Egotists, idealists and corporate animals – segmenting business markets

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Over the years, much has been written concerning good practice in identifying, sampling and classifying businesses from what we may term the ‘traditional’ business-to-business perspective. In addition, over the past decade we have seen a shift from the old-style industrial business-to-business mode of small-scale desk research and qualitative decision studies, to what were considered as recently as 1987 to be primarily ‘consumer’ techniques: wider-ranging quantitative surveys and business Omnibus methods. Thus, the marketing industry has come to recognise the existence of the business mass market, but, at the same time, good practice has evolved in examining and classifying larger businesses where understanding more complex and diverse decision-making units comes into play.

This review paper examines the issues that face researchers in segmenting this wide-ranging spectrum of business markets in ways that meet the modern needs of marketers. Case studies are used to illustrate the key points.

The principles of segmentation

At the core, segmentation (from both a marketing and a research perspective) is about reducing the number of entities we have to deal with into a manageable number of groups that share well-defined characteristics.

Specifically, a market segment is not just a group of people or businesses. To be classed as a genuine segment, such a group must have the following characteristics:

- a homogeneous set
- that has critical mass
- and core similarities of:
  - attitude
  - behaviour
  - economics
- and is different from other segments
- and is robust and replicable over time.

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It might be argued that such principles are relatively straightforward to apply to consumer markets where the 'entity' – the consumer – is well-defined and self-contained, and significantly less straightforward in business markets. This is because, while every consumer equates to only one person with well-defined age and socioeconomic characteristics, businesses conform to no such pattern.

**Challenges in segmenting business markets**

There are at least four major challenges involved in a segmentation of business markets, which will apply to a greater or lesser degree to most research studies in this area. They are:

1. Coping with the wide variation in types of business;
2. Finding useful ways of classifying them;
3. Understanding the overlap between personal and organisational attitudes, and the complexity of business decision-making;
4. Dealing with mass and niche markets.

**Coping with variation**

There remains some debate over exactly how many businesses there are in the UK: the structure, process and challenges of business-to-business sampling have been reviewed elsewhere. We know that there are around 1.25 million 'proper' businesses, that is, VAT-registered firms. We also know that there exist around 2 million self-employed below the threshold where they are captured by DTI statistics, but where estimates remain quite reliable. Their numbers – and their economic power – are growing all the time. As society changes, we see more self-employed – many of whom have previously worked in large ‘downsizing’ organisations – and a concomitant growth in contract working. The total business stock in the UK is at least 50% larger now than in 1980, and small businesses account for most of this growth.

The profile of all businesses in the UK shows that at least two-thirds of those recognised in the official statistics have a sales turnover of less than £50,000 a year. Two-thirds are sole traders or have at most one other employee. If we include an estimate of the number of businesses that are below the official statistical threshold, we find that 90% fall into these categories. It is a genuinely mass market. Yet although the numbers are dominated by smaller firms, the economic buying power is concentrated (even more so than among consumer markets) among the largest businesses.
Classifying businesses

The more standard ways of segmenting and classifying business markets would be around size and/or market sector. A niche market with relatively few key players is perhaps easier to address than the mass in this respect, but we often find difficulties in attempting to segment smaller business markets around sectors. Although it is tempting to equate sector with needs, and convenient because such data are readily identifiable, there are potential pitfalls.

CASE STUDY

A venture capitalist wants to segment the SME market to see where it might target funding for expanding businesses, and thinks a particular sector could be the answer. A small antiques shop might have little in common with a computer retailer, but they are both in the same sector (and possibly even of similar turnover). Similarly, a small chain of sandwich shops would be sectorised with a bistro-type operation. In fact the computer shop and the sandwich bars might well have more in common – they are both owned by self-made Richard Branson entrepreneur types who are thrusting and streetwise – whereas the bistro and the antiques shop might be more ‘lifestyle businesses’. Perhaps a more insightful segmentation would focus on entrepreneurialism versus lifestyle priorities.

