

Strategic and operational market segmentation: a managerial analysis

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One of the most widely used and familiar theories in marketing is market segmentation – the familiar protocols for the division of markets in a variety of ways into homogeneous groups of buyers, to form differentiated targets for marketing strategies and programmes. However, the view developed in this paper is that the conventional explication of this conceptual framework ignores some of the most critical issues faced in its use in practice. Uncovering these issues suggests the need to distinguish between ‘organizational levels’ in segmentation: the strategic compared with the managerial/operational; and, between the ‘internal’ and ‘external’ issues implicit and unavoidable in implementing segmentation strategies. This leads to the argument that segmentation models may vary in purpose and that segment targets should be evaluated not simply in the conventional terms of external market attractiveness, but also in terms of ‘internal compatibility’ with the structure and processes of the organization in question. Observations from practice suggest that refining and extending the scope of the market segmentation concept in this way is rich in implications for both practitioners and academic researchers. Our starting point is to re-examine the segmentation issue by addressing the concerns of practitioners as to the operational relevance of segment-based approaches by adopting a more holistic perspective on the segmentation issue. In this process of addressing operational relevance we identify a number of conceptual questions for marketing researchers and a diagnostic process for practitioners.

KEYWORDS: organizational levels; segmentation

INTRODUCTION

The organizational sciences have witnessed increasing calls to address some very basic issues concerning the relevance of academic research (e.g. Thomas and Tymon, 1982; Lawler *et al.*, 1985). These have been reflected in the marketing literature, where the debate has centred upon the relevance of marketing research to the ‘real world’ of marketing management (e.g. Brinberg and Hirschman, 1986) and its impact upon the practice of marketing (e.g. Myers *et al.*, 1979; Mauser, 1980). Two contributory factors to the perceived lack of relevance of marketing research have been the lack of receptivity to innovative ideas in marketing academia and low participation and contribution by practitioners (AMA Taskforce, 1988).

This paper seeks to examine one of the most widely held theories in strategic marketing – market segmentation – in the context of the debate about relevance. We suggest a more holistic perspective on market segmentation that focuses on the organizational as well as the environmental context of segmentation, with the goal of providing both greater understanding of the potential scope of segmentation and a more effective insight into implementing segment-based strategic marketing approaches for marketing practitioners. This argument represents a preliminary, though relatively novel, attempt to revise the concept of market segmentation, most specifically in the light of the emergence of organizational issues as critical to marketing implementation strategies (Piercy, 1985; 1992).

The significance of this call for revisiting conventional segmentation theory to examine relevance and implementation issues is heightened by the perception that segmentation is one of the most fundamental and dominant concepts in modern marketing (Wind, 1978) and recent claims that 'market segmentation is one of the most talked about and acted upon concepts in marketing' (Green and Krieger, 1991). Indeed, it is fundamental and almost axiomatic in the prescriptive literature of marketing that organizations should identify, develop and deploy sources of competitive advantage by discriminating among buyers in the marketplace. The logic of market segmentation suggests that designing marketing strategies around target segments allows a closer alignment between customer needs and the organization's marketplace offering, leading to increased customer satisfaction and loyalty and to building a stronger and more durable competitive position. For this reason the process of segmentation is seen as central to developing marketing strategies and programmes around coherent market targets (Mahajan and Jain, 1978).

Furthermore, the timeliness of this exercise is underpinned by such factors as: the need for companies to cope with and exploit market fragmentation in mature markets (Knowlton, 1988; Rangan *et al.*, 1992); the pressure to react to increased and more sophisticated customer demands for service and product differentiation evidenced in many markets (Laughlin and Taylor, 1991); and the exploitation of the availability of the information technology now available to identify and communicate directly with market segments – database marketing, direct marketing, and the like (Fletcher, 1990; Shaw and Stone, 1988).

As noted, these views of segmentation and segment-based approaches are widely propounded in the prescriptive literature of marketing management, marketing analysis and research and market strategy. These literatures are indisputably rich with technical refinements and tools for identifying attractive market segments.

However, our goal here is to reconsider the relevance of the prescriptive treatment of market segmentation in the conventional literature. Our focus is on how segment-based approaches may be effectively implemented in an organizational context. Consideration of practitioner-based implementation problems associated with segmentation leads us to propose a model of segmentation that is considerably expanded in its scope compared to the 'traditional' approach. Indeed, this issue provides a fruitful example of the insights and developments possible by exploring more fully the links between strategy and marketing in organizations (Kerin *et al.*, 1990). Further, from a pragmatic viewpoint, we develop a diagnostic model that may be useful to practitioners in considering and planning the implementation of segment-based strategic marketing approaches. We proceed by reviewing briefly the conventional literature, proposing an extended model of marketing segmentation and then tracing the practical and conceptual implications of this extended model.

THE CONVENTIONAL VIEW

The long-established foundations of market segmentation are implicit in the origins and defence of the marketing concept itself (Baker, 1992; Hooley and Saunders, 1993). Among several keynote papers frequently the first cited is Smith (1956), which distinguished between strategies of product differentiation and market segmentation, in terms of applying promotional techniques to influence demand versus merchandising (or the adjustment of market offerings in various ways to more closely meet customer requirements). Recently, Baker (1992) has acknowledged this as the first coherent statement of a distinctive marketing view of market structure, representing a compromise between the economist's holistic view of markets as single entities and the behavioural scientist's focus on individual buyer differences.

Other recognized landmarks in the literature are Haley's (1968) benefit segmentation model, the

seminal reviews of the area by Frank *et al.* (1972) and Wind (1978), together with the application of segmentation theory to industrial markets by Bonoma and Shapiro (1983). However, it is interesting to note that in spite of the dominant position that segmentation holds in the paradigm of marketing propagated by marketing management and strategy textbooks and courses, the literature of academic research in this area is surprisingly limited both in terms of quantity and theory development.

