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Implementation Rules to Bridge the Theory/Practice Divide in Market Segmentation

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Abstract

Despite an extensive market segmentation literature, applied academic studies which bridge segmentation theory and practice remain a priority for researchers. The need for studies which examine the segmentation implementation barriers faced by organisations is particularly acute. We explore segmentation implementation through the eyes of a European utilities business, by following its progress through a major segmentation project. The study reveals the character and impact of implementation barriers occurring at different stages in the segmentation process. By classifying the barriers, we develop implementation 'rules' for practitioners which are designed to minimise their occurrence and impact. We further contribute to the literature by developing a deeper understanding of the mechanisms through which these implementation rules can be applied.

Key Words

Market segmentation, segmentation implementation, segment quality criteria, segmentation effectiveness, target market strategy, management of change.

Introduction

More than fifty years since its inception (Smith, 1956), market segmentation is used widely across business sectors to manage diverse customer needs and to target marketing resources (Weinstein, 2004; LaPlaca, 1997; McDonald and Dunbar, 2004). The underlying principle is that heterogeneity in preferences and buying behaviour can be effectively managed by grouping similar customers into segments, some of which become the focus for marketing effort (Kalwani and Morrison, 1977; Mahajan and Jain, 1978). Market segmentation encourages customer orientation by keeping businesses closely in touch with their customers, ensuring more efficient resource allocation and resulting in marketing programmes which are better attuned to customer needs (Albert, 2003; Beane and Ennis, 1987; Freytag & Clarke, 2001). As Wong and Saunders (1993) explain, by improving customer orientation, market segmentation also has the potential to develop competitive advantage and improve business profitability.

Although the benefits of segmentation are now widely acknowledged, these must be weighed against the resource implications associated with implementing segmentation in practice (Weinstein, 2004). Assuming the costs can be justified, developing and implementing workable segmentation schemes can be fraught with difficulty (Palmer and Millier, 2004). The implementation barriers which practitioners face are many and varied, ranging from shortage of data and unsuitable personnel, to operational problems and resistance to change. Even once these problems have been overcome, managers are under pressure to demonstrate the impact and effectiveness of their segmentation schemes.

Such issues are not unique to segmentation, mirroring the barriers encountered in other strategic or change management initiatives, and reflecting the link between implementation and organisational success. The complexity of implementation has long been recognised (Bourgeois and Brodwin, 1984), with Day and Wensley (1983) amongst those highlighting the problems this complexity brings for managers. Important questions about ‘how’ implementation can best be achieved remain. For this reason Thorpe and Morgan (2007) recently renewing the call for more comprehensive strategy implementation models.

In the segmentation literature, relatively few published studies have explored practical implementation issues (Wedel and Kamakura, 2002), so managers have little to guide their quest for effective segmentation. Instead, researchers have focused on developing segmentation bases and models, refining quantitative methods of analysis and identifying statistically robust solutions (eg: Acito and Jain, 1980; Green and Krieger, 1991; Mitchell, 1994). Only more recently have practical application and effectiveness issues come to the fore (Laiderman, 2005; Yanklelovich and Meer, 2006), with attempts to identify and categorise common implementation problems. Even so, much of the output takes the form of simple checklists of barriers, with scant attention to either the mechanisms through which these can be overcome or to the context in which these lists are to be used. Applied studies are urgently needed which bridge this particular gap. The specific contribution of this paper is to progress beyond a simple identification of implementation barriers, towards a deeper understanding of the mechanisms through which they can be overcome.

We use data gained from studying a European utilities business as it progressed through a major market segmentation exercise. The research design enables a critical examination of segmentation barriers in a real setting, of the context in which these barriers are managed and of the mechanisms through which this is achieved. The revealed barriers form the basis of a series of practical implementation 'rules' aimed at managers. These rules reflect the synoptic character of segmentation programmes, suggesting ways for minimising the occurrence and impact of segmentation barriers at three stages: at the outset of the project, during the segmentation process, and in the implementation phase. The findings then suggest mechanisms through which these rules can be applied.

Implementing Market Segmentation

Wind's (1978) seminal review of market segmentation research culminated with a research agenda which emphasised both academic and practitioner interests. 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.