Similarly, size – typically denoted by turnover or number of employees – can mislead the unwary segmenter. This is because size of organisation does not really tell us much about the way people think.

CASE STUDY

An accountancy firm specialises in the SME market, and wants to check out its market. The Chief Executive reckons that small companies do all their accounts on the back of an envelope, and a £1 million pound company must surely have a finance director and a board of directors, but research shows it is not always so. There are many £1 million businesses which are run largely on a ‘papers in the shoebox’ basis, and businesses with relatively low turnovers can be highly professional in their approach. For example, there will be clear differences between a £250k self-employed barrister, with mostly personal responsibilities, who only sells his own mind, compared with a £250k manufacturing business with ten employees and limited company status.
**Understanding the overlap between personal and organisational attitudes**

It is tempting to believe that the way decisions are made in such a small business environment must be relatively simple. Smaller organisations are inherently uncomplicated in their structure and the way the decision-making unit works. Meanwhile, in larger companies we will encounter such things as ‘gatekeepers’ and ‘influencers’. This leads, prima facie, to increasingly complex decision-making criteria.

However, attitudes and behaviour in big companies will often tend to be more rational. There is a role called ‘Finance Director’ which comes complete with a set of behavioural rules – the way financial movers and shakers are expected to behave, the clothes they need to wear to be credible, sober-suited and booted. There are no such ‘rules’ for owner managers – they are seldom corporate animals, more motivated by the ‘doing’ of their business than the ‘managing’ of it. They often do not describe themselves as businessmen but as ‘self-employed’. They tend not to be financially trained and can view the formal affairs – financial, taxation, employment law, and even marketing – of their business as a burden, and with confusion.

Thus we might characterise the spectrum as shown in Figure 1: at the large end, complex decision-making units inhabited by essentially rational economic men; and at the small end, the mass market of personality-driven businesses: the world of the emotional economic unit.

As businesses increase in size, their decision-making units expand and individual personalities become less of an issue, but crucially, there is no easily defined ‘clean break’ between the emotional and the rational. None the less, in general, if the business grows, is passed on or bought out, the individual changes or becomes less influential. Hence, if a small business succeeds in the narrowest economic sense, it may change fundamentally in its attitudes or behaviour.

Given that smaller businesses – albeit simply structured – exhibit highly complex and less rational attitudes and behaviours, they are often personality driven in a way that larger organisations are not. Not surprisingly, while managers in large organisations have responsibilities, small businessmen literally own any decisions they take. Thus the boundary between their job and the rest of their lives can merge. There will be tensions at this boundary: the desire for separation fighting the need to ‘be’ the business. Like everybody else, they have families; they are looking for a balance. They may feel trapped, not always finding business a joy.
In this market, understanding the context, attitudes and values of the individual becomes equally as important as dissecting the attributes of the business: they are the business, and the business is tied up with their life and identity.

In identifying the segmented characteristics of the emotional economic unit, let us therefore first consider their ambitions. The ‘rational’ larger businesses may vary in their core cultures, but will share certain corporate ambitions: revenue growth, profitability, capital growth, advantageous market positioning, and so on.

**Mass versus niche markets: issues among larger organisations**

Larger businesses may present fewer of these interesting challenges in terms of the psychological dimension – but the larger business market replaces these with a different set of challenges. It may be that we are seeking to segment a market that is dominated by (say) 200 large global businesses. Clearly such an assignment is at the opposite end of the scale from our review of small business issues.
No such thing as the organisational view

To complete a picture of the needs and ‘opinions’ of a large company we may need to talk to more than one person. As we have seen, as they grow in size, organisations tend to take decisions by involving more than one person. It is entirely possible that they may have different priorities, or different specialisms, that must be accommodated into an informed segmentation.

