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## Bridging the segmentation theory/practice divide

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## **Bridging the Segmentation Theory/Practice Divide**

### **Guest Editors: Sally Dibb and Lyndon Simkin**

### **Background**

More than thirty years ago, Wind's (1978) seminal review of research in market segmentation culminated with a research agenda for the subject area. The priorities included exploring the applicability of new segmentation bases across different products and contexts, developing more flexible data analysis techniques, creating new research designs and data collection approaches, developing new conceptualisations of the segmentation problem, integrating segmentation research into strategic decision making and evaluating effectiveness. In the intervening period, much of the research and writing in the area has focused on the development of segmentation bases and models, segmentation research techniques and the identification of statistically sound solutions. More practical questions about implementation and the integration of segmentation into marketing strategy have received less attention, even though practitioners are known to struggle with the actual *practice* of segmentation. The consequence is that despite its long academic heritage, segmentation may be failing to achieve its original objectives.

In their recent paper Yankelovich and Meer (2006) reflect upon what they see as generally disappointing results for firms launching segmentation initiatives. They suggest that senior decision makers are becoming estranged from segmentation specialists because of their inability to provide segmentations which intuitively make sense. In a similar vein, Wedel and Kamakura (2002, p. 183) comment that: "Although much progress has been made in the areas of models for segmentation, much remains to be done in the conceptualization of strategic market segmentation and in the integration of marketing research and strategy". We suggest that this apparent juxtaposition between theory and practice deserves further attention in order to deepen our understanding of the links and contrasts between the perspectives.

This special issue is motivated by this tension between theory and practice, which has shaped and continues to influence the research priorities for the field. It is no coincidence that preparation for this issue has taken place against a backdrop of policy makers and research funding bodies highlighting the need for good quality academic research which more closely reflects the needs of business and the economy. The Marketing Science Institute's current research priorities signal that marketing managers need new ways to segment markets and to create customer value and that researchers should focus more on accountability and ROI of marketing expenditures (<http://www.msi.org/research/index.cfm?id=43>) Although many years may have elapsed since Wind's original research agenda, pressing questions about effectiveness and productivity apparently remain; namely: (i) concerns about the link between segmentation and performance, and its measurement; and (ii) the notion that productivity improvements arising from segmentation are only achievable if the segmentation process is effectively implemented. Such questions were central themes to the call for papers for this special issue, which aims to develop our understanding of *segmentation value, productivity and strategies, and managerial issues and implementation*.

Compelling evidence suggests that the practice of market segmentation remains a major challenge among marketing professionals. The Chartered Institute of Marketing (CIM) - a UK-based organization representing marketing professionals – recently identified market segmentation as one of four ‘hot topics’ of concern for its members, together with the understanding of digital marketing, sustainability and employee engagement ([www.marketingservicestalk.com/news/thh/thh166.html](http://www.marketingservicestalk.com/news/thh/thh166.html)). Even during recessionary times, it seems that astute target marketing and effective segmentation are just as important as ever. Yankelovich and Meer (2006) are in no doubt about marketers’ continued reliance on segmentation or about its potential to deliver what these practitioners need. Yet they too, recognize the problems, citing a 2004 study of 200 senior executives from large firms by Marakon Associates and the Economist Intelligence Unit, showing that while 59% had recently carried out a major segmentation project, only 14% regarded the outcomes as having real value.

The centrality of market segmentation to practitioner thinking has also been echoed by practitioner members and through activities organized by the Academy of Marketing Special Interest Group (SIG) in Market Segmentation. This UK-based body develops and disseminates segmentation research through its international network of academic and practitioner members. At a recent research event themed around bridging the theory and practice divide, attendees were optimistic about segmentation’s future, highlighting exciting new developments, including innovative applications of targeting/profiling around the securitization of customer data, business-to-business applications, and target marketing for behaviour change. Even so, the same academic and practitioner audience surfaced a number of problem areas, including a perceived divergence in practitioner and academic approaches for identifying segments, concerns that certain academic segmentation ‘truths’ may have little practical relevance (the distinction between segmentation base variables and descriptors being one example), and an ongoing paucity of research examining implementation problems or the practical contexts in which segmentation takes place. Not surprisingly, a study carried out by SIG members also identifies these areas as priorities for future research in the field.