Research in the intervening period has focused on segmentation bases, models, research techniques and identifying statistically sound solutions (cf: Acito & Jain, 1980; Green & Krieger, 1991; Mitchell, 1994). Practical questions about implementation and integration have received less attention (Dibb and Simkin, 2008; Doyle, 1995). For managers seeking to overcome implementation difficulties (Verhallen et al., 1998), this paucity of practical guidance is exacerbated by the poor fit between published theoretical guidance and practicing managers' needs (Millier, 2000; Palmer and Millier, 2004). As Wedel and Kamakura (2002: 182) explain, despite progress in some areas, "much remains to be done in the conceptualization of strategic market segmentation and in the integration of marketing research and strategy". They specifically call for more work in some of the areas originally identified by Wind (1978), stating the need for "empirical tests of the predictive validity of segment solutions and the study of the stability of segments over time" (2002: 183).

A recent email survey of market segmentation research priorities targeting marketing academics and practitioners generated a pool of 50 research topics from which six cohesive areas emerged (Dibb, 2004). Each of these areas was subsequently refined and ranked based on feedback from the international community of marketing academics and practitioners. The first of the priorities was for research on segmentation variables and modelling, but the next two priorities focused squarely on managerial relevance/implementation and segmentation productivity. These second and third sets of research priorities included: identifying managerially compatible segmentation schemes and metrics; bridging the academic/practice gap for segmentation application; developing managerially useful segmentation tools; exploring segmentation's basis for competing, contribution and effectiveness; and considering suitable performance metrics. This suggests that 30 years after Wind's original research agenda (1978), questions about segmentation effectiveness and productivity remain; namely: (i) concerns about the link between segmentation and performance and its measurement; (ii) the notion that productivity improvements arising from segmentation are only achievable if the process is effectively implemented.

The significance of this research shortfall is that many businesses are struggling to implement their segmentation schemes (Dibb & Simkin, 2001; McDonald & Dunbar, 1998; Weinstein, 1987). As a direct consequence, they may fail to generate homogeneous customer segments for which appropriate marketing programmes can be developed (Simkin, 2002). Understanding the character and causes of the implementation barriers is a necessary step towards the action needed to tackle them (Simkin, 2008).

Implementation difficulties arise for various reasons. Some argue that the literature fails to emphasise implementation issues and that marketers are given insufficient guidance on making segmentation work (Jenkins & McDonald, 1997; Piercy & Morgan, 1994; Weinstein, 2004); others highlight poor managerial understanding and operational constraints (Plank, 1985; Simkin 2002). Problems with the commitment and involvement of senior managers (Engel et al., 1972); the organisation's preparedness for market change (Beane and Ennis, 1987); and interfunctional co-ordination (Brown et al., 1989) are also of concern. Taken together, this published material suggests a mix of tangible or *hard* barriers, such as the availability of data and other resources, as well as a number of *soft* barriers, such as company culture, inter/intra-functional communication and leadership style. Table 1 provides an overview of these barriers, categorised according to whether they relate to organisational culture, resources, the nature of the segmentation process, or operational considerations.

Take in Table 1 here: Categories of Segmentation Barriers

The marketing planning literature has also focused on implementation concerns, identifying a range of implementation impediments, including: lack of senior support (Piercy and Morgan, 1994; Simkin, 2002); resource shortages, data problems (Greenley, 1982); internal involvement/communication difficulties (Pearson and Proctor, 1994; Giles, 1991; McDonald, 1992); staff motivation (Simkin, 2002); operational restrictions (McDonald, 1992); poorly specified implementation plans (Jain, 2002). Marketing planning researchers also offer guidance on how such impediments can be overcome. The obvious parallels with the segmentation context barriers support the notion that proactive management might minimise the occurrence and impact of these barriers in this case.