Different weights of evidence

If the decision-making unit for a particular market involves (say) a technical manager, a purchasing director and a marketing specialist, we must reflect carefully on the extent to which all these individuals must be involved in the dialogue. Otherwise we risk a partial picture.

CASE STUDY

A Polish group sells industrial fragrances to a range of cosmetics and household products manufacturers. These are few in number and large in size. When the group pitches for a new product line it must impress the chemists with their chemical know-how, the marketers with their appreciation of the consumer, and the purchasing department with their value for money (AKA low, low prices – forever). Thus it is crucial to talk to representatives from each specialism from each organisation. The result is a segmentation that first classifies each organisation in terms of where the ultimate decision power lies (technical, marketing or purchasing) and then by priority issues and products within these categories.

Specialisms within specialisms

Of course, decision-making power may reside within a single department, but even here we must be alert to the differing dynamics and job functions of those we may wish to talk to.

CASE STUDY

An Investment Bank wishes to segment its customers above £25 million turnover. This is to be done partly on value to the bank but also in terms of its different transactional and strategic needs. Typically, we find that
such businesses have:

- a finance director to handle strategic borrowing and corporate finance;
- a treasurer dealing with fund handling and capital sweeps; and
- a financial controller dealing with the day-to-day operational and transactional issues.

Since each deals with a different part of the bank, to get a full picture of organisational priorities we must collect suitable data from each.

Levels within levels

Furthermore, different organisational structures will take decisions in different ways. Some large organisations may devolve certain decisions to particular departments or establishments within an enterprise. Thus it can become difficult to segment the market until we have a preclassification of ‘decision status’.

CASE STUDY

A New Age fleet management provider needs a segmentation that will allow it to target the right people in a range of different larger organisations. Research shows that organisations can be divided into three distinct decision models:

1. Centralised, head office policy-based decisions on fleet management, that every site/depot must adopt.
2. A pool of key providers is agreed at head office, with individual sites/depots having freedom to choose from this pool.
3. Each site/depot may decide for itself.

This classification, with certain sub-plots within each, provided a firm basis for the company to broach its market with suitably flighted communications.

Variable willingness and ability to comment

Another area for caution is that different individuals within an organisation may exhibit different characteristics in terms of three important dimensions:
(1) Willingness to be open, as opposed to towing the cautious diplomatic/company line. This can come into play when talking to key buyers who may have no vested interest in allowing one supplier to gain a competitive advantage over another via research, or may be wary of research in general.

(2) Seniority and confidence: if we are talking to the key players, they will hopefully have a fine overview of the subject area in question, but they may not have a good grasp of the detail, which may reside elsewhere in the decision-making unit.

(3) Strategic and conceptual ability: just because an individual is senior does not mean that he or she has the ability to take a strategic overview. We may find that dialogues with certain individuals end up being about relatively mundane tactical matters when we wish to discuss higher concepts.

CASE STUDY

A mobile phone company has commissioned a review of its key corporate customers with a goal of segmenting according to need and functional usage. In each organisation we decide to speak to the CEO, the sales director and the telecommunications manager. We find that the CEO has end sign-off for any contract, but this is largely recommended by the telecoms specialists. The sales department is by far the largest mobile user. Although the CEO is most senior, his input is limited to vague declarations about the increasing need for mobile contact in an ever more competitive marketplace. The sales director sits on the main board – but seems mostly concerned with the stylishness or otherwise of different mobile phones and the need to impress clients with the latest acid-garage ringtone. He offers to show us his if we will show him ours. The less senior telecoms manager delivers the goods in terms of functional priorities. Notwithstanding the multiple interviews, it is his feedback that we use for segmentation, but in communicating to the other organisational players, a different non-technical tone will need to be adopted.

Using consumer insights in business markets

It is evident that a segmentation of businesses – whatever the specific market – is complex. Given that business decision-makers are people too, we often find it useful to combine the ‘firmographic’ element of a segmentation with elements drawn from consumer psychology to create a more rounded picture of attitudes and priorities.
How do we know when ‘firmographics’ or ‘psychographics’ are useful?

