Market Segmentation & Market Mapping

by Professor Malcolm McDonald

Introduction

Success today is measured in terms of shareholder value added (SV), having taken account of the risks associated with declared future strategies, the time value of money and the cost of capital. The only way in which sustainable SV can be created is by making offers to target markets that utilise the entire organisational asset base and which take account of the needs of all stakeholder groups.

Fundamental to success defined in this way is:

- A deep understanding of the market;
- Correct needs-based segmentation
- Differential offers targeted at these segments
- Integrated strategic marketing plans.

All the gurus over the past 50 years, including Kotler, Tom Peters, Chairmen of Unilever and the like agree that these four items are the pillars of successful corporate performance.

Market segmentation is one of the most fundamental concepts of marketing and is the key to successful business performance. It's fairly obviously that there is no such thing as an average customer or consumer – it's a bit like saying my head is in the oven and my feet are in the fridge, so on average I am quite comfortable.

Let's also get rid of the nonsensical myths about market segmentation, such as the a priori nonsense about socio economics, demographics, geo demographics and the like. Let me explain. Socio economic classifications such as A, B, C1, C2, D and E are useful generic descriptions which I shall refer to later, but in themselves they can only be useful at a very general level. For example, the Archbishop of Canterbury and Boy George are both As because of their spending power, but their behaviour is almost certainly very different. Likewise, demographics such as young women between the ages of 18 and 24 can only ever be useful as a very high and general indication of patterns of behaviour because it is clear that not all 18 to 24 year olds behave the same.

In a similar way geo demographic classifications such as ACORN, which stands for a classification of regional neighbourhoods, whilst useful for indicating likely very general patterns of spending power do not reveal the absurd assumption that everyone in one street drives the same car, reads the same newspapers, eats the same food and so on.

Yet real segmentation remains the most difficult of all marketing methodologies to implement, which is why very few organisations do it properly. Indeed, a recent *Harvard Business Review Article* revealed that in 2006 a main reason for the failure of 30,000 new product launches in the United States of America was inadequate market segmentation. So let me set out in a very straightforward way what market segmentation is and how it can be done properly.

A brief history of scholarly research in the domain of market segmentation

The author of this chapter did a catholic review of scholarly research into the history of market segmentation (Jenkins and McDonald 1997) in which 36 references were cited. However, due to scale constraints here is a very brief summary of this research.

The father of market segmentation is widely considered to be Wendell Smith (1956) who prepared market segmentation as an alternative to product differentiation. Yet it wasn't until Wind's (1978) review of the state of market segmentation that the topic went to the top of the agenda of researchers and practitioners. His plea was for new segmentation bases, data analysis techniques and for generally putting market segmentation at the heart of strategic decision making.

In 2009, a whole issue of the Journal of Marketing Management was devoted to market segmentation and for those readers wanting an updated literature review, see Bailey (2009) in that issue. They confirm that most of the work over the intervening years has been primarily around what segmentation bases to use, such as size of purchase, customer characteristics, product attributes, benefits sought, service quality, buying behaviour and, more recently, propensity to switch suppliers, with much of this work being biased towards fast moving consumer goods rather than to business to business and services.

In 2002 Coviello and a host of others, with the advent of relationship marketing and customer relationship management, proposed one-to- one as a successor to market segmentation, although Wilson (2002) found that most CRM projects fail because of poor segmentation. Rigby (2002) summed this up succinctly by saying that trying to implement CRM without segmentation is like "trying to build a house without engineering measures or an architecture plan".

Given the amount of academic scholarships and attempts at implementation in the world of practice over the 54 years since Wendell Smith first raised the consciousness of the community to the importance of market segmentation, it is surprising that so little progress has been made. In 2006, Christensen, in the Harvard Business Review found that of 30,000 new products launched in the USA, 85% failed because of poor market segmentation. Yankelovich's paper in 2006 also reported the widespread failure of segmentation initiatives. This matches the author's own research over a 35 year period. His analysis of 3,000 marketing plans revealed that only 300 contained proper needs based segmentation – i.e. 90% didn't.

The author of this chapter, having been Marketing Director of a major fast moving consumer goods company and having worked on practical segmentation with senior teams from leading global multinationals down to SMEs for 35 years, finds much of the academic debate referred to above somewhat arrogant and inward-looking.

The justification for saying this is that anyone who says "we segment markets by ...." is totally missing the point. Any market, once correctly defined in terms of needs rather than products, consists of 100 per cent of what is bought, how it is used and why it is bought and used in these ways. The role of any supplier is to understand these behavioural patterns and to discover their rationale, rather than trying to impose some predetermined segmentation methodology onto the market.