The major issues addressed by the conventional segmentation literature fall into three broad categories: the 'methodology' of segmentation; the criteria for 'testing' the robustness of segments as operational market targets; and the 'strategic segmentation decision' itself, concerned with the relative attractions of differentiated or undifferentiated marketing strategies.

Methodology of segmentation

The available methodological tools are concerned firstly with the choice of the variables, or customer characteristics, with which to segment a market – the 'bases' of segmentation; and secondly the procedures or 'techniques' to apply in identifying the segments of a market.

Listings of the segmentation 'bases' which can be applied are widespread in the literature and generally appear to represent such minor variations on a familiar theme, as: geographic, demographic, psychographic and behaviouristic bases (Kotler 1991); location, demography, psychographics and behaviouristic, usage characteristics, and benefits (Baker, 1992); or in the industrial market, demographics, operating variables, purchasing approaches, situational factors, and personal characteristics (Bonoma and Shapiro, 1983). Indeed, much research has focussed on the process of identifying appropriate segmentation bases and evaluating their relative merits (e.g. Yankelovitch, 1964; Beane and Ennis, 1987; Plank, 1985; Laughlin and Taylor, 1991).

Perhaps the most significant point to be made here echoes Wind (1978) who suggested that there was, in reality, no single best way of segmenting a market and even more appositely that the way we segment a market should reflect what we are trying to achieve. Bonoma and Shapiro (1984), for example, propose that the different tasks faced by marketing management (e.g. market selection, product policy, distribution and advertising) require the utilization of different bases of segmentation.

Turning to the procedures and 'techniques' of segmentation, a classification is provided by Wind (1978). He distinguishes:

- (a) *a priori* segmentation, when management proactively chooses the base for market analysis;
- (b) 'clustering', when market data are collected and then analysed for groups of similar customers;
- (c) 'flexible' segmentation using conjoint analysis; and
- (d) 'componential' approaches extending conjoint analysis to predict the match between customer types and product features (e.g. Green and Krieger, 1991).

Perhaps the greatest amount of interest, encouraged by the widespread availability of relatively cheap and accessible computers and increasingly sophisticated software for marketing applications (Fletcher, 1990), has been in the development and testing of more complex techniques utilising multiple bases of segmentation (e.g. see reviews by Beane and Ennis, 1987; Hooley, 1980; Green and Srinivasan, 1990).

The logic we follow here is that the most useful choice of techniques and technology for segmentation is likely to be highly situational because it is specific to an organization's needs – for example, in developing highly product-specific bases for segmentation (Schultz and Henry, 1981) or in creating novel customer product usage or price sensitivity characteristics for segmenting markets not susceptible to conventional approaches (Young *et al.*, 1978). This is, in our view, of greater practical significance than simply the sophistication of the technology as such, and yet is frequently ignored by the conventional literature.

Testing the robustness of segments

Many authorities suggest appropriate evaluative criteria for testing the adequacy or suitability of the market segments which have been identified using the bases and procedures outlined above. For example, Frank *et al.* (1972) suggest that to provide a reasonable market target, a segment should be: measurable; accessible; substantial; and, unique in its response to marketing stimuli. Similarly, Kotler (1991) proposes criteria of: measurability; sustainability; accessibility; and, actionability, while Thomas (1980) has added the notion of segment stability as a further criterion.

Undoubtedly, such checklists of evaluative criteria are a valuable addition to the literature because they provide practitioners with at least a preliminary basis for screening the many segments of different types, which are potentially identifiable in a given market. However, equally clearly the validity and reliability of any set of evaluative criteria depends upon the goals pursued by a specific organization. In fact our observations suggest that the goals of segmentation may be more complex than those assumed by the conventional model – we expand on this argument in challenging the conventional view of segmentation in the sections below.

Strategic segmentation decision

The conventional view suggests that if a market is susceptible to segmental analysis and modelling and there is some perceived potential competitive advantage from a segment-based strategic approach (whether through differentiated or concentrated marketing), then the strategic decision is whether or not to pursue market segments as targets and thus to differentiate between them.

Decision aids here include Kotler's (1991) widely-cited model of undifferentiated, differentiated and concentrated marketing strategies and the type of checklist provided by Frank *et al.* (1972), which identifies the issues for management to evaluate in making the segmentation strategy decision. The Frank *et al.* (1972) list covers such factors as: segment size; the incremental costs faced in differentiating between segments; the extent and durability of differences between segments; the stability and mutual compatibility of segment targets; the 'fit' between segment characteristics and company strengths; and, the level of competition in segment targets.

There is little doubt that these decision aids provide a useful framework for practitioners. However, what such conventional frameworks tend to ignore is the capability of an organization to implement a segmentation strategy around given segment targets.

Present position

Little dispute is possible regarding the fact that the underlying principles of these various contributions to the literature have become enshrined in the textbooks widely used by both academics and practitioners: e.g. see Kotler (1991), O'Shaughnessy (1988), Baker (1992), Cannon (1992) and the like. These principles encompass the attractions of a segmentation strategy in achieving a closer alignment between a firm's offerings and its chosen market's needs and preferences, and thus a superior competitive position drawn from the various benefits of specialization.

However, notwithstanding such apparent unanimity in the conventional literature regarding market segmentation, some concerns have been noted concerning the relevance of segmentation research to practitioners. In his seminal paper, Wind (1978) noted that remarkably little was known about translating segment research into marketing strategies. Young *et al.* (1978) further suggested that in reality segment targets identified through marketing research were often not actionable because the preoccupation was with technique rather than actionability, a finding shared by Bliss (1980) in the

UK. These views were mirrored by Hooley (1980), who blamed such failures in the implementation of market segmentation on: a view of segmentation techniques as 'panacea' for marketing problems, accompanied by the use of techniques for their own sake; and, poor communication between managers and marketing researchers.