Small businesses may allow their working and personal lives to overlap to a greater or lesser degree. We would argue that there is always some overlap, and that this affects the way decisions are taken, and thus the way research should be undertaken among small businesses.

Accepting this, we must establish what may be termed the locus of priority. What weight should be attached to psychographic, as opposed to firmographic, profiling in a particular case? How do we establish when a specific small business is more or less ‘rational’ (businesslike) or ‘emotional’ (consumerlike)?

Suppose we are collecting data among small businesses as defined earlier: owner-managed businesses, with no functional specialisations. We are therefore focusing on the left-hand quarter of the diagram in Figure 1. Notice that our hypothesis is that as the business expands, the ‘rational’ starts to take over from the ‘emotional’. But this is not really a function of the size of an individual business, only a function of the aggregated average position. Thus we must have a mechanism in place for establishing the relative weight we should attach to ‘emotional’ or ‘rational’ segmentation evidence for different individuals and their businesses. By extension, two businesses in the same sector, of the same size, may need to have different emotional/rational weights attached. Business A may be one-third rational and two-thirds emotional; Business B may be the reverse. The implication of this is that while we may take the intuitive view that greater analytical weight can be attached to the emotional among very small and the rational among larger businesses, the extent to which this balance is tipped one way or another in an individual firm is to a degree an extension of personality, as well as the ‘state’ of the business.

By using this analysis, we can begin to establish the extent to which the separation between rational (businesslike) and emotional (consumerlike) behaviour is present at an individual level. Once this has been established we can consider using any factual information and psychographics we are collecting in an informed way.

In looking at the small business market there is therefore a need to take a dual approach. Thinking purely of the business side of that overlap, we need to understand the nature of the business in the more conventional business-to-business sense, but at the same time, as we have stressed, we need to understand the personal perspective of the small business person. The locus of priority model will establish the extent to which, for any one
**Table 1** Working with the business/consumer overlap

<table>
<thead>
<tr>
<th>Business</th>
<th>Consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Its turnover</td>
<td>• Age and gender</td>
</tr>
<tr>
<td>• Its sector</td>
<td>• Their level of educational attainment</td>
</tr>
<tr>
<td>• Its age</td>
<td>• Their previous employment – were they involved with a large company and decided to set up on their own, or have they always been self-employed?</td>
</tr>
<tr>
<td>• Its strategy</td>
<td>• Their general attitudes – small businessman are notoriously cautious but clearly some are early innovators</td>
</tr>
<tr>
<td>• How many employees it has</td>
<td>• Their business philosophy – inward or outward focused</td>
</tr>
<tr>
<td>• What technology is in place and what are the plans for technology</td>
<td>• Level of understanding/planning</td>
</tr>
<tr>
<td>• What kind of customer base it has – is it a high street business with many transient customers, or does it rely on a few large, regular customers?</td>
<td>• Attitudes to risk-taking</td>
</tr>
<tr>
<td>• Is it growing or shrinking?</td>
<td>• 'Doers' or 'managers'</td>
</tr>
<tr>
<td>• The degree of volatility</td>
<td>• Attitudes to technology</td>
</tr>
<tr>
<td>• By how much?</td>
<td>• How do they manage their time, particularly in terms of the overlap and space between work and play?</td>
</tr>
<tr>
<td>• Geographic and regional markets</td>
<td>• What are their personal goals and ambitions? What do they consider important?</td>
</tr>
<tr>
<td>• Seasonality, and issues relating the lifespan of the 'products' they are making/selling?</td>
<td>• What kind of person are they?</td>
</tr>
<tr>
<td>• Business attitudes: for example, what is important to them in a supplier?</td>
<td></td>
</tr>
<tr>
<td>• Their profitability</td>
<td></td>
</tr>
<tr>
<td>• What kind of business are they?</td>
<td></td>
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</tbody>
</table>

**Firmographics**  
Market specific data: needs, product holdings, etc.

**Psychographics**

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**business** (rather than in the aggregate), we should attach weight to business or personal data for analysis. Reconciling two datasets that are traditionally strictly delineated is – or should be – one of the unique skills of researchers in this market. The business and consumer overlap – and the information we may need to collect to fully understand the small business perspective – is summarised in Table 1.