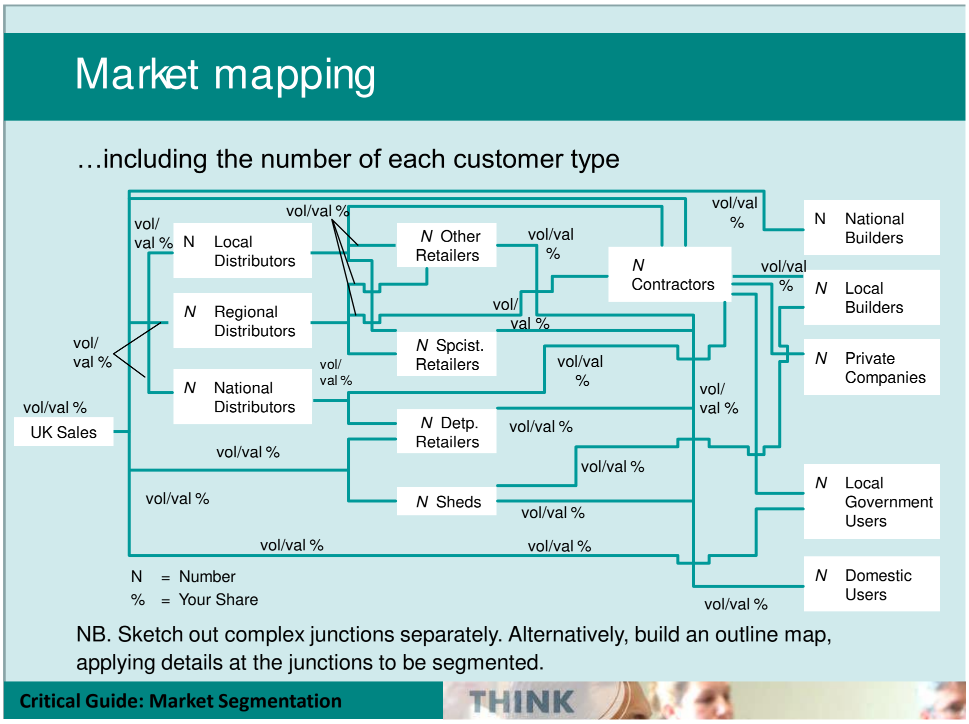
This chapter continues by briefly explaining what is wrong with certain existing segmentation methodologies and goes on to outline a market-based method which has worked successfully in every sector in which it has been applied during the past twenty five years. During this period of ten successful doctoral theses, a link between shareholder value creation and excellent marketing was clearly established and this link is shown in the left hand column of Table 1 (for one such thesis, see smith B (2003).

Table 1

Excellent Strategies	**Weak Strategies**
• Target needs based segments	• Target product categories
• Make a specific offer to each segment	• Make similar offers to all segments
• Leverage their strengths and minimise their weaknesses	• Have little understanding of their strengths and weaknesses
• Anticipate the future	• Plan using historical data

The Market Segmentation Process

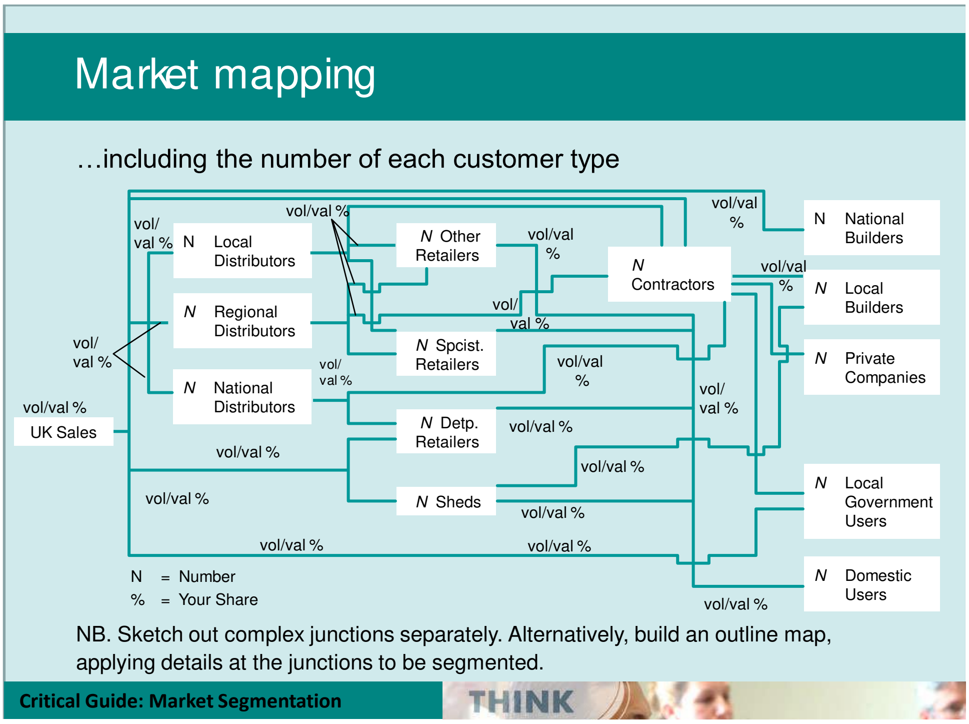
The following process chart describes a number of steps that I will now take you through. From this, you will see that the process begins with market mapping, which corresponds to a deep understanding of the market.