The synoptic or sequential nature of the segmentation process means that the barriers which impede it occur at different points: thus segmentation can be hindered at the outset (by *infrastructure* barriers), during the *process* itself, or when *implementation* is being rolled out (Dibb, 2005). These impediments have been captured in a segmentation tool designed to help practitioners diagnose and treat the barriers they face (Dibb & Simkin, 2001) [see Table 2]. This research uses these categories of barriers as a framework around which the case study presented here is constructed. The objectives here are two-fold: (i) to provide a practical test of the relevance of the diagnosed areas and their treatments; and (ii) using this test as the basis, to develop a more comprehensive classification of segmentation implementation rules.

Case Study

Method

Studies of real-world segmentation must capture and reflect the practical complexities which managers face (Dibb and Simkin, 2008). A case study approach enables an in-depth analysis of the process and stakeholders involved, provided appropriate access can be agreed. The utilities company described in this case study was suitable for this research because: i) the organisation was undertaking a major segmentation project; and ii) a high level of access was negotiated to middle and senior managers for the entirety of the segmentation process and its implementation. This enabled a longitudinal and in-depth study of the organisation's segmentation process from the start of planning through the creation of segments and into the development of marketing programmes for the emerging segments. Although we cannot claim to be able to generalise the analysis from this single case study to other contexts, our findings do provide a theoretical basis against which future cases can be compared.

Take in Table 2 here: Diagnosing and Treating Key Segmentation Barriers

Using an embedded case study design, data were collected through regular close contact with senior managers throughout the ten months of the segmentation project. This contact included attending strategy and marketing meetings, budgeting and review sessions, as well as regular meetings and workshops with the segmentation project team. Information was collected about the:

- market segmentation objectives
- steps in the market segmentation programme
- roles of different organisational and external personnel in the process
- sources of data, data collection and nature of data analysis
- the internal communication process
- details and validation of segment outputs
- nature of barriers to progress and details of when/how they occurred
- remedial action taken to overcome implementation barriers
- impact of the segmentation, including the nature of performance monitoring.

Detailed written records were kept to reflect the scope and content of the meetings and other contacts with the organisation. For example, in the case of strategy and marketing meetings, these took the form of minutes designed to capture the items being discussed, but formatted to reflect the themes listed above. This enabled the researchers to explicitly capture the themes of interest in the context in which they occurred. As well as being an important step in ensuring data quality and credibility (Flint et al., 2002), these records allowed particular themes to be quickly identified during the analysis phase.

The analytic strategy, which focused on the various written records supplemented by a range of internal documents, involved a teasing out of barriers arising during the planning, analysis and implementation phases of the programme. The clear identification of themes in the written records aided this process of gradual explanation building (Yin, 1994). Follow-up discussions with managers supported this process, enabling details of the explanation to be clarified. These discussions were particularly valuable in refining the implementation rules emerging from the analysis. The adopted analytic strategy reflects both the iterative nature of explanation building and the value of using multiple sources of evidence. This ensured that the findings from the case study were based on the collection and analysis of data from a number of different sources, enabling what Yin (1994: 91) describes as a 'convergence of information'.

The case study begins by explaining the study context, provides background information on the utility (energy) business and its objectives, explains the segmentation approach and outcomes, then reviews the problems arising, and explores how they were managed.

Case Context

Electricity supplies in the UK were initially provided by a plethora of local private companies, all using different specifications and power outputs. In order to maximise uptake, harmonise operating standards and ensure the public's safety, government regulation eventually led to state-controlled regional monopolies. Commercial and household customers in a geographic region such as the Midlands of the UK all received both infrastructure and energy from the region's designated regional electricity company (REC), with price and service fixed. During the 1980s, the UK Government began a programme of privatising or deregulating nearly all remaining state-run enterprises. By the 1990s it was the turn of gas (British Gas/Transco), and the regional water and electricity companies. For the first time in living memory, consumers and business customers were able to choose their electricity supplier.

The freshly deregulated market attracted many well-known new entrants. Tesco, Virgin and Sainsbury's were among the big brands which entered the electricity retail market. The RECs also became targets for larger overseas energy businesses, with a series of mergers and acquisitions resulting in six energy firms dominating the UK supply of electricity and gas: British Gas, French-based EDF Energy, Npower (owned by Germany's RWE), Scottish and Southern, Scottish Power (owned by Spain's Iberdrola) and Germany's E.on after its purchase of PowerGen.