**Using trait theory**

Given the observations made about the ‘non-business’ characteristics of business psychology, one might even consider using psychological *trait theory* for segmentation. This may be particularly relevant to the smaller and mid-sized business market. Trait factors that one can readily identify as relevant to the business market (and which are reinforced in the psychological literature) include, among others:
• Control: a complex variable, a business version of anxiety. A high score on this variable would seem to indicate that a given business person feels a need to retain direct control over the business as an extension of personality, and this is one of the issues that define the locus of priority.

• Innovation: a measure of the extent to which customers are likely to be early adopters, for example of hi-tech services. This also includes a range of factors that relate to 'open-mindedness' or a willingness to change and be versatile as new opportunities, technologies and products arise.

• Ambition: one of the most important business attitude variables is ambition, which is a type of business version of extroversion. This concerns the extent to which the customer is looking to expand the business through innovation, and whether they are go-getting: whether it is a priority to invest in marketing, advertising and training; expand into new sectors or markets, etc.

• Inwardness/outwardness: a distinct personal trait that concerns the extent to which a person derives their values inwardly or by reference to their peers and environment. In a business sense this can then manifest itself by considering it important to stick to their core business and build credibility with an existing customer base. Inward businesses focus more on cost-efficiency, while outward businesses are more concerned with external credibility.

• Conscientiousness: a complex trait that deals primarily with a traditional, and slightly ploddy (rather than dynamic and innovative) way of doing business. Conscientiousness includes: building up the asset value of the business; adopting a careful approach, rather than taking risks; devoting time to forming relationships with suppliers; always buying products and services of the highest possible quality.

• Solipsism: a further business ambition variable concerns a tough-minded drive for personal comfort, and includes: maximising the personal income from the business; ensuring work does not take up time outside office hours, and so on.

**Developing business ‘segment archetypes’**

Needless to say, every project will have its own business segmentation solution. Certain themes do recur though, often related to the various traits described above.
CASE STUDY

An e-business supplier wishes to segment its smaller business prospects according to factors that might influence their business ambitions and therefore the way that they might be helped to use e-commerce in the future, thus generating valuable income for its increasingly worried shareholders. Among others, research identified the following archetypes:

- **Iconoclasts**: independent, self-confident, relatively cash rich. Often well-educated and computer literate. Modern, professional and outward-facing, and ambitious from the business perspective – but on their own terms. Good prospect for e-business revenue and resilient to recession.

- **Strivers**: tend to dwell on the hardships rather than the motivations of business life. They are highly introspective and rather unsophisticated segments. They are mainly concerned with reducing costs, avoiding risks and defending an entrenched position. Would love to grow but don’t know how. Not a good target.

- **Artisans**: clearly extremely expert in the nuts and bolts, the practicalities of their core skills – the ‘doing’ part of the business, but they tend to have very limited business and financial skills. They often do not see themselves really as businessmen or entrepreneurs, and they will tend to lack confidence in business matters. Need nurturing, handholding and showing how to turn on the computer.

- **Upwardly mobile**: a much more progressive, outward position vis-à-vis their business. Usually they are entrepreneurial types who are keen to market and develop their business, expand into new areas, innovate for their customers, and so on. Often relatively well-educated and have previously been senior employees in larger organisations. Clearly a good prospect for growth. Most already looking at e-commerce quite seriously.

- **The good life**: in contrast with many, being a businessman does not necessarily define this person’s identity. It is merely a tool to generate an income and a lifestyle. They will tend to avoid challenges and are not ‘driven’. Little desire to have a website except to display the family photos.

