

The Devil and the Deep Blue A, B or C: Segmentation in the maturing marketplace

Executive Summary

Segmentation is an invaluable tool for companies seeking to increase market share. But many companies are not implementing effective segmentation strategies. Even household names can be guilty of schemes that purport to be segmentation, but which in fact are merely data-enabled selling schemes.

Companies know that they need to meet the customer's wants – what they don't know is how to do this. Data offers some useful clues, but it can't give the whole picture.

Squeezed on one side by maturing markets, and on the other by merciless price-cutting, many companies struggle to compete in today's post mass-market arena. The result can be undifferentiated offerings that fail to please anyone.

So far this issue has mainly affected consumer companies. But segmentation is now becoming a real concern for b2b markets, as their markets mature as well.

The answer for these companies is to engage in real segmentation, rather than data collecting and guesswork. The Devil and the Deep Blue A, B or C calls on marketers to address this lapse in marketing thinking by focusing on context, instead of outmoded concepts of 'the customer'.

ONE

All for one – or one for all

Ask any marketer to name a company that is good at segmentation and you're likely to get answers like Unilever and Procter and Gamble. FMCG companies tend to be seen as industry leaders in the complex field of segmentation. They claim that they segment effectively – and it must be working for them, because they do not give away their secrets readily. As part of perhaps the most competitive industry in the world, FMCG companies have had to segment or they would not have survived.

Supermarkets too point to great success from their segmentation techniques – popular loyalty schemes, till receipt vouchers generated by data mining and targeted direct mail. But unlike most FMCG categories, this success hasn't been created by good segmentation. Rather, it is because the supermarkets have been benefiting from the fast-growing food sector.

Retailers' success has only been maintained in recent years because as the grocery market plateaus, they have moved into other areas that are still growing. Sainsbury's has followed Tesco and Asda into clothing with its TU range. Most of the large supermarkets are placing significant investment in non-food.

FMCG matured in the 1960s and the massive competition that followed forced the companies to consolidate and find new ways of making money. They did this by learning to segment markets into groups of customers with common needs and buying motives, and then developing solutions that appealed particularly strongly to those segments.

This was hard work but it paid off; smaller sub-markets (segments) were penetrated more deeply and at premium prices. Marketers had made a major discovery – how to grow revenues from saturated markets. Today, the situation is somewhat different. If the supermarkets were segmenting effectively, their urgent moves into new areas of sales growth would not be necessary.

Other industries are not so well-equipped with clearly defined segments. Until now, there hasn't been the need to segment properly. As we have seen with FMCG, segmentation is less vital when your markets are still growing.

But time is running out for these industries. In the post mass-market age, they will reach their true maturity stage sooner or later. Competition is going to increase exponentially as a surfeit of companies, used to annual sales growth without really trying, suddenly find themselves fighting over a static market. Consolidation is likely to occur.

When a market moves from growth to maturity, these companies are faced with a problem. They can learn to work differently, diversify into a different area that is still growing, or do what they have always done and ultimately end up competing on price.

TWO

The price isn't right

Which option should companies follow? Each creates significant problems for future growth (normally measured in sales turnover) and not all companies will be strong enough to withstand such major change.

But there's no need to fall into the price/diversification trap if you really don't want to. There is a third option – to segment your existing market more effectively. Any company, no matter how small and no matter which field it is in, can choose to focus customer needs in a chosen market and segment it.

It's hard to get this right. It takes a lot of work – and usually investment. And critically, it requires companies to buy in to the 'new' way of doing things. But as we get further into the twenty-first century, the survivors will be those companies that understand this.

The maturing market dilemma

- Compete on price (e.g. Dell, Ryanair)
- Diversify into growth areas (e.g. grocers into non-food)
- Segment – differentiate the offer, its communication and delivery (eg. Volkswagen Audi Group (VAG), Nokia)

Many successful companies compete on price because that's the easiest option – or at least, the one that takes the least thinking. There is an increasing trend for companies to develop the big-box experience that's cheap in price, low on service and low on differentiation.

But how many products can you name where the cheapest example is the market leader? Rather than going down that path, it's time companies acknowledged that competing on price alone is no longer viable.

Diversification to a new growth area is an option. However, why keep going through a number of learning curves? Ultimately, this is an unworkable option – it leads to a hugely fragmented business. A far better solution is to focus on your strengths. And to achieve that usually, if not always, requires customer focus through effective segmentation.