Today there is little brand loyalty, with many consumers regularly switching their energy suppliers; lured by lower prices or a guarantee of no price inflation for a fixed period. As the market becomes increasingly price-led and competitive, some of the larger energy suppliers are differentiating on other dimensions, including their green credentials, tariff innovations and customer service capability. These companies are also using market segmentation to identify the most attractive groups of commercial and private customers. For example, E.on has identified segments based on the lifetime value for the account.

The Organisation and its Objectives

The energy business described in this case is a provider of generating capacity, infrastructure and energy distribution which recently embarked on a segmentation programme. The aim was to energise the efforts of the organisation's sales and key account managers, and to help identify attractive customer groups on which resources could be focused. Several of the leadership team had MBAs and were familiar with the benefits of market segmentation, while two directors had direct experience of segmentation from other sectors. Despite this expertise, senior managers expected to encounter resistance from within the company. The Strategy Director decided to secure the necessary internal support by directly involving those senior and line managers who would be most affected by the project. The objective was to ensure strong buy-in throughout all stages of the project. A rigorous segmentation process, which would stand up to external scrutiny and comply with regulations governing the sector, was put in place. The project objectives agreed by the business were to:

1. Identify sub-groupings of customers based on a mix of characteristics, purchasing behaviour and spend, rather than profitability alone.
2. Generate enthusiasm for the process amongst customer-facing managers.
3. Develop a transparent segmentation, so that staff could instinctively allocate customers to a particular segment.
4. Seek market leadership by prioritising and resourcing the most attractive market segments in a differentiated, competitively effective and regulatory compliant way.
5. Develop marketing propositions tailored to targeted customer requirements, through novel sales and marketing programmes.
6. Update insights into customers, competitors, market trends and organisational capabilities.

The Segmentation Approach

The energy company began by running an orientation workshop for senior personnel and key line managers responsible for sales, marketing, key account management and customer service. This externally facilitated event established the required actions, resources, personnel, timeframes and reporting structures for the project. A cross-functional project team was established and a new marketing manager recruited to administer the project. External experts were on hand to provide support.

There are many different ways to carry out market segmentation. Some experts advocate a quantitative survey-based approach, using multivariate analysis to identify segments. However, such methods often bring wholesale changes to customer groups and target markets, demanding a complete realignment of internal structures and personnel. In practice, many organisations seek less radical approaches because various operational constraints affect the level of change which can be achieved. The macro-micro segmentation approach (Wind and Cardoza, 1974), which was developed for business-to-business markets, is easier to operationalise because it starts with the company's existing customer groupings (macro-segments) then develops micro-segments based on Decision-Making Unit variables from within these broader macro-groupings (Simkin, 2008). The process used here was similar: the segmentation team began with the existing customer groupings, then using available data and marketing intelligence identified new sub-groupings within these existing segments. By aggregating similar sub-groupings in new ways, revised segments were created. Sales and marketing personnel familiar with the market and customers play a key role in this process. Senior managers at the energy business decided to use this approach owing to cost and time pressures, but also to ensure the direct participation of the organisation's personnel in creating the market segments.

For each existing customer grouping a template was prepared which captured customer characteristics, buying centre dynamics, energy usage/consumption data, customer needs, the buying decision-making process and influencing factors. The templates were populated by cross-functional teams made up of senior and line managers, sales, marketing, key account and customer service personnel familiar with each customer grouping. Workshops run over a three week period, with the marketing manager as facilitator, examined all of the company's customer types.

In practice, the needs and buying behaviour of the existing customer groups proved too broad to generalise onto one template. The teams found that dissimilar customers had historically been grouped together due to: industry 'norms', operational convenience, regulatory compliance, and ignorance of customers' behaviour. Using the templates as the basis, each existing customer group was sub-divided into more homogenous groups. For each original customer group, between eight and twelve sub-groups of customers were identified. A separate template was prepared for each of these new sub-groups. Based on these templates, the project team then re-aggregated the customer sub-groups into new market segments by merging those which had similar characteristics, needs and buying behaviour.