The research gave a crucial insight into the key priority groups for this e-business supplier, which, unlike many of its peers is still going – just.

These are the challenges – and the opportunities. We now review the practicalities of initiating a business market segmentation.
Segmentation frameworks

Whether consumer or business-related, it is arguable that there exist three distinct modes of segmenting a market.

1. Top-down segmentations

- Driven by easily accessible information (e.g. market sector, turnover, revenue provided, profitability).
- Usual methods:
  - Internal: organisational view and/or structure of company (e.g. channels to market);
  - Research: cross tabs to establish differences against a priori profiles.

CASE STUDY

A telecoms company has an extensive database of customer classification and revenue data. While acknowledging that it is important to understand customers, its strategy is to target them individually according to what can be easily recognised. Its segmentation programme is therefore based on marketing channels (direct, online, face to face, etc.) within particular sectors. Research is then commissioned to overlay these flags so as to create a broad picture of differing needs and opportunities within each ‘segment’.

2. Bottom-up segmentations

- Driven by an analysis of the differing priorities, needs and values of an organisation’s customers.
- Usual methods:
  - Internal: buy in to concept of adaptation to needs structure/customer value proposition development;
  - Research: data reduction/multivariate techniques (e.g. conjoint analysis, clustering) followed by profiling.
CASE STUDY

An office equipment provider is keen to establish key needs-based clusters that it can then use to inform the development of a broadcast campaign centred around recognisable archetypes of decision-making behaviour. Research showed that photocopier decisions are made at departmental level in particular establishments, even in relatively large enterprises. The research drives the segmentation in a very ‘consumer-like’ way: nine attitudinal clusters are identified that focus around ‘day-to-day scenarios in the workplace’. This allows relevant creative briefs to be constructed and actioned through a four-year planning cycle.

3. Imposed segmentations

- Whereby a standardised framework for segmentation is imposed upon a particular market.
- Usual methods:
  - Internal: selection of model (e.g. Boston matrix, value-based management, etc.);
  - Research: if at all, primarily diagnostic against predefined framework.

CASE STUDY

A supplier of chemicals seems to be operating in a commodity market: its margins are under pressure and it wishes to implement a segmentation that is entirely revenue focused. It divides its customers and potential customers into the Aquatic Consulting Group’s well-known categories based on current spend and estimated potential spend. This allows it to focus its scarce sales and marketing resources on key short-term, medium-term and long-term priority targets (Dolphins), while differentially pricing to certain uneconomic customers (Sea Slugs). Profits increase by 25% in a year. Research is used only to establish and confirm the openness of certain potential targets and underperforming customers to increased usage.

As the case studies indicate, in isolation, each of these three approaches has its own strengths and weaknesses, which are summarised in Table 2. We must therefore think carefully about fitness for purpose – how and when should we use these different approaches? Should they be used in combination? And what methodological decisions will need to be taken to implement an effective segmentation?
Developing a segmentation strategy

There exist a number of different categories of segmentation, and a varied toolkit for collecting the research information that may underpin or inform our approach. To develop the correct strategy for our market, we must examine and answer a number of questions.

Principal among these is: what are the business goals that must be met by the segmentation? As with all research, segmentation must not be seen as an academic exercise. So, for example, is the primary driver:

- Marketing?
- Sales?
- Revenue?
- Profit?
- Customer relationship management?
- Some other business imperative?

In short, we must develop a strategy against a thorough understanding of the ultimate business drivers. Having understood the brief, and with our toolkit in hand, we must then ask ourselves five fundamental questions, each of which has significant methodological implications:

(1) Equality or triage?
(2) Volume or value?
(3) Mass market or niche focused?
(4) Broadcast or targeted?
(5) Now or the future?
1. Equality or triage?