Market Mapping

Essentially this entails drawing a map of the flows of goods and services from producers through to end use; including a number of junctions which have an influence on what is bought even though such influences don't actually buy themselves. An example of this might be architects who don't buy radiators, but who decide which type of radiator will go into which kind of building.

The example below of a generic market map shows four major types of junctions from suppliers through to end use. Where percentages and volumes or values are shown against junctions, it is useful if the organisation drawing the map can list their own share at each junction. This is extremely valuable in showing whether our organisation matches the pattern of the general market. If not, are there opportunities for us or threats from say new distribution channels? In a sense, the market map is somewhat like a balance sheet in that 100% of goods and services made clearly have to balance with the number of goods and services bought at the end of the chain.

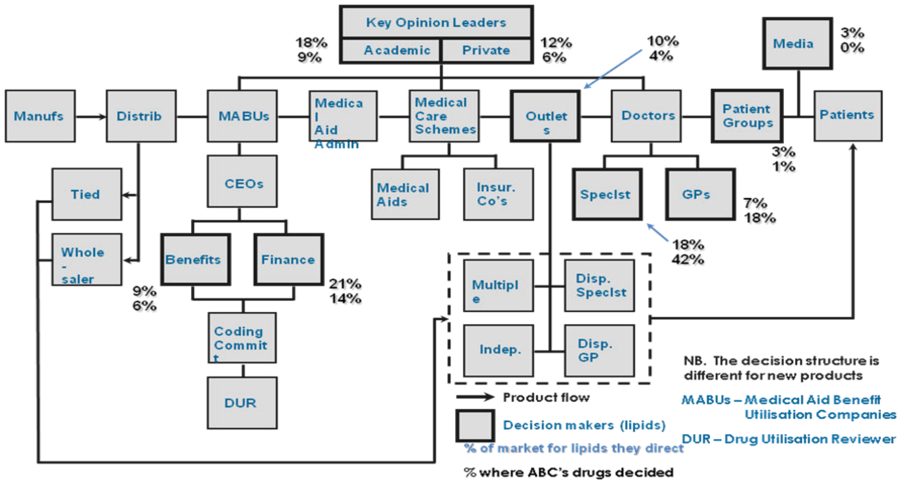


Two pharma marketing maps follows: One is for Lipids in South Africa. Without providing a detailed case history – and there isn't the space here – only a brief comment is called for. The company (ABC) just wasn't putting its marketing effort into where the real decisions were being made, as the percentages clearly show.

