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Intuition Can Help in Segmenting Industrial Markets

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After pointing out some differences between theory and practice in segmenting industrial market, this article reviews the literature on the subject. The latter reveals that too mechanistic or too quantitative segmentation methods are quite inappropriate for the industrial environment where the markets are concentrated and the data sometimes rare. Based on this observation, the article, finally, looks at the problem from another angle by mixing formally a little intuition with the analysis. The end of the article is illustrated by an application of the method. © *2000 Elsevier Science Inc. All rights reserved.*

A GAP BETWEEN THEORY AND PRACTISE

Among all the management tools, the segmentation of industrial markets presents a specificity; there is a strong gap between theory and practice. We find on the one hand literature that presents nice theories. On the other hand, we find industrial companies who are miles away from putting in practice these linear and well run-in methods. It is, indeed, very common to see approximate segmentation based on the structure of the actual sales department or on the structure of an existing database. In other words, people make it as easy as possible even if they spoil the job. Yet, R. Corey [1] pretends that only good segmentation leads to good strategy. Shapiro and Bonoma [2] observed that the segmentation—when it is done—does not play the important role that it should. They claim that most of the time, marketing managers use segmentation as a means to explain the results more than as a way to elaborate planning.

In fact, we feel that the subject is neither correctly treated by literature nor correctly mastered by industrial managers. As Saporta [3] said, "When you look at the methods used by industrial companies to segment their market, you feel there is a paradox. On the one hand, the more we study the conditions of work in the companies, the more we are convinced that segmentation should be the starting point of the marketing strategy. At the same time we must admit that segmentation is rarely used, and

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sometimes badly understood by most companies. It is clear that many improvements can be made in this field, that could undoubtedly help companies improve their performance."

Saporta said so for commercialized products. But the observation of more than a hundred radical innovations reinforces Saporta's analysis. The firms do not know how to deal with segmentation when the market does not yet exist. The universe does not exist, and the possible criteria are so many that combining them leads to many more segments than a man can manage. In these conditions, systematic and rigorous methods seem to be a little apart from the industrial reality. We are bound to take into account more empirical data, more experience and even a little intuition to deal with the segmentation of industrial markets.

To mix these so different points of view, this article proposes first to examine the segmentation literature to show its limits. We shall then present an alternative method starting from the actual industrial practices to avoid the risk of rejection. The aim of this method is not too ambitious. We do not want industrial managers to become "premium segmenters". We just want to help them improve their empirical practices.

SHORT REVIEW OF THE LITERATURE ABOUT INDUSTRIAL MARKET SEGMENTATION

When we look at papers about segmentation, we find some common characteristics. The authors start by giving a list of criteria that can possibly explain market segmentation. Then, they give an order to use these criteria. For example, Shapiro and Bonoma [4] with their famous "nested approach" suggested starting with easier criteria and finishing with the most difficult to get. They classify by level of difficulty the criteria to use successively.

- Environment criteria (activity, size, geographical location).
- Exploitation criteria (client technology, type of products bought, experience).
- Purchasing criteria (purchasing organization, purchasing strategy).
- Circumstance criteria (order urgency, quantity).
- Personal features of the decision maker.

Nevertheless, Saporta said again that this approach is limited as underlined by Webster [5]: "The authors propose no precise rule to decide when we must stop looking for relevant variables. Some criteria (circumstance) are sometimes linked to some others (environment). And moreover, a major problem lies behind the choice of circumstance variables; can we consider for example that some specific circumstances (order urgency, for example) are relevant segmentation criteria?"

Beyond the very frequent "nested approach" of Shapiro and Bonoma, I shall also mention another dominant model in industrial marketing, which mixes macro-segmentation and micro-segmentation. Introduced by Frank, Massy, and Wind [6], it was frequently used in literature such as by Wind and Cardozo [7] and by Dorey and Valla [8, 9]. This two level method consists in shaping first macro-segments on the basis of descriptive criteria (size, activity, geographical location, etc.). Then, we select one or several macro-segments according to their advantages. Last, we identify micro-segments inside these macro-segments by using the features of the buying centre.

Furthermore, beside this well-known literature there is a great number of models using one or several of the following basis of segmentation:

- Geographical segmentation
- Demographical segmentation
- Psychographic segmentation
- Behavioral segmentation
- Segmentation by opportunity of purchase
- Segmentation by circumstance of use
- Segmentation by rate of use
- Segmentation by rate of fidelity

As we can see, the list is long and one point can generally be criticized. This point is that the authors never give

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