More recently, Hlavacek and Ames (1986) have noted that many industrial companies remain unable to distinguish between industries and segments within those industries. Similarly, Saunders (1987) provides empirical evidence suggesting that a substantial proportion of British companies do not attempt any segmentation-based approaches in their marketing and focus their marketing efforts only on markets as single undifferentiated entities.

In a similar vein, Baker (1992) points to some residual discontent among some practitioners regarding the practical application and implementation of segmentation theories. He notes that while the application of segmentation requires a proactive approach, seemingly many marketing executives in practice adopt a largely reactive stance, which may explain some lack of effectiveness in exploiting the strategic options which exist. Bonoma and Shapiro (1984) are equally critical of the scope of academic segmentation research stating that: 'Much has been written about the strategy of segmentation, little about its implementation, control and management'. Indeed, at the extreme, some have been driven to argue for 'countersegmentation' (Resnik *et al.* 1979), to reduce adaptation and customization costs by avoiding segment specialization altogether.

For these reasons, it will be argued that the conventional approach to segmentation is overly narrow in scope and is dominated by issues of technique at the expense of relevance and attention to implementation issues.

CHALLENGES TO THE CONVENTIONAL VIEW

There would appear to be two basic problems that are either implicitly or explicitly recognized within the conventional segmentation literature, both of which are ultimately related to the issues of relevancy and implementation.

Firstly, there has been some limited recognition that conventionally we have paid insufficient attention to the 'scope' of segmentation. Plank (1985) in reviewing the segmentation literature found that different researchers had considered the segmentation issue in widely different areas of marketing activity. He concluded that 'a major problem that must be dealt with in future research is the issue of the scope of market segmentation' (Plank, 1985). One approach to addressing this question in segmentation may be Wind's (1978) proposition that in choosing segmentation bases it is possible to differentiate between segmentation with the aim of gaining a general understanding of the market, and for positioning studies, as compared to segmentation concerned with marketing programme decisions in new product launches, pricing, advertising and distribution. This neglected argument merits more attention and underpins our proposals below for a distinction between strategic and operational perspectives on segmentation.

Second, there appears to be a growing recognition that conventional academic treatments of segmentation fail to adequately address the 'implementation' issues surrounding the segmentation process and the development of segment-based strategic marketing approaches (e.g. Young *et al.*, 1978; Bonoma and Shapiro, 1984; Brown *et al.*, 1989). Plank (1985) discussed this problem in terms of defining a need for segmentation research and modelling to reflect the 'user requirements' of marketing practitioners.

Perhaps reflecting such limitations in the conceptual framework with which they are provided, in our experience the reaction of many executives to the conventional viewpoints and literature of market segmentation indicates scepticism, some confusion in purpose and as a result evidence of

ineffective implementation. Typical and recurring managerial reactions to the operational application of existing market segmentation tools we have observed and recorded in workshops and planning groups are:

- 'Is the fact that we *can* segment markets any reason why we *should* segment markets?'
- 'Should we allow our marketing strategies to be driven primarily by the availability of the information technology that facilitates sophisticated market segmentation?'
- 'If, as competitors, we all pursue the conventional, mechanical approaches, using the same techniques, and often the same databases – surely we all end up with the same segments and no competitive advantage (indeed, maybe more competition in the critical segments because everyone goes after them)?'
- 'If you define markets around customer needs and benefits sought, what is the difference between a market and a segment?'
- 'What's the use to anybody of identifying and choosing market segments that nobody in the organization owns?'
- 'Fancy segment labels are all well and good, but they do not fit the marketing plan and they don't get budgeted for.'
- 'It is fine being imaginative about basing segments on customer needs and benefits sought, but how do you turn that into quantifiable targets with specific customers for the sales force?'
- 'Don't we *have* to revert to demographic and geographic segmentation anyway, because those are the only things we can easily measure, and see what we've got and where we're going?'

In the light of such comments, it is our contention that progress may be made in directly confronting the relevancy question by extending the scope of the traditional approach to segmentation.

By developing an expanded conceptual model which focuses on the 'organization context' of segmentation – the context in which managers actually confront the implementation problems associated with segmentation strategies at different organizational levels – we can address explicitly both the issues of scope and implementation. This highlights a revised agenda for both practitioners and researchers.

AN EXTENDED MODEL OF MARKET SEGMENTATION

It will be argued here that market segmentation is a far broader and more pervasive concept than is commonly recognized and that it may validly serve diverse purposes in an organization. Very little explicit concern has been shown for the difference between the 'strategic' and 'operational' aspects of segmentation (although, see Wind, 1978; Garda, 1981 and Day *et al.* 1979), in spite of the significance of this distinction to managers and its application to the successful implementation of strategic change in organizations (Pettigrew and Whipp, 1991; Piercy, 1992).

In fact, there have been a number of segmentation approaches which are comparable to the distinction we are making here between strategic and operational segmentation models. There have, for example, been some suggestions that firms should apply several segmentation schemes in a 'nested' fashion (Bonoma and Shapiro, 1983; Rangan *et al.*, 1992), while in a similar way Webster (1984) identified 'microsegmentation' within broader segments.