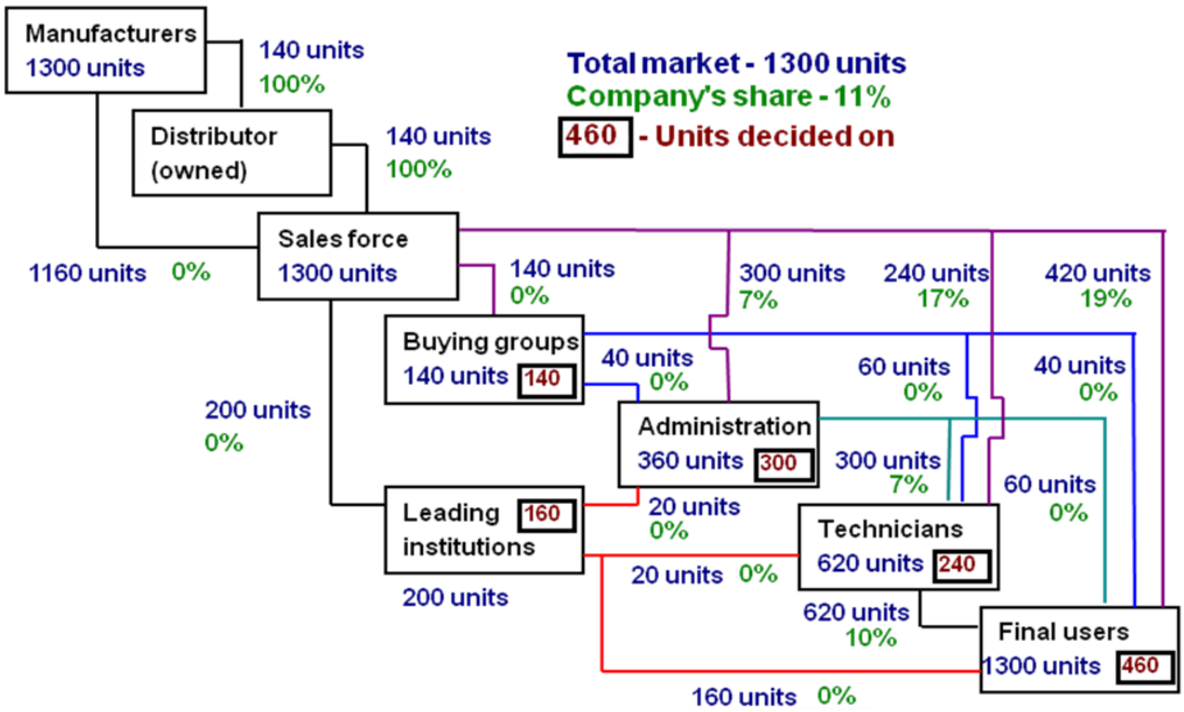
The other is for medical equipment, which shows that the sales force were targeting technicians – being former technicians themselves – and they felt uncomfortable with the growing decision groups such as Buying Groups and Administrators.

The whole point of market mapping is to answer the question – who is the customer? Without this knowledge of where the 80/20 rule applies in terms of where real decisions are made, market segmentation just isn't possible.

