Market Segmentation Practices of Industrial Marketers

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Most of the research into market segmentation has focused on methods of positioning markets into segments and not on the practical use of market segmentation. This article discusses how a sample of 32 industrial companies in South Africa used market segmentation. A literature review of industrial market segmentation is presented. The results of this survey identified the variables used in segmenting markets, the criteria used to form segments, the criteria used to select target segments, and the marketing actions used to reach the chosen segments.

LITERATURE REVIEW

The available literature on market segmentation has focused on the selection of bases for market segmentation to form market segments and the various approaches available [1–7]. The most difficult stage appears to be the translation of results into an effective implementation strategy [2, 8–10]. The first study of how marketing managers used market segmentation was attempted by Cross, Belich, and Rudelius [11]. They noted that marketers know much more about the theoretical and methodology segmentation issues than about the translation into strategy process.

Wind and Cardozo defined a market segment as a group of present or potential customers with some common characteristic that is relevant in explaining and predicting their response to a supplier's marketing stimuli [10]. Industrial market segmentation has become a necessary and creative process in order to protect and improve competitive positioning [2, 5]. Wind stated that market segmentation of consumer goods is applicable to industrial market segmentation, but there is some disagreement on this issue [8, 12]. Consumer segmentation concepts may be used, provided they are modified for industrial markets [13]. There is a lack of research on market segmentation in industrial markets [2, 12, 13].

The first normative model to segmentation, proposed by Frank, Massey, and Wind, is applicable to industrial market segmentation [14]. A proposed two-step segmentation model involved identifying macro organizational segments followed by dividing the market on decision-making unit characteristics. A two-tailed approach to industrial market segmentation, suggested by Wind and Cardozo [10], builds on that suggested by Frank, Massey, and Wind [14]. It first identified appropriate macrosegments based on organizational characteristics and then

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divided these macrosegments into microsegments based on decision-making characteristics. This model has been criticized because it did not acknowledge the end user in an industry [15].

Hlavacek and Reddy proposed a step process to industrial market segmentation that focused on product application [5]. This process occurred in a competitive and changing market where the marketer must constantly monitor the market segments for competitive activity and technological change. Bonoma and Shapiro took a different view to market segmentation, which they called the nested approach [2]. Their model allowed a marketing manager to determine the segmentation base to use and how many bases were needed to successfully segment the market.

Plank [9] addressed the issue of industrial market segmentation and identified the following three common approaches to segmenting industrial markets:

1. Identification of the base to be used to segment the market
2. Development of the two-stage approach to market segmentation
3. Development of multistep approaches to market segmentation

The five broad bases used to segment the market, as suggested by Bonoma and Shapiro [2], include the following.

1. *Demographics*. Common demographic variables are industry, company size, and location. Wide use is made of the Standard Industrial Code (SIC) [10]. Operating variables are used to segment customers within a general industry category.
2. *Operating variables*. Market segmentation occurs via the use of technology, users and nonusers of a product and brand, purchase of related products, and customer capabilities [2, 10].
3. *Purchasing approach*. Purchasing approaches are concerned with the organization and the relationship of the buying center within the organization. Microsegmentation is necessary to determine relevant segments, as customer contacts are needed to get relevant and reliable information. The various bases for segmentation are the purchasing organization, the power structure of the buying center, the nature of existing relationships, general purchasing practices and policies, and purchasing criteria [2, 16–27].
4. *Situational factors*. The situational factors most commonly used are application, type and size of purchase, environmental situation, and the situational buying risk. Cardozo classified organizational buying situations on four dimensions: the buyer's familiarity with the buying task, the product type, the importance of purchase to the buying organization, and the type of risk to classify organizational buying situations [28]. These dimensions constitute a useful basis for segmenting industrial markets. Purchase orders may be large or may consist of single items ordered, and this could be a good method of segmentation [2, 29].
5. *Personal characteristics*. Personal characteristics consistently used are buyer-seller similarity, buyer motivation, individual perceptions, and risk management strategies. If the seller has similar policies, respect, and attitudes toward business as the buyer, there is a high probability that these similarities will result in a purchase situation and buyer loyalty [30, 31].

