



Unfolding implementation in industrial market segmentation

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ABSTRACT

Market segmentation is an important method of strategic marketing and constitutes a cornerstone of the marketing literature. It has undergone extensive scientific inquiry during the past 50 years. Reporting on an extensive review of the market segmentation literature, the challenging task of implementing industrial market segmentation is discussed and unfolded in this article. Extant literature has identified segmentation implementation as a core challenge for marketers, but also one, which has received limited empirical attention. Future research opportunities are formulated in this article to pave the way towards closing this gap. The extent of implementation coverage is assessed and various notions of implementation are identified. Implementation as the task of converting segmentation plans into action (referred to as execution) is identified as a particularly beneficial focus area for marketing management. Three key elements and challenges connected to execution of market segmentation are identified – organization, motivation, and adaptation.

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1. Introduction

Market segmentation has attracted an immense interest in the marketing literature and is considered one of the most influential strategic marketing devices (Plank, 1985; Wind, 1978). Market segmentation has been defined as “...an ongoing and iterative process of examining and grouping potential and actual buyers with similar product needs into subgroups that can then be targeted with an appropriate marketing mix in such a way as to facilitate the objectives of both parties” (Mitchell & Wilson, 1998, p. 431). Market segmentation is frequently appraised as an effective strategic marketing tool (Weinstein, 2006; Wind, 1978) and reflected in the well-known S–T–P conceptualization of the market segmentation process (Kotler, 1984). The concept is valuable because of its ability to assist in the understanding of markets (Weinstein, 2006) and selection of target markets (Sarabia, 1996). Having a clear segmentation plan can reportedly help managers devise marketing programs to meet the specific needs of different segment customers (Doyle & Saunders, 1985).

Successful implementation of market segmentation is reported problematic, despite being extensively researched and widely acknowledged as a powerful concept by practice (Abratt, 1993; Dibb

& Wensley, 2002; Hlavacek & Reddy, 1986; Palmer & Millier, 2004). The desired outcome, and the *raison d'être* of the implementation of market segmentation, is to reap the benefits of competitive advantage (Goller, Hogg, & Kalafatis, 2002), i.e. gain market share and/or sell more. But these benefits of market segmentation strategy cannot be reaped if the segmentation plan cannot be implemented. The implementation of plans and strategies is a recurring theme in the management literature (Govindarajan, 1988; March & Simon, 1958; Weick & Quinn, 1999). However, this study focuses on providing a review and synthesis of the industrial market segmentation literature.

Segmentation is particularly challenging in industrial markets (Bonoma & Shapiro, 1984; Chéron & Kleinschmidt, 1985; Freytag & Clarke, 2001; Mitchell & Wilson, 1998; Plank, 1985), because 1) heterogeneity among customers is more pronounced and visible due to frequent communication, 2) social interaction characterizes the exchange and complicates stimulus–response patterns, 3) customers stimulate back to a larger extent by communicating needs and wants directly, 4) relations are multiplex, generating multiple stimulus channels, 5) offerings are more complex and frequently developed in interaction, and 6) segments are more unstable. Hence, companies operating on industrial markets face significant implementation complexities compared to those operating in consumer markets.

The value of market segmentation is tightly linked to the question: what happens when the company brings the segmentation plan to the market? Knowledge is needed about the action, reactions, and consequences resulting from bringing a seemingly clear segmentation plan, with its simplification and reduction of market realities, to work in an unclear and complex business environment, in order to advance the understanding of the market segmentation implementation problem. This article reports on an extensive literature review of

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implementation of market segmentation, and discusses and elaborates on the understanding of the implementation problem in industrial markets. Two research questions guide the study: 1) to what extent has extant research covered the issue of implementation of segmentation in industrial markets? 2) How has implementation been conceptualized in existing research on industrial market segmentation? The article contributes by:

- a) Providing an overview of the coverage of the implementation issue in the market segmentation literature.
- b) Providing an overview and discussion of various perspectives on implementation in the extant literature, hereby contributing to conceptual clarity.
- c) Pointing to the execution of segmentation plans as a highly relevant concern for marketers.
- d) Proposing future research avenues connected to industrial market segmentation implementation.

First, the process and results of an extensive review of the market segmentation literature are presented. Several reviews of market segmentation are reviewed in the second section. Third, identified implementation articles are examined in more detail, leading to the identification and discussion of three perspectives on segmentation implementation. One of these perspectives, execution, is described in the fourth part, while the fifth and final part discusses opportunities for future research.