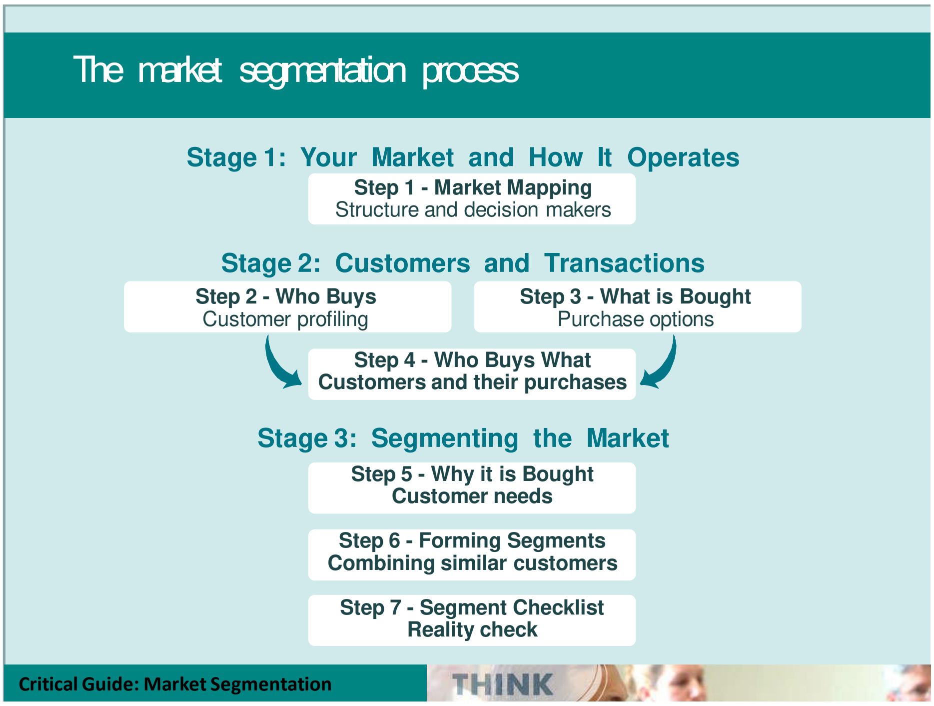
Market Map – ethical drugs – SA



Market map – medical equipment



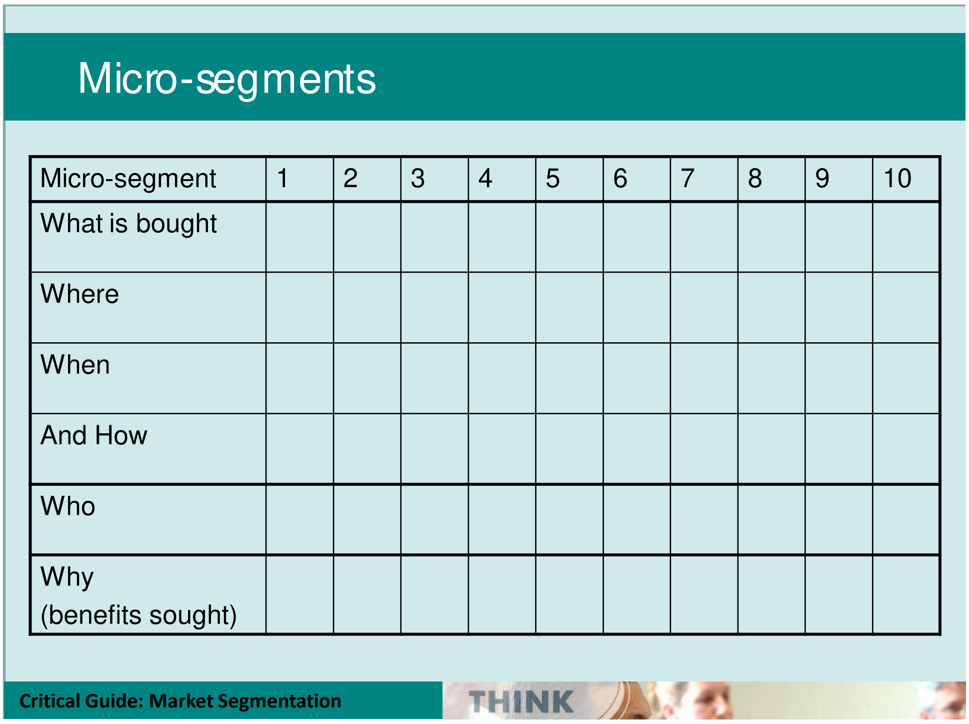
We can now turn to the process again and move to steps two, three, four and five, although it must be pointed out that segmentation can and should be carried out at all major junctions on the market map, not just at the far right hand side.



Micro-Segments

Essentially, these time consuming steps involve listing all purchase combinations that take place in the market, including different applications for the product or service. Principle forms such as size, colour, branded, unbranded, etc; the principle channels used. When? Such as once a year, weekly and so on. How? Such as cash or credit. Next it is important to describe who behaves in each particular way using relevant descriptors such as demographics. For industrial purchases this might be standard industrial classification, size of firm, etc. Whereas for consumer purchases, this might be socio economic groups such as A, B, C1, C2, D and E, or stage in the lifecycle or age, sex, geography, lifestyles or psycho graphics.

Finally, and most difficult of all, each purchase combination has to have a brief explanation of the reason for this particular type of behaviour. In other words we need to list the benefits sought, and it is often at this stage that an organization needs to pause and either commission market research, or refer to its extant database of previous market research studies.



Micro-segments

Micro-segment	1	2	3	4	5	6	7	8	9	10
What is bought										
Where										
When										
And How										
Who										
Why (benefits sought)										

