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20/20 Vision for Marketing Breakthroughs

The Art of Segmentation Revealed by the Five Keys to Behavioral Segmentation

By Karl M. Beide

Segment analysis plays a central role in a successful marketing strategy. All your marketing resources, from research & development to advertising & sales, are aligned to support the segments you target.

You have a segmentation strategy even if you don't think you have one. Your business grew & transformed itself to meet your customers' needs. This is the segment or segments you serve. Conversely, you probably don't meet the needs of the customers who choose not to buy from you. Segmentation analysis is an exercise that helps you understand the needs of the market segments you don't serve as well as the ones you serve.

This paper introduces five dimensions of behavioral segmentation to get closer to your customers - & the customers to whom you don't sell - to identify where you have opportunities & the necessary changes in product development, channel organization & communications to convert these segments to customers.

What Is Segmentation?

Segmentation is the means of categorizing potential customers into like groups based on common characteristics. Segmentation enables marketers to design a targeted sales & marketing strategy that best fits the segments' requirements. The key to segmentation is to let the marketplace segment itself. Too often companies try to force-fit their customers into segments that don't really exist. It's important to remember that:

- ◇ These segments have needs & behaviors which exist despite any company's products or services.
- ◇ These segments will not change their behavior to accommodate you or your products unless you offer extraordinary value.

In This Article:

Karl Beide discusses segmenting your customers based on demographics, behavior & attitude.

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- ◇ The buying patterns, usage patterns & attitudes causing segmentation are rational & provide insight into increasing market share within a segment.
- ◇ The attitudes that segment customers into groups of loyal buyers, price shoppers & customers who are loyal to competitors are logical & based on the knowledge & experience base of the customer.

Common Segmentation Practices

There are many ways in which marketers segment their industry & customers. The best marketers refer to segmentation as an art because defining segments is like creating a mosaic - many different pieces are combined to create a logical, compelling market segment.

While we do have to become artists to be great segmenters, both the artist & the amateur need the right set of tiles. This set of tiles offers the marketer three classes of variables to use in describing customers:

- ◇ **Demographics** - Identifies the buyer, organizational size, SIC, age, location, income / assets, etc.
- ◇ **Behavior** - The customer's actions that require your product's use or service, sourcing patterns / direct or third party - original equipment purchase versus maintenance or operating supply, decision makers & product users, etc.
- ◇ **Attitudes** - The buyer's disposition toward various companies & their products which impacts behavior.

Any segmentation scheme you create is legitimate as long as it satisfies the following criteria:

- ◇ It is identifiable to marketing & recognizable to the sales force.
- ◇ It has a consistent buying pattern so the segment can be "reached" through a structured marketing program.
- ◇ It is measurable & of significant size to justify a targeting effort.

Demographic Segmentation

Of the three basic segmentation practices, demographic criteria are the most commonly used variables. Age, income & education in consumer marketing & SIC, size & growth in industrial markets are common segmentation variables. However, these only tell part of the story. Behavioral & attitudinal segmentation are needed to paint a full picture of customer groups.

Behavioral Segmentation

Behavioral segmentation encourages the marketer to truly understand the customers he attempts to categorize & eventually target. When one begins to deal with behavioral segmentation, measuring often becomes more of an art than a science.

Behavioral Segmentation Knowledge Base:

1. Product Application
2. Buying Process
3. Decision Makers
4. Decision Criteria
5. Decision Maker Attitudes

1. Product Application

In analyzing the application, the marketer tries to understand the customer's need. Often marketers fall into the trap of trying to sell their products to customers who use competitors' products. They assume that their product is a direct replacement for the competitive product. This may be true, but often you have to be better than the competition to replace them. Thus, understanding the customer's need is the key to successful application segmentation.

A client we worked for that developed computer-controlled programmable logic controllers (PLCs) spent a lot of time & money on sales activities with few results. The client visited a lot of people who thought the application was "neat" & asked for all

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types of modifications, but they failed to buy the product. In our process to separate the buyers from the shoppers, we discovered there were two characteristics belonging to buyers:

- ◇ They already configured a makeshift computer control system to their PLCs.
- ◇ The Information Technology Department controlled the PLC's rather than the facilities engineering department.

Once we knew the correct application, buying behavior & people to target, we designed our marketing strategy & offering around this segment.