The nonrational or social aspects of industrial buying are just as important as price, quality, and service available from a supplier. Understanding the nonrational motives of buyers should enable suppliers to apply psychological segmentation [2]. Industrial purchase situations involve different levels of risk. Bonoma and Shapiro argue that these risk management strategies can be used as a basis for market segmentation [27].

Once the homogeneous subsets of the market have been identified, the marketers must select the criteria to form segments. Market targeting involves evaluating the attractiveness of each segment and selecting the target segments. Kotler suggested that different market segments must be evaluated according to three factors: segment size and growth, segment structural attractiveness, and company objectives and resources [32]. After evaluating segments marketers must select the segments in the market that are worth entering. These will depend largely on the coverage strategy desired by the marketer.

RESEARCH METHOD

Data were gathered by means of a questionnaire, which was designed after consulting the literature and previous studies, including the most recent study by Cross, Belich, and Rudelius [11]. The questionnaire addressed the following issues:

The similarity of needs between segments was an important selection criterion.

1. How marketing managers select the variables used in segmenting markets
2. How marketing managers form the segments using these variables
3. How marketing managers choose the target market segments on which to focus their marketing efforts
4. How marketing managers take marketing actions to reach the chosen segments

The questionnaire was mailed to 87 of 100 industrial companies listed in the Financial Mail Top Companies survey [33] (13 companies in the top 100 were not involved in business-to-business markets). It was assumed that these companies obtained their relevant positions because of their marketing success, which was the result of an effective segmentation strategy. All the companies were listed on the Johannesburg Stock Exchange.

At the closing date 32 replies were received, representing a 37% response rate. Nonrespondents were telephoned to obtain reasons for nonresponse; answers ranged from being too busy to being unable to participate in surveys. It was assumed that the 32 respondents were representative of the top 100 industrial companies in South Africa.

Of the respondents 75% had some form of marketing qualification. Most of the respondents (80%) were male, and all were either the marketing manager or the marketing director of the company.

RESULTS

Variables Used to Segment Markets

The variables used to segment markets are shown in Table 1. Geographic bases were the ones used most often by the sample. Demographics, usage rate, and the type of buying situation were commonly used by the marketing managers. Psychographics, values, and benefits segmentation were not used as commonly as the literature stressed. It was expected that industrial companies did not use psychographics, but the unpopularity of value and benefits segmentation was surprising. The purchasing organization was also given a low rank. Geographic and demographic bases were consistently used by industrial marketing managers, a finding that was supported by previous studies [10, 34–36]. In addition, this study's findings with regard to the usage rate and the buying situation also compared favorably with other studies [2, 4, 37]. Psychographics and values, which are frequently stressed by researchers as an ideal base for market segmentation, fared dismally in comparison to suggestions in the literature [6,7,38–41]. However the available literature on these bases has warned against the wholehearted use of psychographics in market segmentation [7, 9].

TABLE 1
Variables Used to Segment Markets

Variables	Number (n = 32)	%
Geographic	28	87.5
Demographics	20	62.5
Usage rate	20	62.5
Buying situation	20	62.5
Application/use	16	50.0
Psychographics	16	50.0
Values	16	50.0
Benefits	12	37.5
Other	12	37.5
Purchasing organization	4	12.5
Buying center	0	0.0

Industrial companies tended to have at least two stages in determining an appropriate and relevant base to use when segmenting the market. This was consistent with researchers' views that stressed the use of multistage approaches to market segmentation [2, 5, 10].