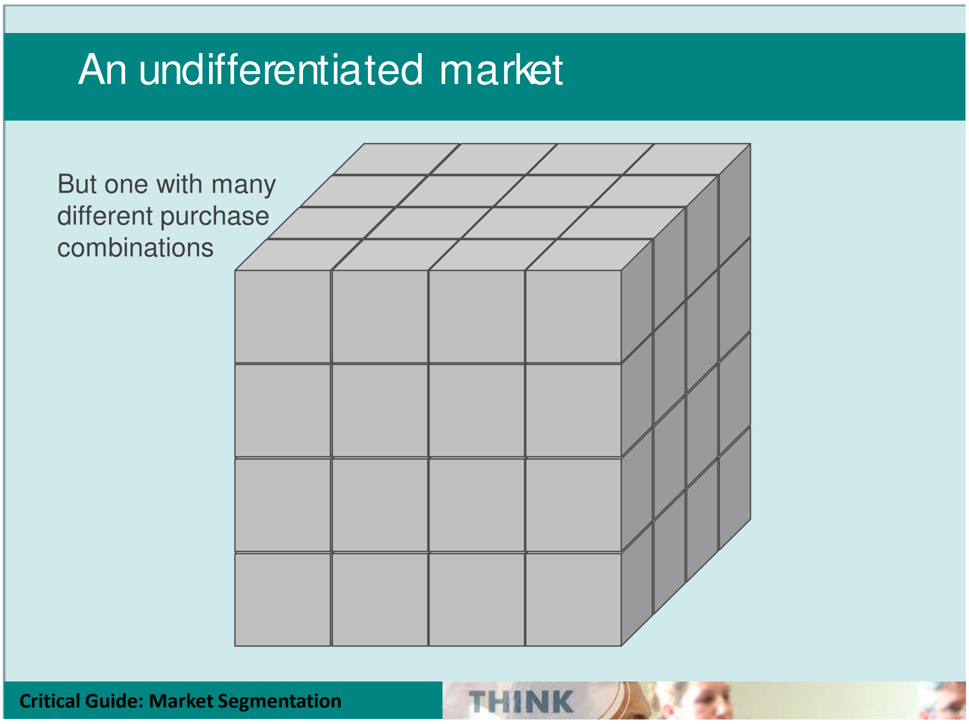
Critical Guide: Market Segmentation

THINK

Although in the graphic shown there are only ten micro segments, it is normal in most markets for companies to identify between 30 and 100 micro segments. Remember these micro segments are actual purchase combinations that take place in the market.

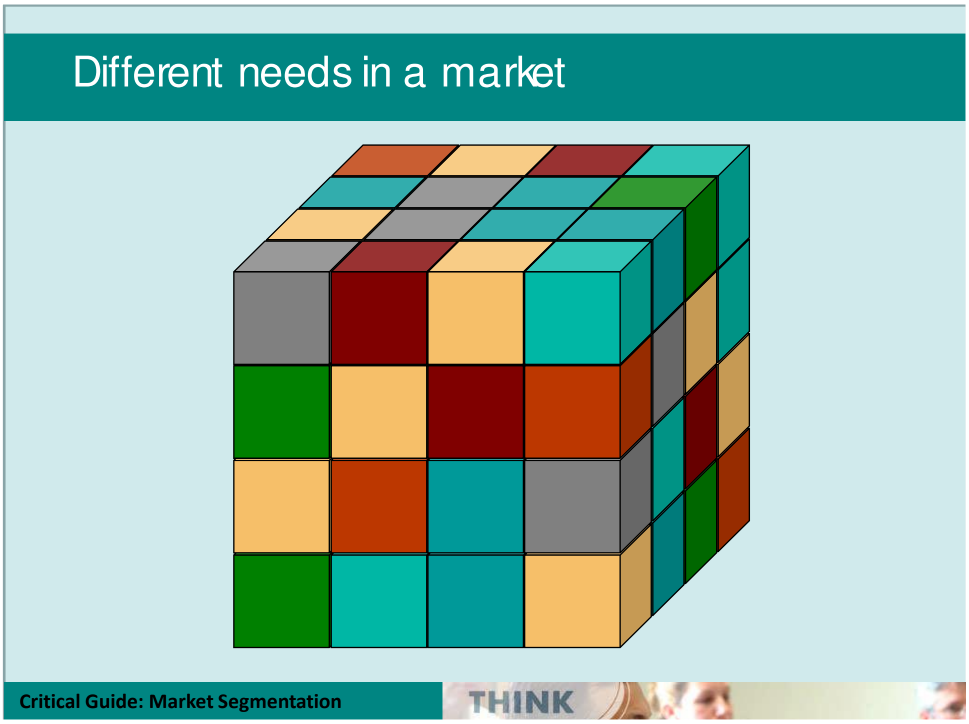
An Undifferentiated Market

To summarise so far, it is clear that no market is totally homogeneous.