## Research Priorities

The mix and coverage of papers in this special issue reflect some of the research priorities identified in the recent study of future segmentation research priorities by the Academy of Marketing’s SIG in Market Segmentation (Dibb, 2004). Data were collected through an email survey which trawled widely and deeply to generate six priorities which were subsequently refined through SIG discussions and academic/practitioner feedback from the international research community. The priorities were assigned levels to represent their importance, with Level 1 being the most cited and Level 6 the least:

- **Level 1 - Segmentation variables:** How variables are chosen; incorporating new variables into segmentation models; finding more cost effective variables; geodemographic segmentation; cross-cultural, ethnic and cross-country segmentation; generation segmentation; divergent families as a segmentation group.
- **Level 2 - Managerial relevance and implementation:** Identifying segmentation schemes compatible with managerial objectives and managerial metrics; bridging the gap between the practical application of segmentation and academic and technical advances in *post hoc* segmentation; development of tools to help managers identify suitable segmentation variables,

undertake appropriate data analysis, identify and label suitable segments, determine segment attractiveness; segmentation implementation; approaches for diagnosing and overcoming implementation difficulties.

- **Level 3 - The value of segmentation:** Whether and how segmentation leads to differential advantages or an enhanced basis for competing; impact of segmentation on business performance; performance metrics for segmentation; segmentation effectiveness criteria; developing methodologies permitting segmentation's contribution to be measured.
- **Level 4 - New methodologies and conceptualisations:** On-line segmentation studies; the impact of the Internet and digital on the application and role of segmentation; segmentation on the basis of customer life-time value; the segment of one and links with relationship marketing; complex segmentation models reflecting a hierarchical segmentation structure.
- **Level 5 - Segmentation strategies:** Examination of innovative segmentation strategies; identification of required competences and capabilities for pursuing segmentation; consideration of the moderating effects of generic business strategy on the success of different segmentation strategies.
- **Level 6 - Stability and Change:** Changing segmentation dynamics; revisiting and upgrading old classifications schemes; using better data availability to generate new classification schemes.

The priorities described in Levels 2 and 3 were core to the special issue Call for Papers, which focused on the interrelated themes of managerial relevance, implementation, segmentation value and effectiveness. These themes emerge in various forms and combinations in the papers included in this special issue. Thus implementation concerns are central to the paper by Bailey, Baines, Wilson and Clark, who explore the practicalities of putting market segmentation programmes into practice and question whether traditional segmentation is being superseded by other forms of customer insight. Dibb and Simkin extend the implementation debate, classifying segmentation barriers and then using the derived insights to develop implementation guidelines for practicing managers. Quinn's interest in implementation is more specific, focusing on managers' reasons for shying away from sophisticated segmentation schemes, then considering what this means for managerial relevance. Tonks echoes Quinn's curiosity about the choices managers make, drawing our attention to the subjectivity of many of these decisions. However, his concerns extend to the value of the resulting segments and to approaches for ascertaining their validity. Dolnicar and Lazarevski continue with the segment value theme, asking questions about effectiveness in their study examining the reasons for investment in poor quality segments. Meanwhile for Franke, Reisinger and Hoppe, the problem of segment quality and therefore the value of segmentation is linked to failings in how statistical outputs are interpreted. On the face of it, the papers by Barry and Weinstein and by Zhu, Wang, Yan and Wu are primarily concerned with the efficacy of particular segmentation variables, although in both instances concerns about managerial relevance are deeply embedded in their work.