The first question is whether all businesses are to be treated with equal weight or whether the segmentation should reflect differences in priority from the beginning. Most markets differentiate premium buyers and products, higher value accounts, etc., that may be relatively few in number.

It may therefore be that a triage is applied to the market before any research is undertaken. This might involve taking (say) the 40% of the market that spends below a certain amount and treating it as a single ‘low value’ segment, while proceeding to interview and segment the rest. It may also be necessary to concentrate booster samples among predefined higher value audiences. In this way we might combine both the imposed and the bottom-up segmentation methods.

<table>
<thead>
<tr>
<th>Question</th>
<th>Equality</th>
<th>Or</th>
<th>Triage</th>
</tr>
</thead>
<tbody>
<tr>
<td>In other words</td>
<td>‘All customers are equally important to us’</td>
<td>‘We’re only really interested in customers who can make us more than £XX a year’</td>
<td></td>
</tr>
<tr>
<td>Decision</td>
<td>Representative sample</td>
<td></td>
<td>Boosted/focused samples</td>
</tr>
<tr>
<td>Case study:</td>
<td>Margins are consistent across customers on a per corporate aquarium basis</td>
<td></td>
<td>Fishfood wishes to concentrate on the premium exotic fish market only. Fishfood</td>
</tr>
<tr>
<td>Corporate Group</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Volume or value?

Related to this, the researcher must then consider whether the business imperative is primarily aimed at increasing customer volume, or customer value. This is a particularly common decision in segmentation projects — i.e. whether the study should be focused on the whole market (with a view to making inroads into competitor territory) or just on current customers. This may also be related to whether there is a good database to be used to analyse out high value targets.

<table>
<thead>
<tr>
<th>Question</th>
<th>Volume</th>
<th>Or</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>In other words</td>
<td>‘We need more customers’</td>
<td></td>
<td>‘We need to make the most of the customers we have’</td>
</tr>
<tr>
<td>Decision</td>
<td>Include potential/ non-customers</td>
<td></td>
<td>Concentrate sample on current customers only</td>
</tr>
<tr>
<td>Case study:</td>
<td>Low market share (lots of competitors) but customer value relatively consistent (all boats cost the same)</td>
<td></td>
<td>High market share (every executive has one) but variable value across customers (need to sell bigger boats)</td>
</tr>
<tr>
<td>Executive Yachts plc</td>
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</table>
3. Mass market or niche focused?

Possibly the most fundamental issue in designing a business segmentation is to understand the extent to which the market is mass or niche focused. It might, of course, be both. This is a common issue in examining business markets because it is often the case that there will be a tranche of high-powered, larger organisations that represent a significant chunk of a particular market, and is a direct reflection of the huge variation in business size and economics discussed earlier.

This will determine whether we are taking a more quantitative or qualitative data collection approach, or both. It will also inform whether and how firmographics and psychographics are applied. It is often the case that in a market dominated by a few large buyers, depth of individual understanding is key, whereas in mass markets the issue is one of ensuring quantitative coverage. In many markets this could entail mixed methodologies, with the split between key accounts and the mainstream.

<table>
<thead>
<tr>
<th>Question</th>
<th>Mass market</th>
<th>Or</th>
<th>Niche focused</th>
</tr>
</thead>
<tbody>
<tr>
<td>In other words</td>
<td>'We have a lot of customers, but they're not worth much individually'</td>
<td></td>
<td>'We've got a few really big accounts that make most of the money for us'</td>
</tr>
<tr>
<td>Decision</td>
<td>Large-scale quantitative</td>
<td></td>
<td>Smaller-scale qualitative</td>
</tr>
<tr>
<td>Case study:</td>
<td>Many customers buying small orders of electronic components directly</td>
<td></td>
<td>Smaller numbers of key accounts, placing bulk orders on a repeat basis</td>
</tr>
<tr>
<td>Transistors Ltd</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Broadcast or targeted?

