NORTH-HOLLAND

Business to Business Market Segmentation

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This article discusses the characteristics of industrial markets in relation to some of the major industrial market segmentation models. To understand the different market situations, we describe a scale with simple market transactions at one end and complex relationship management at the other, suggesting that the segmentation approach must be different for each end of the spectrum. The article presents a general industrial segmentation model directed towards situations characterized by relationships and networks. The model stresses the importance of having a deep understanding of the customers' characteristics, needs, future directions, as well as identification of what kind of overall relationship is required by the customer. This model involves identifying, selecting, and monitoring of segments.

INTRODUCTION

Segmentation is a crucial activity in marketing, but the way it is viewed has changed over time. Some authors view segmentation as being closely related to another of marketing's major thoughts, the marketing concept [1]. The essence of the marketing concept is that the best way to address the customer is by satisfying their needs and wants. These needs and wants thus need to be fully understood, and several ways exist to collect and analyze the necessary information. Which ways are used depends on the guiding methodology and techniques applied, but statistical analysis approaches are the most common.

Other authors do not see segmentation as a statistical analysis technique, but as a tool for resource allocation. They regard segmentation as an overall way of identifying different target groups (for the purpose of making some general strategic decisions, such as which businesses the company should be in and how resources should be allocated) [2]. A major question is therefore whether or not both points should be addressed at the same time. In principle, segmentation is about identifying and targeting customer groups through their needs and wants, as well as determining which customers and needs will be addressed and with what manner and intensity [3].

The industrial market often is characterized by cooperation between customer and supplier; with the supplier

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thus having in-depth knowledge of the customer's needs and wants. When it is known beforehand that customers are interested in such collaborative relationships, this desire can be used as a segmentation base. In connection with Wind and Cardozo's micro and macro segmentation model [4], they talk about the influence different combinations of decision units (buying center) can have on the market segmentation. They, however, do not directly mention the relevance of the buyers' attitude to collaboration as a segmentation base.

Another approach is represented by Bonoma and Shapiro [5] in their nested approach. They do not explicitly talk about using the customers' attitude to collaborative relationships as segmentation base either. However, within the framework of the nested approach, it is possible to use questions about the customer's interest in collaborative work, because either the purchasing strategy or the buying center can be used as a segmentation base.

This article develops an analytical framework that explicitly presents the opportunity to use the customers intentions towards collaboration with the supplier as a segmentation base.

INDUSTRIAL MARKETING THEORIES

Segmentation's main uses are therefore of both operational and strategic nature. It should result in guidelines for the operational level that have the purpose of gaining a continual competitive advantage for the company. Industrial marketing literature's various approaches all appear to be pointing in roughly the same direction. Jackson [6] distinguishes between "lost-for-good" and "always-a-share" situations, with the difference being how closely the supplier and customer cooperate. Lost-for-good situations are characterized by strong bonds between the supplier and customer that make switching suppliers expensive for the customer. Always-a-share situations are mainly characterized by weak bonds and suppliers competing on price.

Jackson's [6] approach is closely connected to the strategic management approaches called "lean management" or "lean thinking" [7]. In lean management, customers have close relationships with some of their suppliers, based on things such as mutual product or process development, or using only one or a limited amount of suppliers in certain areas. The opposite is "arm's length" management, which keeps more distance to the suppliers who as a result mainly compete on price.

In the Swedish network theory [8, 9], the industrial markets are characterized by cooperation and mutual adaptation between the supplier and customer. This theory makes a distinction between the overall situation and single episodes, making it possible to see different images of the market, depending on the companies involved, the industry, the contents of the exchange process, etc.

These points of view see segmentation as more than just a technique for analyzing the environments and for allocating marketing resources. They engage segmentation in the internal workings of the company, and the company, as a part of the market, shares in shaping the environment.

A scale showing the facets of the relationship between supplier and customer can illustrate these three approaches. One end of the scale is characterized with no cooperation, no bonds, no switching cost, and an nonadapted product. Close cooperation, strong bonds, high switching cost, and a highly adapted product mark the other end. The different factors often will be interrelated. The two extremes are labeled "simple market transaction" and "complex relationship management." At a certain point on the

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