



Segmenting a market in the making: Industrial market segmentation as construction

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ABSTRACT

This paper takes an empirical starting point in a claim that Biacore, a pioneering Swedish producer of affinity biosensors, was “in the enviable position of creating its own market” (Abelin, 1997). An in-depth case study traces how Biacore undertook segmentation activities while shaping the market for its new product technology, affinity biosensors. This involved stabilising the modes of exchange with customers, the product and the identity of the company. The efforts of Biacore highlight a constructive dimension of market segmentation that hitherto has received little attention. Rather than a process of describing, deciding and taking action, Biacore engaged in the gradual construction of market segments through an interactive and iterative process involving close collaboration with early users. Simultaneously, the market for the new technology gained shaped. Thus, the paper reports a ‘markets from networks’ story illustrating how the practice of segmenting a market may have consequences for that market.

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1. Introduction

In connection to the initial stock market listing of Biacore, a pioneering Swedish producer of affinity biosensors, stock market analysts Enskilda Securities observed that Biacore was “in the enviable position of creating its own market” (Abelin, 1997:3). For Biacore, the work of creating this market had started more than a decade earlier as part of the development project that led to the launch of the first biosensor in late 1990. During product development, the company had been forced to abandon their envisioned major market segment, medical clinics, and instead focus on research labs, a much smaller potential segment. Following the launch, Biacore worked closely with a gradually growing number of such customers to develop applications for the product. Later, the firm made use of these experiences when devising more standardised marketing programs for different customer groups. This work could broadly be characterised as a process of industrial market segmentation.

As part of marketing theory, the principal view of what market segmentation is has remained fairly stable. The basic assumption is that there are groups of customers ‘out there’ in an existing market, with specific characteristics and responses to a marketing mix. As a result, considerable research efforts have been put into refining the segmentation process and the diagnostic techniques both for consumer and industrial markets in order to obtain the best possible ‘market map’ or description. As such, market segmentation is considered as the process of identifying relatively homogeneous customer

groups within a defined market (Smith, 1956; Wind & Cardozo, 1974). More recent work argues that the homogeneity of customer groupings is a managerial assessment, rather than a naturally occurring market phenomenon (Quinn, Hines & Bennison, 2007).

In the case discussed in this paper, there was no market for affinity biosensors at the outset. Indeed, there were no biosensors. Under these circumstances, we argue that the production of an actionable map of the market – segmentation – requires more than the employment of descriptive techniques. Market segmentation becomes an emergent and interactive process of shaping that which is to be described. Thus, Biacore undertook segmentation activities alongside efforts to stabilise the modes of exchange with customers, the product and their own identity as a firm.

The overall purpose of the paper is to increase our understanding of industrial segmentation processes. Two specific research questions are addressed. First, *what is the character of the market segmentation process when performed on a market for a new technology that is ‘in the making’?* Furthermore, recent literature in industrial market segmentation suggests that the practice of segmenting a market potentially has consequences for that market. However, there is a paucity of empirical research on how ex ante efforts to segment markets contribute to shape those markets. Thus, we also address a second research question: *how do a firm’s segmentation activities contribute to (re)shape the market being segmented?*

Four sections follow this Introduction. In the Section 2, we review relevant segmentation literature. In Section 3, we present the case study. In Section 4, we analyse the case in order to make comparisons with the literature. Lastly, in Section 5 we conclude by discussing our findings and their implications. The case shows how Biacore engaged in an interactive process of segment construction when their initial

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attempt to address an envisioned target market segment failed. The co-development of use applications with users/customers generated seeds for future market segments iteratively over time. Based on these observations, we argue that different market segmentation activities may be called for when segmenting markets in the making as compared to segmenting ready-made markets. Our major conclusion is that current conceptualizations of industrial market segmentation fail to acknowledge this by exclusively focusing on segmentation as a descriptive practice.

2. Industrial market segmentation: identification, diagnosis and shaping

Research on industrial market segmentation conducted in the 1970s and 1980s regarded segmentation as a means for making informed choices concerning which customers the company should serve. Efforts were consequently focused on refining the bases and techniques for identifying segments (e.g. see *Wind & Cardozo, 1974; Bonoma & Shapiro, 1983; Webster, 1984*). Broadly, existing research defines a market segment as “a group of present or potential customers with some common characteristic which is relevant in explaining (and predicting) their response to a supplier's marketing strategy” (*Wind & Cardozo, 1974:155*). The managerial objective is one of segment identification or “identifying relatively homogenous customer groups within a defined market” (*Ibid.*). It is vital that groupings of customers have homogeneous needs and respond to marketing programs, such as personal selling and advertising, in similar ways (*Choffray & Lilien, 1980; Dibb, 1998*) and that segments are of sufficient size and are accessible (*Wind & Cardozo, 1974; Choffray & Lilien, 1980; Quinn et al., 2007*).