Let's take business-to-business markets as an example. The need to segment effectively hasn't been too much of an issue for b2b so far. As Dr. Paul Fifield of the Fifield Practice explains, 'in b2b there tend to be fewer, larger customers and consequently the sales force model is more common.' [Source: Fifield, P. (2005) *Harder than baked beans*. the marketer, April, p.21.]

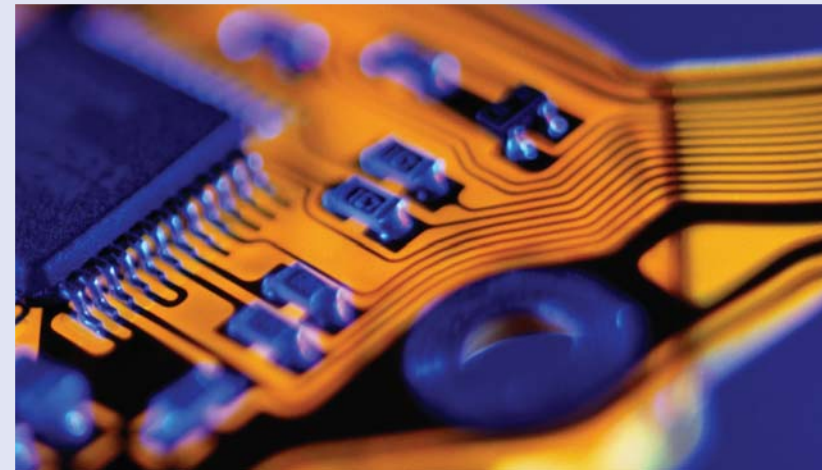
But b2b is now getting to the stage where companies need to segment effectively too, because their markets are beginning to mature like FMCG markets did forty years ago.

Ten years ago an electronic chip was an electronic chip. But now, end users insist on their computer having 'Intel inside'. So, the major computer manufacturers source their microprocessors from Intel. How did Intel achieve this? By segmenting its end-customers into categories including 'mainstream performance', 'basic PC' and 'enthusiast'. Intel then went on to define several distinct classifications, each with its own price. 'At the high end of the market,' Electronic Buyers' News commented at the time, 'Intel has identified six server and four workstation segments.' [Source: Hachman, M (1998) *Intel Covers all the bases*. Electronic Buyers' News, 3 August Issue 1120, p1.]

There is a danger that too much segmentation becomes fragmentation. But that only happens when it becomes too confusing to know what to buy. In Intel's case, it knew its target audience and it knew that audience wanted variety. Dean McCarron, principal at Mercury Research, takes up the story. 'In every one of these segments, there's an exact product that matches what PC designers wanted.'

Intel's lesson for b2b companies is twofold. First, define your market clearly. Second, segment the end user directly, not just the business customer. If the end user demands it, the business customer will purchase it from you – rather than from a competitor.

Ultimately, the differences between the b2b market and the b2c market will blur and become indistinguishable – not least because the end-user is beginning to dictate purchase decisions higher up the chain.



No ordinary electronic chip: end users now insist on their computer having 'Intel inside'

THREE

Open a disloyalty card account today

But hold on. Are we really saying that consumer companies' segmentation techniques are inadequate? Surely the evidence of their success is all around us – loyalty cards to catch data, schemes that divide our consumer data into millions of different combinations. Campaigns that encourage us to make repeat purchases, or buy things that other people have bought.

In fact, having loyalty cards and data mining programmes does not automatically mean that you have good segmentation. Consumer companies have a surfeit of data, but they don't always know what to do with it. As a consequence, some companies are reaching a state of data paralysis. They know what people buy. The problem is that they don't know why people buy – so are still not ahead of the game.

This internally focused data can only lead to inadequate, inward-looking segmentation techniques that fail to bring new customers to products or fail to develop new products for existing (bored) customers. They operate by saying things like 'other people like you bought this, so you'll like it too.'

Trying to predict customer behaviour like this is a fools' errand. None of us behaves 'like other consumers' in the way that companies want. Loyalty cards seem to increase purchases in the short term, certainly. They lead to people spending more money when they think they're making savings. But that's not the same as segmenting the market and discovering innovative ways of increasing customer satisfaction by helping them to buy more and buy frequently.