More recently, Hooley and Saunders (1993) have reflected these arguments in their distinction between 'first order' segmentation by customer use or benefit and 'second order' segmentation by demographic and other measurable factors, within the use/benefit segments, to improve the adaptation of marketing programmes to 'sub-segment' characteristics. For example, at its simplest the 'first order' segmentation of wine consumers might be into use of the product as a meal accompaniment, as a home

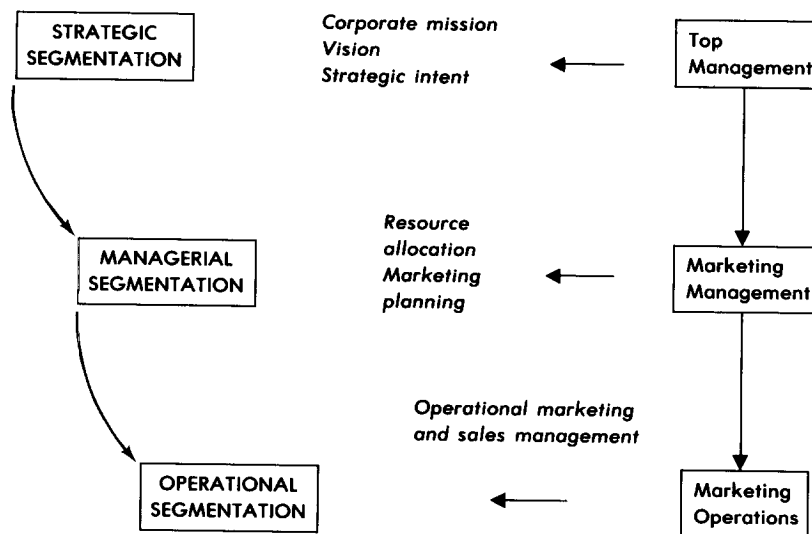


FIGURE 1. Segmentation levels.

drink, as a social drink, as a cooking ingredient and so on, while 'second order' segmentation could be by demographic characteristics (Hooley and Saunders, 1993).

However, these arguments simply reflect a hierarchical approach to conventional techniques, and say little regarding the use and impact of market segmentation models inside the organization. Perhaps the clearest and most revealing statement on this issue comes from Wind (1978), to which we referred earlier. Wind proposed that different segmentation approaches were appropriate to developing a general understanding of the market, as compared to making detailed marketing programme decisions. Wind's (1978) statement is also distinguished by its focus on managerial needs and uses of segmentation modelling.

The model shown in Fig. 1 develops this concern for the organizational and managerial implications of market segmentation by distinguishing between 'strategic segmentation', 'managerial segmentation', and 'operational segmentation'.

In this approach, we distinguish between top management concerns for the creation of mission and communicating a vision or strategic intent which is drawn from understanding product uses and customer benefits, as compared to managerial concerns for planning and budgeting around identifiable targets in the marketplace and operational concerns for reaching target segments and monitoring performance, i.e. interfacing with actual customers in the different segments in terms of sales and distribution.

For example, when the chief executive of a replacement car exhaust business characterizes groups of his customers in terms of their fears, ignorance and dependence, rather than by their requirements for different engineering and specification of the product, he is creating a market vision for his company which recognises the different needs and attributes of his customers, not a validated and researched segmentation model of the conventional kind (Piercy, 1992). When British Rail identifies customer types as: the realistic, the fatalistic, and the analytic – it is defining broad targets for marketing strategies, not measurable niches (Elgie, 1990). When a corporate banker looks at the corporate banking market in terms of the strategic financial services needs of customers, based on their own corporate strategies (Carey, 1989), this creates both a vision and framework for managerial action, but not a

vehicle for advertising and sales force allocations at an operational level. This notion of 'strategic segmentation' may be compared to what Campbell *et al.* (1990) have described as the highly creative process of building 'a sense of mission', to fit strategy with culture and to build commitment. In this sense the sources of 'strategic segmentation' are likely to be management insight and market understanding, rather than quantitative market research.

On the other hand, when advertisers and sales managers describe buyers in socioeconomic groupings or geographic location or industrial sector, they are concerned with effectiveness in the operational targeting of advertising, promotion, selling and distribution, even if those customer groupings are put into sophisticated life-style terms. For example, one recent much-publicised and apparently innovative strategic approach to market segmentation describes consumer market segments in complex lifestyle terms, - 'mainstream media rejectors', 'genteel media grazers', 'thirtysomethings', and so on - but this is, in effect, no more than a refinement on traditional socioeconomic groups and media usage (Laing, 1991).

Figure 1 also suggests these different aspects of segmentation may be closely integrated, or largely non-integrated. The underlying suggestion is that we may see situations where strategic vision leads directly to marketing plans and operations, in a tightly integrated way, but also cases where 'strategic segmentation' may have little direct or mechanical connection with managerial and operational levels of planning. Clearly, linking the integration of different forms of market segmentation to effective implementation has intuitive appeal. In fact, there is no evidence in the available literature to support or deny this proposition, due to the limited scope of conventional segmentation models and research. The underlying suggestion is that 'strategic', 'managerial' and 'operational segmentation' may exist separately or jointly and may serve quite distinct and different purposes in an organization.

More generally, we have found this distinction between levels a useful clarification device in working on the segmentation issue with managers for a number of reasons. Perhaps the most obvious is that the task of re-thinking a company's fundamental approach to its markets is a very different task to that of choosing and reaching specific targets at the business unit level (e.g. see Garda, 1981) - the perspective required is different, the pressures and imperatives on managers are different, and the objectives are different.

It is in the light of such challenges to convention that we make the following comments about the prevailing view of market segmentation in the conventional literature:

- when we look at such questions as the bases of segmentation and techniques and procedures, then we can only make sensible choices in the context of achieving specific goals with managers in specific organizations;
- our logic casts doubt on the claim that there can be any valid general list of criteria for testing the robustness of segments - to establish meaningful criteria implies that we first understand our purposes and goals, since each of the conventional criteria can be challenged and discarded in certain circumstances;
- making strategic segmentation decisions, depends on the purposes we have in mind in a specific situation and those purposes may vary from building strategic vision at one extreme, to advertising and sales effort allocations at the other extreme.