2. The market segmentation literature review

Approximately 1600 papers about market segmentation were published in the period 1956–2000 (Wedel & Kamakura, 2000). The literature search conducted in connection to this study uncovered at least 150 additional articles published in scientific journals since 2000, raising the total number of articles to 1750+ by the end of 2008. This review dealt with a more manageable amount of articles. A sample of papers qualified by one of the words *segmentation*, *segmenting*, *segment*, or *segments* in the title was extracted from the 40 marketing journals most read and cited by the global community of marketing faculty, according to a study by Theoharakis and Hirst (2002). A title word was used as qualifier because the title of a research article normally reflects the core concern and the main contributions of that research. Only peer reviewed scientific journals were accessed, excluding books, management directed articles, conference proceedings, working papers etc. This criterion ensured that the published work had indeed been judged scientific. The literature search resulted in an extract of 610 articles from the scientific literature on market segmentation.

2.1. Industrial marketing articles

In order to sort out the papers concerned with industrial market segmentation, the core sample of 610 papers underwent four selection steps, producing a relevant sample for further analysis. Despite the focus on industrial markets, it was decided to keep the search process open (specifically steps 1 and 3) for key contributions from the consumer side, since knowledge from this part of the literature could inform the industrial market segmentation phenomenon.

Step 1: the recent contributions were published in the period 2000–2008 in one of the 10 journals having the highest number of publications on market segmentation in the past six decades. These journals are also on the top 40 list of Theoharakis and Hirst (2002). The abstracts of the 73 articles published in the period were examined to sort out the ones with an industrial market focus and those treating the implementation issue without specific reference to industrial markets. 23 papers resulted from step 1.

Step 2: the contributions from specialized industrial marketing journals consisted of all papers on market segmentation published in *Industrial Marketing Management* (38 papers), *Journal of Business and Industrial Marketing* (7 papers), and *Journal of Business-to-Business Marketing* (2 papers). Eight of the papers from IMM had already been qualified in step 1, bringing the net amount of papers from this step to 39.

Step 3: the quoted papers were found in the reference lists of the 62 papers sampled in steps 1 and 2. A total of 434 non-unique references to papers on market segmentation (in the title) published before 2000 were identified during the study of the reference lists of the 62 papers. The fact that a paper had been quoted more than once was taken as a further proof of its scientific value and therefore included in the sample. Step 3 added 70 papers to the sample. 48 of these were published in top 10 market segmentation journals.

Step 4: other contributions consisted of papers published in journals other than the top 10 market segmentation journals and not sampled in the previous steps. Following a browse, these papers were sampled based on a subjective evaluation of their relevance in relation to industrial market segmentation. Step 4 produced 38 papers to the sample.

The total amount of papers found in the selection process added up to 170 (see distribution in Table 1).

The 170 identified articles formed the foundation for the further analytical steps.

2.2. Review of market segmentation reviews

Reviews contribute through the recap and reshuffling of elements in the extant knowledge base in order to generate new insights, challenge current understanding, provide clarity in areas of confusion, and/or compile a research agenda (Hart, 1988). The marketing literature contains several reviews of market segmentation research, synthesizing different parts of the literature and giving evidence to the massive amount of scientific articles on market segmentation. 13 review articles were identified from the 170 papers in Table 1. These writings were labeled review articles because the terms “literature review” (or similar) were mentioned in the title, abstract or introduction, or because their structures revealed that the literature review was the dominant content (as opposed to an empirical study or a conceptual discussion). Table 2 provides an overview of the 13 key reviews sorted by year of publication, along with various details including industrial/consumer market focus, reviewed research, main topics under review (including implementation), and outcome.

Analysis and process issues such as segmentation bases, segment criteria, and analytical methodology formed part of all the reviews. The logic, models, analysis, and planning of segmentation were the dominant topics of interest. More than half of the review papers (8) discussed implementation. Four of these incorporated implementation as a major topic, while the remaining papers treated implementation as a secondary issue. Looking closer at the discussions and research agendas of these 8 review articles, which appeared in the literature over a period of nearly 30 years, provides some indication on the development in research efforts into segmentation implementation. Two main trends seem evident: 1) knowledge about segmentation implementation remains underdeveloped, and 2) emphasis seems to move from a focus on analysis-plan conversion to also including plan-action conversion.

2.2.1. Research on segmentation implementation remains underdeveloped

Wind's (1978) seminal review article provided a status report on the first 20 years of market segmentation research, dating back to Smith's (1956) broadly recognized pioneering article. Wind attested to a gap between “the academically oriented research on segmentation and the real-world application of segmentation research” (p.

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