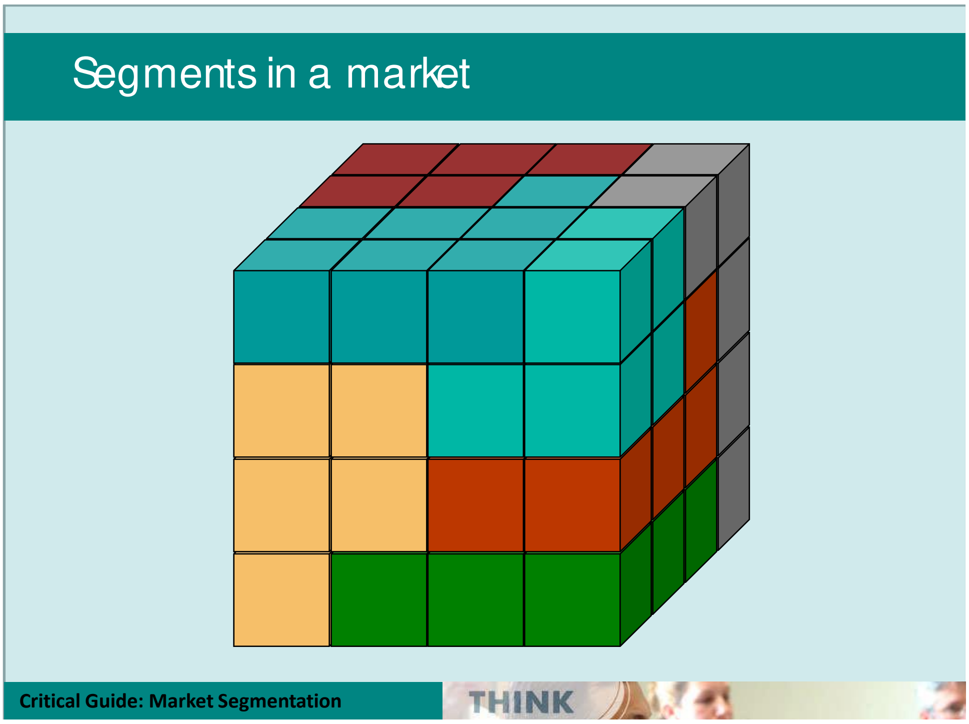
Different Needs in a Market

The reality is that actual markets consist of a large number of different purchase combinations.



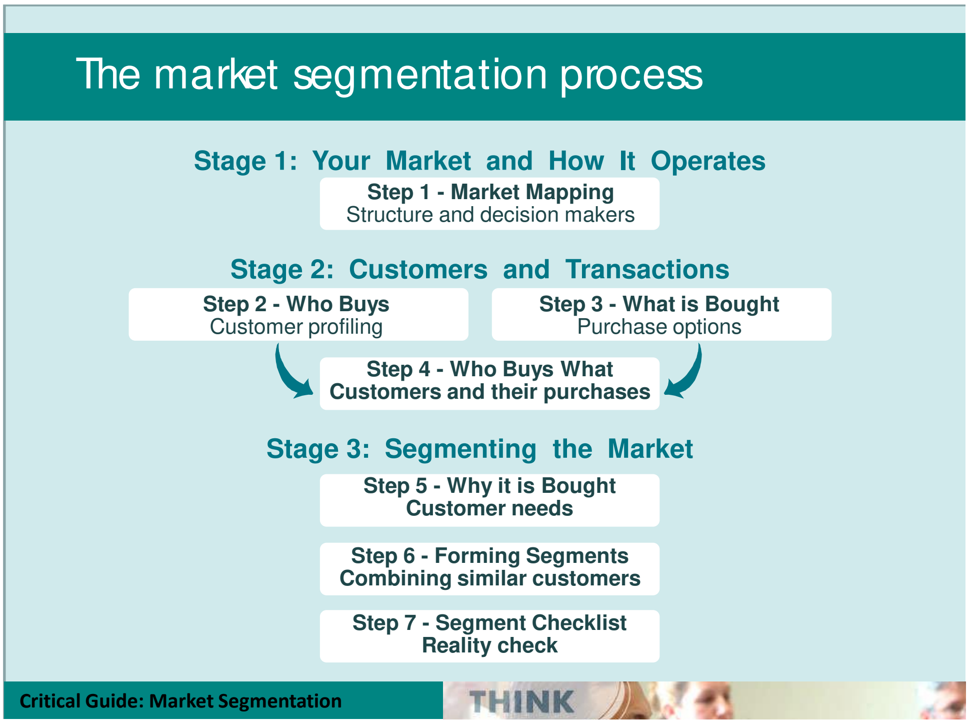
Segments in a Market

However, as it is impracticable to deal with more than seven or ten market segments, a process has to be found to bring together, or cluster, all those micro segments that share similar or approximately similar needs.



The Market Segmentation Process

Once the basic work has been done in describing micro segments – that is steps 2, 3, 4 and 5 – any good statistical computer programme can carry out cluster analysis to arrive at a smaller number of segments. The final step consists of checking whether the resulting segments are big enough to justify separate treatment; are indeed sufficiently different from other segments; whether they have been described sufficiently well to enable the customers in them to be reached by means of the organisation's communication methods; and finally the company has to be prepared to make the necessary changes to meet the needs of the identified segments.