What this implies is that, in terms of the model in Fig. 1, the appropriate segmentation bases, techniques, choice criteria and decisions are likely to be quite validly different for 'strategic', 'managerial' and 'operational segmentation' purposes. (For ease of discussion 'managerial' and 'operational segmentation' are combined below, to make clearer the contrast with 'strategic segmentation'.)

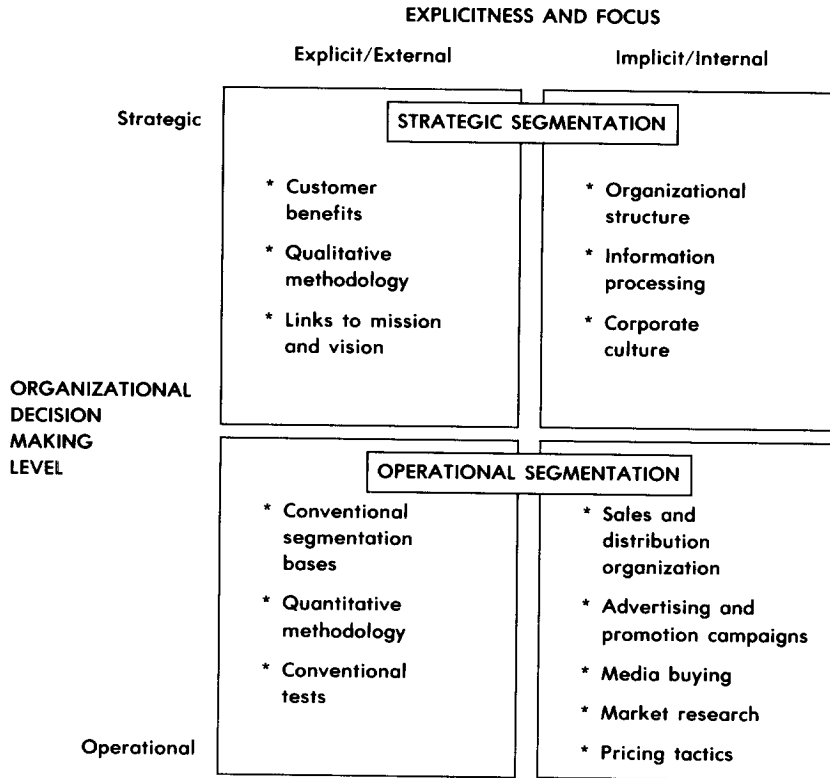


FIGURE 2. An extended model of market segmentation.

AN INTEGRATED MODEL

This logic can be taken a stage further by examining the diagnostic model in Fig. 2. This model is based upon two important propositions: firstly, that there is a need to distinguish between strategic and operational organizational levels in dealing with the segmentation issue; secondly, that in order to address the issue of implementation it is necessary to examine the internal organizational context, as well as the external marketplace in considering segmentation. The suggestion is that in each of these areas the managerial agenda to be addressed is different, as suggested in Fig. 2, and outlined below.

Strategic – explicit issues

These issues relate to *Strategic Segmentation*, as they were identified in Fig. 1. The goal here is to focus on the fundamental customer benefits sought in different parts of the market, whether from physical product differences or from non-product attributes (Abell and Hammond, 1979), as exemplified earlier. It is quite possible that the conventional criteria of segment evaluation do not validly or usefully apply to what is built here. The pursuit of a strategic market vision may quite reasonably be judged by criteria other than measurability, and the like.

Indeed, consider the real robustness of the criteria proposed by the conventional literature (as reviewed above) when a strategic viewpoint is adopted. These criteria are that segments should be: measurable; accessible; substantial; unique in response to marketing stimuli; and, stable. However,

'measurability' is a function of an organization's ability to stimulate, recognize and respond to signals from its environment, as much as an inherent characteristic of the market. 'Accessibility' is a function of an organization's ability to identify and use new distribution and communication methods and technologies, not a given or unchanging factor. 'Substantiality' is a subjective judgement, reflecting corporate size and culture, and probably marginal marketing costs, as much as market attributes. 'Uniqueness in response to marketing stimuli' reflects our ability to create uniquely appealing stimuli, as much as customer characteristics.

The point is that such generalized criteria risk substituting spurious clarity for strategic market vision. At this level, it can be argued, segmentation models might be better judged by such criteria as: the ability to create and sustain competitive differentiation and advantage; innovativeness in how the market is attacked; the compatibility with mission; providing a coherent focus for thinking in the organization; and, consistency with corporate values and cultures.

Indeed, the relevant techniques for generating 'strategic segmentation' in the first place, are more likely to be qualitative and creative than quantitative and 'scientific'. This is arguably the practical link between corporate mission and the marketplace – it is where the broad concepts and ideas in the mission statement can be related to customer needs and benefits in a specific marketplace, or conversely where market insights provide feedback to those building mission statements. It is here too that the imperatives to become 'market-driven' (Day, 1990), 'market-led' (Piercy, 1992), or 'market-oriented' (Kohli and Jaworski, 1990), may be operationalized by senior management in the context of a specific market. However, it is also at this decision making level that we must also recognize the other characteristics of strategic decision making: levels of uncertainty and ambiguity are high; information is scarce; and the market environment is enacted or constructed rather than objectively known.

Tactical – explicit issues

It is at this level that the critical issues are the most familiar ones: the choice of conventional segmentation bases and the application of quantitative methodology to identify segment characteristics. Here the conventional tests probably do apply, and the goals are primarily managerial in allocating resources, and operational in the tactical management of marketing programmes.