2. Buying Process

In analyzing the buying process, there are a number of elements that should be investigated. These include:

- ◇ The frequency of purchase
- ◇ The customer's sourcing pattern
- ◇ The use of integrated supply contracts
- ◇ The use of bids
- ◇ The steps to qualify new vendors or products

The buying process itself can be broken into four stages. The first stage, **Awareness**, identifies a need for your product. This includes industry shows, visiting other companies' facilities, direct mail or other forms of advertising.

Presale is the second stage. This is the process customers use to narrow a product need down to a selection of potential vendors. Demonstrations, references from similar applications & economic cost / benefit analysis are ways customers select potential vendors.

The following example of presale segmentation was completed for a client who manufactured carpeting. They had a segment of buyers we labeled "educated shoppers." These customers go to all efforts to make a smart buy. This is important because the client manufactured a better product, however, its benefits were invisible to the eye & its sales channels did not

push the product's superior quality. We discovered that 8% to 15% of carpet buyers were "educated shoppers" & cared about superior quality. Once we identified this segment, we flooded them with information.

The third stage is **Transaction**. This is activity that occurs from the time of order to actual product delivery (i.e., financing or special terms, product availability, vendor resource commitment). We segmented for a client who manufactures roofing shingles based on the transaction phase. We identified two contractor markets for this product:

- ◇ Morning job site delivery
- ◇ Afternoon warehouse delivery

Each segment is a different sell with different pricing. Additionally, the client saved money because it used the same truck for both deliveries.

The last stage is **Post Sale**. This stage consists of all the support activities (such as technical assistance or training) that occur after product delivery. Ideally, this leads to subsequent business. An example of this is the different levels of technical support offered in the PC industry based on user sophistication & need.

3. Decision Makers

Decision makers & influencers refer to all the individuals responsible for providing feedback on brand decisions. These people can be found inside the company, such as purchasing, engineering, plant or operations as well as parties external to the company (i.e., consulting engineers). Understanding who is involved in the decision process provides the vendor with a road map as to who to include in the selling process "loop." These individuals will likely have different interests or requirements during each buying process stage.

4. Decision Criteria

Decision criteria for vendor selection may vary by decision maker & influencer. Purchasing will probably be interested in the total procurement cost & de-

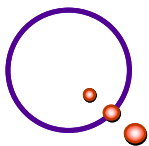
livery schedules. Engineering might be influenced by construction or material used in the product. Operations might be interested in product drawings or the amount of vendor technical assistance. It is, therefore, important to understand the key contacts & what is important to them when they evaluate vendors. It is also critical to understand each one's risk tolerance. What elements are viewed as risk & what levels of risk does each consider acceptable? Decision criteria & risk are often a function of the product's importance to the customer's business, ease of substitution & commitment size or purchase volume.

5. Decision Maker Attitudes

Customer attitudes toward your company, your brands & your products along with attitudes toward risk & investment are the key drivers for segmentation.

- ◇ How does the customer perceive your company, your products, your brand?
- ◇ How does the customer perceive risk - is he an innovator, early adopter, early majority or late majority?
- ◇ How important is your product or service to the customer's business?

We recently studied the market for electric service offerings for a large electric utility. There was a tremendous difference in attitude by the industrial segment versus the commercial segment toward the utility. The industrial clients, due to their heavy electrical load, viewed the utility as a partner. The commercial segment, however, felt the utility only now began to pay attention to them because deregulation lurked around the corner & the market would soon be open



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to competition. Through our research, we discovered the only way to woo the commercial group was through the property management segment. This segment expressed interest in a particular energy service offering that, in the long run, would save them money.

Understand Your Customers

To truly develop useful customer segments, it becomes critical to develop a thorough understanding of your customers & non-customers. Because of the magnitude of this effort, it usually occurs over time. It entails spending a significant amount of time visiting customers & discussing all the issues previously mentioned. It also means having key customers visit your plant facilities & interact with various functional areas within your company. Finally, it consists of training your sales force to structure their analysis of customers based on the three variables discussed earlier & effectively communicating this analysis back to management.

Once segments are established based on this analysis, product, sales & marketing strategies can be targeted to each group of customers. Strategies that are closely aligned to your customers' needs, buying behaviors & attitudes can only enhance your effectiveness.

About QDI Strategies, Inc.

QDI Strategies, Inc. is a marketing consulting firm that specializes in helping companies make breakthroughs in product, brand & channel strategies. Our consultants help clients to develop & implement breakthrough decisions across numerous industries over the last twenty years. This experience provides you with the expertise to develop market-driven answers to your business issues.

For More Information

If you would like to receive additional information on segmentation or would like to arrange an informative presentation to your management team, contact Karl Beide at 847-566-2020.

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