FOUR

The hard end of marketing

Demographics have their place, but having a good data-mining system does not mean your segmentation is as competitive as it could be. Data can give you clues about how people might behave, but it doesn't give you anything like the whole picture.

For the most ambitious companies, let's do away with idea of trying to calculate 'what the customer wants' altogether. Instead, let's consider the situation, or 'context', that customers might find themselves in. We know that it's the situation that drives the purchase rather than the individual. So better segmentation should help the company to market to the context, rather than the individual.

'Context marketing' is not a new idea – but apart from a few trials, it has not been picked up in the way it could be. 'Context marketing' shifts the focus from the customer and onto the market. It dismisses the idea of a mass market and brings difficult questions into play, as explored by Dr J Marti in QRM:

- How do we develop strategies to market mass-produced goods and services to a market which is rapidly fragmenting?
- How do we segment our markets and target economically viable groups of consumers who are apparently behaving unpredictably?
- Even if we can understand the market behaviour of these consumers, how do we locate them?

[Source: Marti, J. (1987) *Context marketing: the 'honey-pot' approach to segmentation strategy*. QRM, Autumn, pp.7-12.]

‘Context marketing’ doesn’t try to predict what individual people might do. Instead, it analyses what people are actually doing. For example, the same person will respond differently to a marketing offer depending on which ‘role’ in life they are playing – professional worker, parent, friend, host, manager, spouse etc. By concentrating on these areas or contexts, a segment can be identified and targeted. It doesn’t deny the value of demographics and other descriptors, but sees them as useful components, not the whole.

If it’s not a new idea, why is ‘context marketing’ not used more broadly, by both b2b and consumer companies? Because it’s very difficult to do well. This is where it becomes the hard end of marketing. But it is perfectly possible to research, as Paul Fifield can testify. ‘Identifying the contexts is quite straightforward. The big challenge is in helping the organisation to market to a context rather than a defined person – it doesn’t matter which people you contact when you ‘hit’ the context because they will all be in the segment so will behave appropriately’. [Source: Correspondence with Insights, February 2005.]

Done well, it can lead to a subtle but effective change of offering. British Airways knew that its business passengers sometimes used its service when on holiday. These customers wanted a different type of service on these occasions but BA didn’t know how to deliver it. easyJet stepped in and considered the context of passenger flights to understand what some people didn’t value about BA. easyJet was not, contrary to appearances, competing with BA on price. If it had done so, it would have gone under immediately. Run a budget airline against BA? Impossible! Do these people not remember Freddie Laker?

easyJet focused on the context. They found a segment of customers who were not catered to – people who wanted to travel internationally, quickly and simply, and were not interested in the extras that cost money. It then targeted those people. Airline travel was previously sold as a luxury because that’s what it was in the days when British Airways

(and the other national carriers) started flying – and nobody had succeeded in changing the pattern. By the time easyJet came along, the contexts and lifestyles had changed. And by segmenting from context, easyJet succeeded.

The right way for BA to have responded would have been to focus on their strength – good service at a higher price – and market effectively to the market segment that particularly valued that offer. Ignoring easyJet altogether would have been the sensible thing to do. But instead, they tried to compete with easyJet by setting up GO. After spending much time pouring more and more money into a loss-making venture, GO was eventually sold off – to easyJet. [Source: Boyfield, K. (2001) *Impact of no frills carriers on the European scheduled airline market: sources of competitiveness*. Cookham, The Chartered Institute of Marketing.]

Today, BA plays to its strengths – comfort, luxury and high brand values to an audience in a context that needs to be sure that it will fly to city centre airports on a recognised schedule – and is willing to pay for these benefits. The success of both companies is now driven by appropriate segmentation. Both offerings work, when the context is put first.

The lesson is – get the offering right, segment to your market, target your segments and the customer will select you. This works for b2b just as well as it does for consumer companies. Most of the examples of poor segmentation so far are from consumer companies; but this is only because these firms have been experimenting with segmentation for longer.

FIVE

The big box experience

On the other side of the fence, some companies suffer because instead of segmenting effectively, they adopt a one-size-fits-all approach. They look at the largest segment and try to please everyone. The result is undifferentiated, unremarkable offerings that don't offend but don't please anyone.