Most segmentations have a direct relationship to marketing action. One of the biggest issues to consider is whether we need to have an outcome whereby each segment is identifiable at the individual company level, or whether segment archetypes are key. This relates to whether the client needs to use the segmentation to target the market on an individual basis, or whether a more broadcast marketing approach is to be taken. In the former case, compromises may need to be made in terms of segmenting on the basis of what can be identified – either via proprietary databases or via public domain information – about each business. Thus there may need to be an element of ‘top-down’ segmentation to ensure viability in targeting terms.
5. Now or the future?

Equally, we must also consider the question of whether the segmentation is to be used to develop new products or customer value propositions or is focused on the here and now. This is in fact a key decision, since it will inform the longevity of the segmentation in some markets. Future-proofing is never fully possible as any market is dependent on no ‘outside context problems’ arising (such as the asteroid that is believed to have wiped out the dinosaurs).

However, given that many segmentation programmes will result in an element of proposition development, it is important to give at least some consideration to this rather woolly question. If there is a new product/service development imperative, it may well be appropriate to use Conjoint analysis or some other trade-off technique. This could help highlight gaps in the market or shortfalls against particular segments’ expectations.
The counsel of perfection might involve decisions on a segmentation strategy being made at any or all of these different levels before the programme is finalised.

**A world of compromise**

But of course, in common with most research, segmentation is a highly pragmatic activity. While we can define areas of good practice, and different opportunities to use elements of the toolkit, there is clearly no such thing as 'the' segmentation in any market. It is all about fitness for purpose. On the one hand, we must consider what the segmentation is to be used for, which might include:

- Direct mail
- Broadcast campaigns
- Product development
- Relationships/resourcing
- Pricing strategy
- Opportunity identification.

On the other hand, we must consider the restraints – operational or otherwise – that may be faced by those seeking to put a segmentation into practice, which could include any or all of:

- Budget
- Database quality
- Amount of secondary versus primary data available.

In due season we face a host of rather more subtle compromises, each of which is underpinned by a legitimate commercial decision. We will see segmentations that are driven by media preferences; by resource availability; and by a business strategy that has already been decided offline. The best thing for one organisation is rarely the best for another, and it is often intangible cultural forces that are the final arbiter of what works.
CASE STUDY

We have developed a beautiful ten-cluster needs-based segmentation for a construction and property management company. Unfortunately, due to restrictions on the average sales person’s short-term memory and ability to buy into such airy-fairy matters, it is decided that a maximum of six segments is acceptable to the business.

The six-segment version is worse on every possible research variable. The statisticians shake their heads. But for reasons entirely unrelated to any of the issues raised in this paper it is a far better and more commercially viable solution.

Because – unlike our initial segmentation – it will actually be used.

The imperative to actionability

Of the various methods of segmenting business markets, there is no one right or wrong approach, but the way they are used must reflect the fact that the notion of segmentation has become significantly more action-oriented over the past few years. Thus it is rarely enough to present a purely attitudinal segmentation with no way of predicting or identifying membership of a segment without asking ‘research-style’ questions. Historically, researchers have been drawn to the purist mode: use research data to segment a market, and then profile the solution against the facts. However, many marketers have criticised this approach as being less actionable than a straightforward triage process.

The fact is that marketers want a best-fit solution that may involve compromise in the sense of statistical exactitude, but at least allows them to use the segmentation for customer value proposition development and targeting.

Ideally, therefore, in business-to-business markets we can consider the opportunity to draw together the best components of each of the three frameworks or methods outlined in the previous section. Thus, the counsel of perfection may include:

- **Economic data**: spend, revenue, profitability and potential income.
- **Needs and/or attitudinal data**: concerned with the service or product category under investigation.
- **Targeting data**: company and individual profiling to allow us to spot any resultant segments.
As database and relationship marketing comes ever more to the fore, I conclude that the best segmentations will include elements of all of the above types of data. This is particularly important if researchers are to take the lead in developing these business-critical assignments for our clients.