## The Special Issue Content

The first paper in this issue comes from Bailey, Baines, Wilson and Clark and is entitled "*Segmentation and Customer Insight in Contemporary Services Marketing Practice: Why Grouping Customers Is No Longer Enough*". They explore current market segmentation practice in the services and product-service systems context, examining the practicalities of segmentation implementation and questioning whether traditional segmentation is being superseded by other forms of customer insight. The findings of the cases they study reveal that market segmentation is still regarded as essential for

customer selection, proposition development and mass communication. However, their study also provides a broader understanding of the value and impact of customer analytics and propensity modelling in relation to traditional segmentation.

Quinn's qualitative examination of "*Market Segmentation in Managerial Practice*" highlights another implementation aspect: how managers in the UK apparel retail sector practice segmentation. The results reveal the range of plausible reasons which managers give for failing to pursue sophisticated segmentation schemes. One such finding is that organizational pressures restrict opportunities to follow an integrated segmentation approach, with managers choosing instead to adopt more practical solutions. Quinn concludes by suggesting that contemporary segmentation applications lack synergy with the concept's methodological and conceptual foundations.

Franke, Reisinger and Hoppe highlight the potential for segment quality problems arising out of the indiscriminate use of clustering output in their paper "*Remaining Within-Cluster Heterogeneity: A Meta-Analysis of the 'Dark Side' of Clustering Methods*". The authors carry out a meta-analysis of articles which have used clustering methods as the basis, leading them to suggest that insufficient attention is devoted to so-called 'remaining within-cluster heterogeneity' when assessing the quality of segments. Some of the problems which arise as a result of high levels of such heterogeneity are explored. The authors recommend that cluster analysis users counter these difficulties by routinely providing an indication of remaining heterogeneity levels when reporting their output.

Zhu, Wang, Yan and Wu, examine the suitability of lifestyle segmentation in the growing Chinese mobile phone market in their paper "*Are Consumers What They Consume? - Linking Lifestyle Segmentation to Product Attributes: An Exploratory Study of the Chinese Mobile Phone Market*". Their quantitative study of Chinese consumers tests the link between consumer preferences for product attributes and lifestyle variables, questioning whether individuals with similar lifestyles share similar patterns of preference. By considering offerings as bundles of attributes, rather than simply at the product or brand level, the authors argue there is greater potential for customization to different segments. The findings also reveal the differential effect of the perceived functional or hedonic nature of product attributes on consumer preferences.

Barry and Weinstein turn their attention to the application of B2C segmentation approaches in B2B markets. "*Business Psychographics Revisited: From Segmentation Theory To Successful Marketing Practice*" shows how psychographics has developed in B2B settings, arguing that the insights which these variables bring to consumer segmentation can also be achieved in the B2B context. Through its examination of the literature and a case application, the paper reveals the usefulness of B2B psychographics as an alternative or complement to firmographics. More specifically, the paper demonstrates the value which psychographic segmentation can bring to sales management.

Tonks expresses concerns about the validity of segments in his conceptual paper on the "*Validity and the Design of Market Segments*". He observes that while managers have access to a vast array of segmentation variables, deciding which to use may be far from clear. He also challenges Kotler's (2003) claim that marketers do not create

segments, instead arguing that subjectivity is a feature of the creation and implementation of segments. The paper concludes that the evaluation of segment design and variable selection should be framed using standard approaches for establishing validity.

Dolnicar and Lazarevski discuss the “*Methodological Reasons for the Theory/Practice Divide in Market Segmentation*”. Through a quantitative study of marketing managers, the authors bring the theory/practice divide in market segmentation sharply into focus. They examine mechanical flaws preventing the efficient use of segmentation, finding that many managers over-estimate the validity of segment solutions because their understanding of basic methodological issues is poor. The consequence is that substantial investment may be made in what the authors describe as ‘sub-optimal segments’.

Dibb and Simkin explore a broader range of implementation themes in their paper “*Implementation Rules to Bridge the Theory/Practice Divide in Market Segmentation*”. Their in-depth case study follows the progress of a European utilities business through a major segmentation project, identifying and assessing the impact of implementation barriers along the way. A classification of these barriers is used as the basis for a series of segmentation implementation ‘rules’ aimed at practitioners. These rules are supplemented with recommendations about the mechanisms through which these implementation rules can be applied.

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