Strategic – implicit issues

We refer here to a set of issues that have been largely neglected by the conventional segmentation literature, although they are likely to be critical to successful implementation of segmentation strategies. These issues are concerned with the fundamental implications of market segmentation for the 'inner workings' of the organization. These issues are likely to include the following areas.

(a) Organizational structure

It has been argued that ultimately the only logic for the internal structuring of any organization is the external structure and dynamics of the marketplace it faces (Lawrence and Lorsch, 1967; Corey and Star, 1971; Piercy, 1985). This argument leads to the view that it is such factors as the perception of market integrity (i.e. what constitutes a coherent market entity) (Corey and Star, 1971) and market characteristics such as complexity, predictability and the interconnectedness of key elements (Weitz and Anderson, 1981), that shape organizational structures and divisions.

Indeed, one of the first clues to how an organization understands its markets and customers and attempts to deal with them, is provided by its structure (Piercy, 1985). Structure is revealing of the assumptions made about customer characteristics and priorities and indeed the implicit theory of buyer behaviour which underpins management understanding of its markets.

This said, the uncertainty and heterogeneity perceived in the market are to some degree socially derived within an organization, i.e. negotiated, subjective and biased (Pfeffer and Salancik, 1978). For this reason, structure also provides clues about culture and internal organizational interests as they impact on an organization's relationships with its customers (Piercy, 1992). One implication of this is that strategic market vision may be incompatible with marketing structures (and the related organizational decision making processes and information flows).

However, the implicit presumption that a market segmentation model will easily and routinely be reflected in organizational structure is perhaps somewhat optimistic.

The mismatch between the construction we place on a market (i.e. a segmentation model) and internal organizational structure may be largely unavoidable, in the short-term at least. This provides little reason, however, to act as though no such mismatch exists.

This raises a variety of practical questions which are central to the ability of an organization to implement a segmentation strategy. For example, one such critical question is how well existing organizational structures of departments, functions, and divisions can service the segments targeted. Another question relates to whether the mismatch between a segmentation model and the reality of the organization means that segments are never 'owned' or taken seriously, because they fall between the jurisdictions of existing departments or SBUs.

(b) Information and reporting

At the deepest level, the way managers understand their market represents a form of 'environmental enactment' (Weick, 1969), or more simply the creation of a simplified and comprehensive 'picture' of the outside world (Piercy, 1992), which is shared and enables the organization to function. A new market vision, in the form of 'strategic segmentation', represents a new enactment of the environment, the creation of a new 'picture', which is likely to challenge the prevailing view of the world inside the organization and all the assumptions that such a view encompasses.

The underlying practical issues uncovered by such theoretical views are numerous, and relate directly to the discussion of organizational structure above (Piercy, 1985). For example, at the simplest level new segment targets may be incompatible with existing information processing systems (i.e. data collection and dissemination). For this reason they may be unfamiliar to managers and difficult to identify and evaluate in conventional terms. Clearly, the fact that an organization's information system cannot model segments says far more about the organization's ability to implement a segmentation strategy, than it does about the real attractiveness of the segment as a target.

Similarly, if existing reporting lines do not express sales and market achievements in terms compatible with the segmentation model, it may be very difficult to set targets, allocate responsibilities, monitor progress, or even have target segments taken seriously within the organization.

(c) Internal decision making processes

A similar argument can be raised concerned with how well segments 'fit' with the critical decision making processes inside the organization, such as strategic marketing planning and resource allocation. It may be that the segments proposed by 'strategic segmentation': are not currently part of the market the company serves; are subsumed within existing segments; or are spread across existing segments. The same problems can arise with marketing budgets, which may be allocated around conventional bases and not easily reallocated.

In such situations, and particularly when segments are conceived and defined in a radically different way to the conventional market targets in an organization, a major implementation barrier may arise. That barrier is concerned with process. In particular, it is concerned with whether the new segments will become a genuine focus in marketing plans and whether they will be recognized and gain resources in the budgeting process (Piercy, 1986; 1987).

(d) Corporate culture

Here the issue is the acceptability of new segments to the people in the organization in terms of values, ethos, internal rules, evaluation systems and the like (Piercy and Peattie, 1988). If new segments represent radical change and are potentially threatening to the *status quo* and the current distribution of influence and control (Piercy, 1986), there may well be hidden barriers to implementation which are of some considerable potency.

Indeed, while mechanically-generated segmentation models may lack 'vision', equally it should be noted Doyle and Saunders (1985) draw attention to the intuitive appeal of a quantified segmentation model using management science techniques to technically-based management in an industrial marketing context.

It may be argued that it is the neglect of issues such as these that really lies behind the observed failure of many innovative customer-benefit based segmentation models, when this construction of the market produces segment targets that: fall between the responsibilities of different organizational units, so are not 'owned' by anyone; which are not easily measurable or monitored in the existing information system, and are not the focus of conventional reporting; which are not part of existing planning and budgeting processes; and, in which the people in the organization have little belief or confidence.

Tactical – implicit issues

Here the concern is also with internal organizational issues, but now at an operational level:

(a) Sales and distribution organization

Are the segment targets easily identifiable by salespeople and accessible through existing distribution channels and are they compatible with the way these processes are currently structured?

(b) Advertising and promotion campaigns

Are the segment targets reachable as separate targets through our existing procedures and capabilities for marketing communications?

(c) Market research

Do we have information organized around these segment targets to identify them, to size and measure opportunities, and to evaluate our performance?

(d) Pricing tactics

Do we currently have the facilities to price differently to different segment targets?