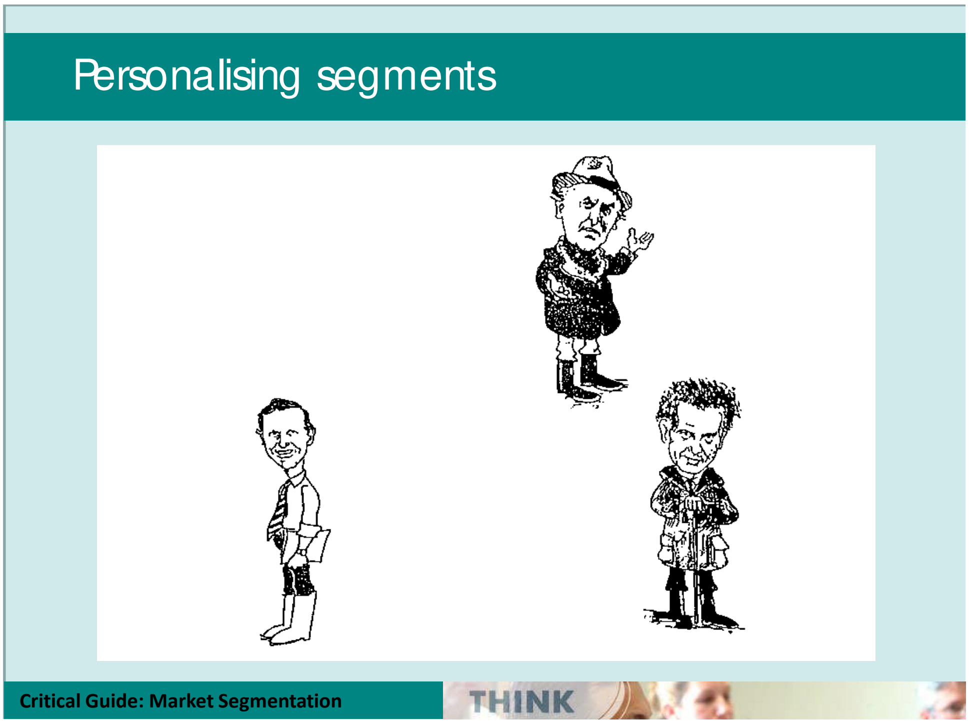


Market Segmentation and Corporate Responsibility

It will now be clear that market segmentation is fundamental to corporate strategy. It is also clear that since market segmentation affects every single corporate activity, it should not just be an exercise that takes place within the marketing department and has to involve other functions.

Let me conclude by giving you just one example of how sensible market segmentation turned a company from a loss making situation into being the most profitable company in the industry. In the late 1980s ICI Fertiliser began to make huge losses as the market matured and as prices plummeted. However, the segmentation study revealed that there were seven distinct types of farmer, each with a different set of needs.

To give just three examples of these segments, firstly there was a segment we called Arthur – the figure at the top of the slide; television character known for his deals. He bought on price alone, but represented only 10% of the market, not the 100% put about by everyone in the industry, especially the sales force.



Another type of farmer we called Oliver, the figure in the bottom right of the slide. Oliver would drive around his fields on his tractor with an aerial linked to a satellite and an on-board computer. He did this in order to analyse the soil type and would then mix P, N and K – which are the principle ingredients of fertiliser – solely to get the maximum yield out of his farm. In other words, Oliver was a scientific farmer, but the supply industry believed he was buying on price because he bought his own ingredients as cheaply as possible. He did this however, only because none of the suppliers bothered to understand his needs.

Another type of farmer we called David – the figure in the bottom left of the slide. David was a show off farmer and liked his crops to look nice and healthy. He also liked his cows to have nice healthy skins. Clearly if a sales representative had talked in a technical way to David, he would quickly switch off. Equally to talk about the appearance of crops and livestock would have switched Oliver off. But this is the whole point. Every single supplier in the industry totally ignored the real needs of these farmers and the only thing anyone ever talked about was price. The result a market driven by price discount, accompanied by substantial losses to the suppliers.

ICI however, armed with this new found information launched new products and new promotional approaches aimed at these different farmer types and got immediate results, becoming the most profitable subsidiary of ICI and the only profitable fertiliser company in the country.

Finally, a propos the pharmaceutical industry, there is clearly no such animal as a 'doctor', or an 'administrator' and so on and all the segmentation work I have done in this sector proves beyond doubt that, just as in any other business, correct market definition and needs-based segmentation are the keys to long term success.

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