understanding organizational segmentation practices.

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