These issues, though frequently hidden and ignored, may be associated with tactical problems in implementing segmentation: where segments cut across sales and distribution systems and cannot be adequately serviced by either; where marketing communications, pricing and market research systems, are not set-up to deal with, or differentiate between, segments of the type proposed.

For example, pursuing the corporate banking example cited earlier – the strategic vision of top management was to target corporate customers for financial services according to the customer's own corporate strategy (which would predict customer needs and priorities for financial services), with product offerings and marketing programmes built around, for instance, 'market-share driven' companies as compared to 'profit-reconstruction strategy' companies. This defined an unusual strategic segmentation model which offered considerable potential competitive advantage. However, many problems emerged in attempting to implement this segmentation model in the bank: there was an inherent conflict between this view of the market and traditional functional structures and systems,

		INTERNAL COMPATIBILITY	
		High	Low
MARKET SEGMENT ATTRACTIVENESS	High	Attractive segments that match with company capabilities	Attractive segments with poor match to company capabilities
	Low	Unattractive segments that match with company capabilities and preferences	Unattractive segments that do not match with company capabilities and preferences

FIGURE 3. Market segment attractiveness versus internal compatibility.

and management processes built around products and geographical areas, as well as with the traditional 'prudent banking' culture and ethos (Strategic-Implicit Issues); there were considerable problems in translating the qualitative segments into identifiable and quantifiable targets for operational management (Tactical-Explicit Issues); and, fitting the new segment targets to branch-level planning and budgeting was difficult since the new segment types cut across the traditional model of industrial sectors and customer sizes (Tactical-Implicit Issues).

The suggestion is that it is a range of covert organizational issues, such as those discussed above, which need to be compared to the conventional external criteria in evaluating market segments as targets.

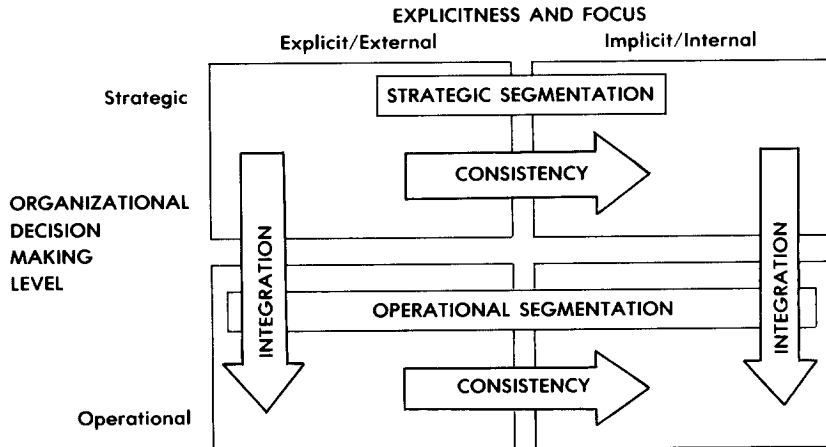
The conclusion is that we can screen segments not just in terms of 'market attractiveness' (the conventional criteria, as reviewed for example in Hooley and Saunders, (1993), but also in terms of 'internal compatibility', in the way suggested in Fig. 3. The point is that conventional analyses (e.g. Robinson *et al.*, 1978; Patel and Younger, 1978; Day 1986) consider factors relating to market or segment attractiveness and even the relationship with company strengths, but not the critical implementation issue of compatibility and consistency between segment targets and organizational attributes, both overt and covert.

However, to identify such issues of internal compatibility may require more detailed analysis of the kind discussed below.

Consistency and integration

The argument above suggests that overall we can reduce the issue to two critical questions to evaluate relevance and the practical usefulness of a given segmentation model, in terms of whether it can be implemented at a reasonable cost or indeed implemented at all by a given organization. These critical issues relate to: questions of consistency, or the internal compatibility of segment targets with organizational characteristics; and, questions of integration, or the relationship between strategic and operational aspects of segmentation.

As suggested in Fig. 4, consistency is concerned with the 'fit' between the explicit/external and implicit/internal issues in segmentation, at both the strategic and at the managerial/operational levels. On the other hand, *integration* refers to the 'fit' between the Strategic Segmentation model and the Managerial/Operational level; and between internal issues at both these levels. Figure 4 provides a framework for addressing these issues and the appropriate stimulus questions for executives.



Consistency Questions

1. What is the existing or achievable 'fit' or internal compatibility between the 'strategic segmentation' model of the external customer marketplace, and the internal organization structure, information systems, processes like planning and budgeting, and corporate culture?
2. What is the existing or achievable 'fit' or internal compatibility between the 'managerial/operational segmentation' model of the external customer marketplace, and the sales and distribution organization, advertising and promotion management, media buying, market research systems, and pricing administration?

Integration Questions

1. How compatible is the 'strategic segmentation' model with segmentation at the managerial/operational level, can customer benefit groups be translated into accessible target segments?
2. How compatible are the internal issues at the 'strategic' level with their counterparts at the 'managerial/operational' level - in terms of organization, information, planning, budgeting, people and so on?

FIGURE 4. Consistency and integration.

Managerial diagnosis

Although it cannot provide easy answers, the framework provided by Figs 2-4 provides a mechanism by which managers may evaluate the real nature of market segmentation for their companies and for identifying implementation barriers to segmentation strategies. It is suggested that in practical terms this is a significant and useful device for bridging the gap between the conventional theory of market segmentation and the implementation of segmentation strategies. Diagnostics of this type are inevitably crude and need adaptation by users, but at least provide a starting point in the practical operationalization of the challenges to the conventional wisdom contained in this paper.

