



Segmentation Strategies

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Every industry is striated with different types of customers.

Many companies only start the segmentation process by determining the types of customers that are currently being served.

By taking the next step to classify your customer base, the process actually begins to produce tangible, usable information that can help direct a variety of internal and external areas that are important.

These areas include company core competencies, skill sets, product development, competitive advantages, and market selection to name just a few.

When speaking of a segmentation strategy for your business, this strategy crosses over traditional boundaries set within the company. It takes into account other important issues such as market demographics, sales channels, operational implementation, and adaptable approaches to niche markets currently being served or targeted.

Many companies are not aware of their own segmentation strategy that they have implemented. It has developed over a period

of time as the business has grown. It has happened without forethought or a conscious effort to develop a strategy. By planning a segmentation strategy, business owners and managers can see greater opportunities develop from non-traditional core markets. The focus is actually widened to accommodate growth within current core markets as well as develop traditional and non-traditional niche markets.

Considerations for Determination

Many companies choose to segment their business according to market, some according to pricing structures and discounts, still others by customer class or product lines. These are easy to recognize and are generally the segmentation strategy that occurs by business inertia. The focus on traditional core markets tends to drive most strategic planning sessions because the comfort level is acceptable. By dealing with “the devil you know instead of the devil you don’t,” managers allow the core market sales channels to dictate future thinking and company direction.

Adapting to market niches present other opportunities. Today's product may fit the current customer base, but this will only be true until a better mousetrap presents itself. When managerial scope is limited solely to the core market, core customer base and current sales channels, the willingness to explore smaller niche markets also becomes limited. As a corporate culture, this can frustrate owners and top-level managers for years at a time.

Core competencies should be considered when a segmentation strategy is being developed. Corporate skill sets may include a tremendous ability to acquire other companies but have little knowledge of product development needs within markets being currently serviced. It could be argued that mid-level management should handle this area, but conversely they still have to be managed to have forward progress no matter what level they function within.

Managerial skill sets vary with the individual. When objectives are focused and consider both corporate and individual core competencies, the company can make forward progress. It allows the individual to explore and develop products, customers, and markets beyond current core opportunities. It creates an atmosphere where non-traditional thinking provides new avenues to growth.

These so-called “green-light sessions” initiate break through thinking and new plans to define what work is to be done to produce favorable results. By exploiting current company strengths, the new market development becomes a mindset and not a mindblower

Demographic Considerations

Demographics are a wonderful tool. It provides you with a variety of information to make informed decisions. Criteria selection should be targeted to products in consideration for the specified market. Considerations such as age group, income level, and dollars spent within a category are important. Based on the product selection and the applicable market, criteria will vary. The same criteria should not be used for every market segment.

Category stagnation should also be a consideration. If the category is not growing, is it wise to implement a new segmentation strategy? My guess is no. Choosing the right demographic

categories provides current market conditions within a buying group geographically. Historical data can also provide a very good barometer to potential success within certain market segments. Though the prediction is only a forecast, it is important to know the variables involved within the market segment prior to launching new company initiatives.

No matter which categories you choose to use, the critical factor is using the demographics to predict or forecast success. The payoff is being right when the segmentation strategy is developed.

Competitive Advantages / Disadvantages

A basic SWOT analysis is always a good place to start. By knowing your company strengths, weaknesses, opportunities, and threats you are able to outline your competitive advantages and disadvantages. The same tact can be taken for your current client base and the markets in which company products are being sold. This will provide you with two-thirds of the information on which to base your decision.

The other one-third of the information will come from your competition. Your competition is not an enemy. The competition can be one of your biggest assets in analyzing your opportunities and developing segmentation strategies. Competitive research has to be part of any company philosophy if it wants to expand markets and grow current market categories. It is crucial to understand how the learned information is disseminated within your company and who will be interpreting the data. It is usually best when the person doing the research is going to be the one making the critical decision involving the research. It provides first-hand information that has not been diluted or re-interpreted.

A sound segmentation strategy can be formulated when based on reliable, competitive information. The approach your competition has used or is currently using provides you with their 20/20 hindsight. It is a powerful tool when developing new approaches to current and potential market categories.

Adaptable Approaches

Various approaches can be considered when developing your segmentation strategy. The variables that you choose will dictate the type of markets you should pursue, niche or otherwise.

- Assemble your product universe of goods and services available to all segments. Understanding what products can be cross-sold makes the process of segmentation much easier. It provides the company an opportunity to provide product and service bundling using same or similar collateral materials to maximize sales efforts in multiple markets.
- Define and target your largest market segment by customer classification such as consumer or OEM manufacturers. By targeting a single market segment, products and services can be tailored to fit the approach.
- Define your niche products to various market segments. Specialty products can be very important when making company growth assumptions. Without these types of products, the company growth is relegated to core products only and tend to force the

company into a defensive position with competition: focusing strictly on selling what is available.

- Choose a single demographic, industry, or geographic area in which to focus. Simplicity can sometimes be the best and easiest approach. This singular focus creates intensity and excitement for the product(s) being sold, the customer base, and the company.
- Cascade products and services throughout the entire customer base. Small deviations in packaging or selected services, such as delivery, can provide market segments the opportunity to bundle products with the company. The same product can be sold to multiple markets.
- Multiple products to multiple markets. This strategy provides the luxury of selling some products and services to more than one market. There are a few issues that arise from this approach. Pitfalls include lack of sales focus, inflated inventory costs, and internal administrative issues that arise when dealing with multiple market segments.

- Growth through new market development previously untapped. Pioneering is a difficult process today. Most companies acquire companies to provide a segmentation strategy for niche market product needs, particularly where the same or similar services are being provided by the company being acquired.
- Differentiate through pricing, quality, service or attitude. Being different does not necessarily mean being less, but providing value at a reasonable price. Quality is associated with the pricing differential. Service and attitude should remain constant, no matter the market segment target.

Summary

Companies may choose a single or multiple approaches to define a market segmentation strategy. Company size is not an issue. Every company has core products and services for specified industries and customer groups. Developing a specific strategy will

determine a plan for sustained and future growth prospects in the industry in which you are working.

Sales and marketing departments should be constantly looking at the possible market segments that would best serve the company with the current set of products being sold. By developing niche markets with niche products, the opportunity for growth expands exponentially. Core products will always sustain current markets being serviced by the company. Core products are easiest to track when competition is being targeted and additional market share is up for grabs. Knowing both competitive advantages and disadvantages help secure core product strategy and offer critical insight when developing a segmentation strategy.

Examine the approaches available to you. Determine which approach best fits your current set of needs as well as the overall strategic plan your company has decided to implement.

Understanding the strategies available will make implementation a smoother process internally. Without looking to define which approach will be best for your situation, growth opportunities will be limited and sporadic.

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