Criteria Used to Form Segments

The criteria used to form segments are shown in Table 2. The similarity of needs within segments and the feasibility of marketing action were the two most important criteria used to form segments. The stability of the segment over time as well as the difference of needs between

TABLE 2
Criteria Used to Form Segments

Criterion	Number (n = 32)	%
Similarity of needs within segments	28	87.5
Feasibility of marketing action	24	75.0
Stability of segment over time	16	50.0
Difference of needs between segments	12	37.5
Potential for increased profit/ROI	8	25.0
Simplicity of assigning to segments	4	12.5

segments were also used. The simplicity of assigning to segments was not used very often, which indicated that industrial companies are becoming more marketing-oriented and do not take the simplest method of selecting segments. The need for increased profit and return on investment (ROI) was only used by 25% of the companies surveyed.

TABLE 3
Criteria Used to Select Target Market Segments

Criteria	Number (n = 32)	%
Ability to reach buyers in market	28	87.5
Competitive position in market	28	87.5
Size of market	20	62.5
Compatibility of market with objectives/resources	16	50.0
Profitability	16	50.0
Expected growth in market	16	50.0

and the expected growth in the market were used by half of the sample.

The ability to reach buyers in the market and the competitive position of the company in the market, as well

Different advertising and prices were often used.

The similarity of needs within segments, rated the most favorable criterion to use, was supported by other studies [11, 42]. Dickson and Ginter stressed the use of difference in needs of customers between segments as the appropriate criteria to use in forming segments [43]. The potential for increased profit and ROI was only used by the minority of respondents, in contrast to studies that advocated the use of profitability as a suitable criteria to be used in forming segments [36].

Criteria Used to Select Target Markets

The criteria used to select target market segments are shown in Table 3. The ability to reach buyers in the market and the competitive positioning of the firm in the market were very highly rated in the selection of segments to be targeted. The size of the market was also an important criterion. The compatibility of the market with the objectives and resources of the company, profitability,

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as the size of the market, were ideal criteria used to select target segments. These findings were similar to those in the Cross, Belich, and Rudelius study [11]. Doyle and Saunders argued that the size of the market and the expected growth of the market were ideal criteria to use in selecting markets [13]. In South Africa, marketers tended to rely on more practical considerations related to the competitive environment.

Marketing Actions Used to Reach Different Segments

The marketing actions used to reach different segments are shown in Table 4. It was essential that different marketing actions were taken to reach the different segments targeted. By understanding the characteristics of the market segments, marketing actions could be specified to match the needs and expectations of the customer. The manufacturing and development of different products and/or services and sales promotions programs were used most often to reach the different segments of the market. Different advertising appeals and prices were also used very often. Different sales forces and different distribution systems were given a low rank as suitable criteria to reach the target segment by marketing managers. South

TABLE 4
Marketing Actions Used to Reach Different Segments

Criteria	Number (n = 32)	%
Different products/services	28	87.5
Different sales promotions programs	28	87.5
Different advertising appeals	20	62.5
Different prices	20	62.5
Different sales forces	16	50.0
Different distribution systems	12	37.5
Establish and match needs	4	12.5

African industrial marketing managers tended to rely on price, promotion, and the product elements of the marketing mix, neglecting the equally important element of place.

The most important marketing actions used to reach different segments of the market—different products and/or services, different sales promotion programs, different advertising appeals, and different prices—did not compare well with the American study by Cross, Belich, and Rudelius and may be the result of differences in the markets in both countries [11].

SUMMARY

According to this study the most important variables used to segment markets included geographics, demographics, usage rate, and the type of buying situation. The most important criteria used to form segments were the similarity of needs within segments, the feasibility of marketing action, and the segments' stability over time. The most important criteria used to select target market segments included the ability to reach buyers in the market, the company's competitive position in the market, and the size of the market. The most frequently used marketing actions to reach different segments were different products and/or services, different sales promotions programs, different advertising appeals, and different prices.

The results presented in this paper add to the growing body of knowledge about marketing segmentation. Marketing managers are given some indication of how the leading industrial companies in South Africa use the concept of market segmentation.

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