IMPLICATIONS AND CONCLUSIONS

In the context of questions concerned with the relevance of conventional segmentation theories and research, this paper has set out to adopt a managerial analysis of the familiar market segmentation theory, in contrast to the more usual technical analyses of market structuring. We have attempted to develop the concept of market segmentation further by placing it in an organizational context and emphasizing issues of implementation as a way of challenging the conventional view of this key element in marketing theory. We initially reviewed the conventional literature to suggest that the key issues it confronts are: the methodology of segmentation, in terms of the bases for market segmentation and the analytical procedures available; the criteria for testing the robustness as targets, of the segments identified in a market; and the strategic segmentation decision, in terms primarily of whether or not to reflect a model of market segments in a company's marketing strategy.

We suggested, with some support from the segmentation literature, that from a managerial perspective there are certain inadequacies in this conventional view of segmentation. These inadequacies are evidenced by executive comments on the practical problems faced in applying segmentation theory.

One response to such criticisms, reflecting a managerial perspective, is to add to the conventional view of segmentation two further concepts: 'organizational level'; and the implicit internal 'organizational implications' or aspects of external market segmentation. This conceptualization suggests that there is some advantage in distinguishing between 'strategic segmentation' and 'managerial/operational segmentation' and between the explicit/external and the implicit/internal aspects of the segmentation issue - 'internal compatibility'.

In these terms, 'strategic segmentation' is a focus on the fundamental customer benefits in different parts of the market, while 'managerial/operational segmentation' concerns planning and resource allocation, and identifying and reaching the customers in those segments. 'Strategic segmentation' may be tested by such criteria as: the competitive differentiation achievable; the innovativeness represented; the 'fit' of market segments with corporate mission; the capacity to focus peoples' thinking in the company; and compatibility with all those values, attitudes and ways of behaving that make up a corporate culture and relate to peoples' commitment. On the other hand, it is 'managerial/operational segmentation' that may best be tested by such conventional criteria as: measurability, accessibility, size and actionability.

This raises the issue of integration between the two levels of segmentation and focuses attention on the practicality of translating customer benefit segments into operational terms. Where this integration is achieved and is made explicit, then a fully integrated segmentation strategy may be feasible. However, this is not to suggest that 'strategic segmentation' may not have managerial value in its own right - in articulating a customer-based vision or building a market-driven 'sense of mission' (Campbell *et al.*, 1990).

The implicit/internal issues underlying 'strategic segmentation' are concerned with the consistency between the segments identified in customer benefits and the structure of the organization, the collection and dissemination of information, internal process and culture. The implicit/internal issues with 'managerial/operational segmentation' are concerned with the consistency between the market segments described in conventional geographic/demographic terms, and the sales/distribution organization, advertising and promoting campaigns, media buying, market research studies, pricing tactics and so on. We suggest that at both levels a lack of consistency is likely to lead to implementation problems and a lack of effectiveness in segmentation strategies.

The major practical implications of this argument are as follows:

- we can use the framework in Fig. 1 with executives to tease out the difference between the strategic and managerial/operational aspects of market segmentation in terms relevant to their

marketplace – the goal here is to address issues of strategic vision and direction in the marketplace separately from questions of resource allocation and operational marketing/sales management problems;

- we can use the framework in Fig. 2 with executives to build an agenda of the different aspects of market segmentation which they need to consider in a specific situation at both the strategic and managerial/operational levels and in terms of both the explicit/external issues and the implicit/internal – the goal is to identify implementation barriers as thoroughly and in as much detail as possible, addressing organizational and cultural issues as well as those of operational marketing/sales management;
- we can use the framework provided by Fig. 3 to emphasise the need to evaluate not just the attractiveness of market segments in terms of conventional criteria and measurements, but also the issue of internal compatibility with organizational characteristics, and to provide the basis for preliminary screening in these terms;
- we can use the structure in Fig. 4 to test the practical soundness of an approach to segmentation by evaluating consistency across the model, and we can test the integration barriers down the levels.

The theoretical and research implications of this argument are somewhat broader. In reviewing the segmentation literature in depth there is surprisingly little rigorous analysis of the theoretical basis for the segmentation models commonly proposed. In spite of the fact that market segmentation is a fundamental concept in many perspectives on marketing strategy, there have been few serious attempts in the available literature to formalize the underlying theoretical base implicit in most segmentation models, or to attempt to find empirical support. Indeed, it is possible to view one of the most rigorous theoretical treatments of the segmentation issue as Porter's discussion of the compatible notions of competitive scope and 'focus' strategies (Porter 1980, 1984). We have certainly been unable to find in the available literature any 'theory' of segmentation that would satisfy the evaluative criteria of scholars of marketing theory (e.g. Hunt, 1991). While this is obviously a serious concern to marketing analysts in the area of strategic marketing, it also affects the perceived relevance of segmentation research in the context of the application of segment-based approaches by practitioners.

The approach adopted in this present paper in attempting to address the relevance issue through the development of a segmentation model with an expanded scope in order to focus upon the problematic issue of implementation may, however, be viewed as but a minor step in the wider effort to develop a coherent and relevant theory of market segmentation. Indeed, one implication of this discussion is that a research agenda may emerge, which goes far beyond the current preoccupation with segmentation bases and techniques, and addresses the questions of the organizational implications of market segmentation as a form of corporate 'sense-making' (Weick, 1969; Pfeffer and Salancik, 1978; Pfeffer, 1981). Certainly, the exploratory discussions with executives reported here suggest some managerial dissatisfaction with the current state of knowledge relating to segmentation as a strategic marketing management tool rather than simply a form of market analysis. However, while much scholarly development work remains to be undertaken by marketing researchers it is hoped that the approach and model presented here will encourage analysts to stress the issue of relevance, as they begin more serious analyses of the segmentation issue than have been evident to date.

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