Wind and Cardozo (1974: 155) express the tension between heterogeneity of customer needs and economic necessity thus: “sometimes identification may be very difficult or economically unfeasible, in which case the industrial marketer faces essentially one undifferentiated set of buyers. At the other extreme, each individual customer might conceivably constitute a segment. Unless the customers were few in number and each economically significant, the marketer would face an array of virtually unmanageable variety”. *Section 2.1* below outlines the general processes for identifying segments within a market.

2.1. Processes for identifying and diagnosing industrial markets

There are two classic approaches to market segmentation (*Shapiro & Bonoma, 1984*). Both are primarily concerned with identifying homogenous groups of customers in terms of descriptive characteristics rather than response patterns (*Wilson, 1986*). The ‘customer needs’ approach groups customers with shared needs into segments on the assumption that needs are both known and relatively stable. However, ‘benefits sought’ is not a category often used in industrial marketing (e.g. *Moriarty & Reibstein, 1986*), perhaps because it is difficult to obtain information about micro-level variables (*Wilson, 1986*).

The second approach is to start with the firms in the market, and work through a disaggregation process to locate the most appropriate segmentation bases (e.g. *Wind & Cardozo, 1974*). This reflects a view of segmentation as a technique for diagnosing markets (cf. *Plank, 1985*). The basis of segmentation can be: industry, organisational, DMU/buyer and product characteristics, e.g. application, organisational structure, new versus repeat purchase (*Wind & Cardozo, 1974*), structure of the purchasing decision process (*Choffray & Lilien, 1980*) and organisational strategy (*Verhallen, Frambach, & Prabhu, 1998*).

The macro-micro conceptual model of *Wind and Cardozo (1974)* is the classic diagnostic segmentation process. The first stage is to identify macro segments based on organisational characteristics. This is followed by the selection of acceptable segments, and an assessment of whether these segments will respond to a marketing mix. If this is the case, the segmentation process can be halted. If not,

the second stage is to identify micro segments within the “acceptable” macro segments, based on DMU characteristics. Afterwards, micro segments are selected based on some assessment of costs and benefits.

Shapiro and Bonoma's (1984) multi-level segmentation process model of ‘nests’ is also well known. The authors argue the disaggregation approach is cheaper and easier for the firm to attempt, but that there can be problems in implementing such approaches. These are related to the complexity of segmentation techniques, barriers blocking the process and the ‘academic-practitioner gulf’ (*Plank, 1985; Dibb, Stern, & Wensley, 2002; Palmer & Millier, 2004*). As *Dibb and Simkin (1994: 57)* suggest; “although academics stress the need to identify the most suitable and statistically valid segmentation schemes, the priority of the practitioner is to identify segments for which an effective marketing program can be developed”.

One explanation for problems in implementing market segmentation is that “segmentation appears to be largely an after-the-fact explanation of why a marketing program did or did not work” (*Wind & Cardozo, 1974:155*). Recent literature has suggested directly working with practitioners in order to improve the accuracy of segmentation processes, such as through the use of workshops. For example, *Palmer and Millier's (2004)* three-part process is that of; ‘define criteria’, ‘develop scales’, ‘test and iterate’ against the existing customer base. As the authors state, “by working within an organisation, generic issues of segmentation are made much more specific when set within context” (p. 783).

2.2. Segmenting industrial markets in the making

The complexity of diagnostic segmentation techniques, barriers blocking the process and the ‘academic-practitioner’ gulf are well-recognised concerns in industrial market segmentation. For markets ‘in the making’, i.e. markets whose characteristics are still in important ways undetermined, additional concerns can be raised. In particular, the idea of a clear separation between thinking and action becomes problematic, as do certain basic assumptions about the markets being segmented.

Both the main approaches for segmenting industrial markets proceed by way of identifying segments on existing markets using various descriptive techniques (*Plank, 1985*). The managerial objective is one of identifying segments using the best possible descriptive technique. In other words, while the specific approaches differ, the basic rationale is the same – that of obtaining the best possible map of the market terms of segments. In turn, this should allow the firm to devise the most appropriate marketing program based on e.g. price, product, place, and promotion modules. Thus, there is an assumed one-way causal relationship between the description of the market and the marketing program.

The availability of information for such an undertaking has long been questioned (e.g. *Balakrishna, 1978*), along with the lack of explanation of buyer preferences for particular suppliers (e.g. *Wind & Cardozo, 1974; Cunningham & White, 1973; Webster & Wind, 1972*). In particular, segmentation practice needs to be re-assessed if customers are active and there is interaction between multiple customers and the supplier (*Freytag & Clarke, 2001*), rather than a firm-centred process. Rather than a process clearly separating thinking from action, interactive market segmentation would involve incremental sequences of actions and decisions forming a pattern retrospectively based on active networking (cf. *Mintzberg & Waters, 1985; Håkansson & Ford, 2002*): the market map is shaped in a ‘live’ emergent process.

Moreover, arguing that the managerial objective is to obtain the best possible description of the market, suggests that this market exists and is known or knowable. That is, it is assumed that the market boundaries, suppliers, users, products and uses are recognised, well known and set. The market is already made up of potential and actual customers that have varying characteristics and behaviours. It is their specific characteristics that can be uncovered through segmenting “...

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