It's easy to see how this situation has come about and why it's hard to emerge from. Companies don't like the idea that if they target to specific segments, then sizeable swathes of the marketplace won't come to them. So they try to appeal to the majority of the available audience. Paradoxically this leaves you with fewer customers in the end – because your products aren't sufficiently distinguishable from anyone else's.

The same thing happens when trying to compete on price. If you're the cheapest, you will only attract the segment that wants the cheapest products. Segmentation is inevitable because customers segment themselves, and trying to avoid it only compounds the problem. There's room for consumer companies to do better here as well. There is a huge latent market that has not been effectively segmented, and this latent area is 'catered for' by companies that compete on price.

Paul Fifield offers an example. In any developed market, only about 10% cares so little about the category that they will buy on price. The other 90% would prefer to pay some sort of premium for the right added value. Say you're not a wine drinker and don't care about wine, but you're having a dinner party. When you go to the off-licence, the chances are you will either buy the cheapest – because you're not fussed about wine yourself – or you'll buy an expensive wine, blind, because you're trying to impress your guests.

But what if you see a wine that is marketed as 'good with cheese' or 'perfect with chicken'? Instantly, the offer has been differentiated and your dinner party host will choose your product, rather than a competitor's. The price is much, much less important than companies think. [Source: Correspondence with Insights, February 2005].

This theoretical example illustrates the point. Very few companies operate with this kind of mind-set. Instead, they relentlessly pursue ever-increasing amounts of data about customers' buying habits, which merely cloud the issue. Torn between data paralysis on the one hand and trying to please everyone on the other, the result is woefully inadequate marketing – 'classification' masquerading as customer driven segmentation.

Again – the answer is simple – get the offering right by differentiating the product to appeal to a specific segment. Then, customers will segment themselves and buy from you.

SIX

Stages of discovery

The Royal Shakespeare Company readily acknowledges it has suffered from weak segmentation in the past. As a subsidised company, it has little in the way of resources to invest in technology. 'The biggest marketing issue for the RSC is its lack of understanding of its audiences,' says Kate Horton, the RSC's Commercial Director. 'All we had was a ticketing database that could tell us virtually nothing. It was a big, black hole.' [Source: Cane, Alan (2005) *To know your audience is key*. Financial Times, 8 March, p14.]

But then Accenture became the theatre company's corporate business partner. Accenture provided the RSC with sophisticated customer analysis software. The RSC fed four years' worth of ticketing data into this software – 2 million records of names, addresses, shows attended and price paid, from 210,000 separate bookings. This enabled the identification of eight groups of customers that the RSC previously couldn't identify. Amongst these were 'Swans', people who only seemed to go to plays at the RSC's smaller, more intimate theatre; Internet bookers; families tempted by special shows; and regulars – those who attend at least four times a year, generating some 56 per cent of box office takings.

This information enabled the RSC to pursue a string of marketing strategies which included successfully persuading families who regularly attended non-Shakespearian productions to try Shakespeare.

Why did the new approach the RSC devised with Accenture work so well? Because it was context based. It didn't just generate masses of data to 'target' people. It didn't say, 'you'll like this because other people of your age/sex/geographical location like it too.' It examined the data strategically, identified specific markets and targeted those markets carefully and sympathetically. The offering was right and the customers self-selected accordingly.

SEVEN

The way forward

Will b2b companies make the same mistakes as FMCG companies, competing on price or branching out into new growth areas as their markets mature? Or will they learn from Intel, BA and the RSC?

Most customers really don't want the cheapest product. They want what they perceive as value – a subtle but enormously important difference – and they will pay for it. The art lies in finding out how much of a premium they will pay.

It's time to turn the tide against price-oriented competition and data-obsessed marketing techniques. Squeezed on one side by price and on the other by maturing markets, market segmentation is the way forward.

Six steps to segmentation success

- Identify your strengths, from talking to your customers. Focus on these strengths – instead of diversifying into new markets when the existing one matures.
- Identify what your customers' different needs, wants and motivations are and how the market segments itself.
- Don't try to please everyone – decide which segments to make your own (and which to ignore), then differentiate to target that market.
- Don't over-value data. Descriptive data is useful to target needs-based segments, but it does not equal good segmentation on its own.
- Try to identify needs and wants your customers may not know they have. This will help you innovate in the future.
- Customers want value not cheapness. 'Latent need' often masquerades as demand for the cheapest price. Resist this. If the price is all that differentiates, the company will fail.