

## Article 15 – segmentation – what’s in it for me?

Most of my clients are businesses that sell products or provide services to other businesses. They do not sell to the general public. Some regard the process of market segmentation as something that only consumer marketers do. As a consequence they do not understand how to do it or realise its benefits.

Despite what one might read in the marketing textbooks about segmentation by demographics or psychographics – both of which are more relevant to consumer as opposed to business-to-business marketing – there is one criterion that is just as relevant to both disciplines. It’s benefit segmentation.

If you can answer the rhetorical question – does this group of customers seek the same benefits – and the answer is yes – then you have defined a market segment.

Mind you – getting to that endpoint is not always straightforward. It’s made easier by the process of progressive segmentation. As the name suggests it’s a process whereby one starts with a generic market – for example the beer market – and you start by dividing it into two or three broad segments. The criterion that you use for this first rough cut is not that critical but having made that initial division, you ask yourself. Do all the customers/clients/consumers in this segment seek the same benefits? And if the answer is – no – you continue to segment each of the two or three broad segments initially identified until the answer to that question is – yes. Expressed diagrammatically, you end up with a close facsimile of a family tree. Some branches of the family die out whilst others expand and break into many more branches. The total number of market segments is represented by the members of the most recent generation.

To demonstrate the benefits of this method, one fairly recent trend in the beer market is the blossoming of boutique breweries. So having arrived at this segment using progressive segmentation, the question is asked – do all consumers of boutique beer seek the same benefits? Now one of the characteristics of the boutique beer drinker is that they seek something different from mainstream beers and moreover they enjoy variety. They want to drink a pilsener one day and Irish stout the next. So if one is to succeed as a boutique brewer, then what you don’t do is brew one beer with the characteristics of VB. That’s not what the boutique beer drinker wants.

Of course there are always outliers to a market segment. Businesses or people who want the same benefits as others in that segment but share few if any other characteristics. They are represented by the eighty-year-old bungee jumping grandmother.

Don’t worry about them.

They will find you. You don’t have to go looking for them. Advertising your bungee jump in “Pastimes for retirees” magazine is not a cost effective spend of your advertising dollar.

Here are the benefits of segmentation.

π Redesign your total product offering

By asking yourself – how does this segment differ from another that I service – you can better tailor your product to customer needs. And by product I mean not just the basic product or service but its positioning, its service elements, the degree of customisation, its pricing, its distribution, its performance warranties, the type and amount of after-sales service etc.

The match between what a market segment wants and what you provide has to be a much closer match these days. Near enough is no longer good enough.

π Identify emerging new segments

Unless you segment your market, you may miss the birth of new segments. Markets are forever fragmenting – breaking up as customers seek different benefits or different combinations of benefits or different weighting of benefits. Take retirement planning. If I was a financial adviser, I would be keeping very close watch on how the needs of my client base was changing and how one big segment was breaking into several smaller ones. Sometimes “boutique” segments become mainstream ones. In other cases they remain small and are not of sufficient size to attract the industry’s bigger players.

π Customise your marketing mix

It is becoming increasingly unlikely that one marketing mix will “fit” each market segment just as it is that you service only one segment. I have a theory that a business is like a table. It needs at least three legs to remain stable. Three legs equals three segments equals three different marketing mixes.

On the other hand you might have a business resembling a centipede. It’s grown so many legs that you cannot nurture them all. What started off as one market - to service the IT needs of home businesses – has fragmented into software, hardware, repairs, web sites, assembly, trouble-shooting, tutoring and so the list goes on. Maybe there is a good reason why the largest four-legged animal is a million times bigger than the largest centipede?

π Being different and better

By really understanding the benefits sought by customers of a particular segment, the odds on your business being perceived as different and better to your competitors are shortened. Being “just another accountant or just another widget manufacturer” is simply not good enough these days. If that is how your customers perceive you, you will be condemned to competing forever on the basis of price.

Happy segmenting!

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