In parallel to identifying the market segments, the marketing team was updating its intelligence on competitors and the marketing environment. Senior managers also decided to use the Directional Policy Matrix (a portfolio planning tool) to help assess and prioritise the emerging market segments. In conjunction with the segmentation project team, agreement was reached on a set of market attractiveness criteria to be used to assess the relative attractiveness and capability fit of the emerging market segments. Regular in-company briefings ensured the leadership team and other stakeholders were fully informed about the progress of the segmentation project.

The Segmentation Outcomes

The initial priority for the business was to produce a segmentation scheme for commercial customers (public and private sectors). The details provided below have been disguised to protect the identity of the energy business. Fourteen different business segments were identified, two of which were prioritised for growth following the preparation of the Directional Policy Matrix, several were to be harvested and supported with marketing programmes, and several segments were identified as being unattractive to pursue (see Table 3).

Take in Table 3 here : Business Segments for Prioritising or Harvesting

Problems and Solutions

Members of the senior leadership team had a working knowledge of segmentation barriers gleaned from the academic literature and from previous experience. They believed that these problems could be minimised through careful planning and by adopting a positive 'can do, will do' attitude. Even so, at each stage of the project a number of problems arose which needed to be carefully managed. These impediments, and the point in the process at which they occurred, are explored below.

1. Infrastructure Impediments – Before Segmentation

Senior managers with previous experience of strategy initiatives understood the need for a cross-functional team with senior involvement. The value of external specialists was also recognised, with the recruitment of a segmentation expert from a commercial consultancy. The resulting team soon had to deal with a major barrier to progress: varying levels of support across the business for changing the way in which customer targets were defined. Some managers were particularly resistant to the possibility that the project might lead to changes in their roles. Involving the senior leadership team in the project from the start was vital in encouraging personnel that change might be in the organisation's best interests.

Corporate pressures meant there were just three months to generate the segmentation solution. The company had slipped in the customer satisfaction tables and was under pressure by its hierarchy to identify the most attractive target markets. Once the project was underway, the newly recruited specialist marketing manager and support personnel helped mitigate the inevitable time pressures.

A shortage of suitable data proved challenging. Despite having access to general industry analysis, there was relatively little in-depth customer data available. Without such data, the creation of market segments is problematic. The creation of cross-functional teams enabled in-house customer expertise to be captured and recorded. Marketing, customer support, sales and key account managers, supplemented with external industry experts, all played a role in building the necessary customer insights for the template-led segmentation approach.

2. Process Issues – During Segmentation

Time constraints precluded a large-scale quantitative survey of customers' usage, attitude and purchasing behaviour. Instead, external advisors suggested the 'macro-micro' type review of existing customer groupings through which more homogeneous segments could be created. Managers needed to quickly instigate the required marketing environment and competitor analyses to ensure that the project was not delayed due to data shortfalls. Calculations of the financial value of different customer types were also carried out, so that this vital information was available for the portfolio analysis and to avoid delays to the project's timeframe.

The recruitment of a marketing manager solely to orchestrate and control this segmentation project was viewed as essential by senior managers who had witnessed previous failures of strategic projects within the company. A shortage of suitably skilled and experienced personnel had already been identified, so this recruitment in conjunction with the external adviser support and the direct involvement of the specially created project team helped overcome this resource problem.

Data deficiencies were expected by the team, but the gaps in customer, competitor and marketing environment intelligence were much greater than had been anticipated. Mangers realised that these data problems would seriously jeopardise the creation of segments and consequent decisions on targeting. The solution was to extend the segmentation workshop programme to include more personnel with customer and competitor expertise. A carefully targeted programme of marketing research was also commissioned to allow remaining data gaps to be filled.

Two unexpected problems arose during the segmentation process. The first was that the creation of actionable segment descriptions (profiles) took longer and required more workshops and meetings to reach agreement than had been expected. Several iterations were needed before actionable segment profiles were developed which enjoyed the support of all business functions. The second was that the leadership team struggled to look beyond immediate profitability when deciding which segments to prioritise. This short-term view was in danger of limiting the value of the portfolio planning and targeting exercise. Following recommendations from the external expert, a broader set of senior managers was drafted in to discuss this issue, resulting in a more balanced set of short and long-term segment attractiveness measures being agreed. All of these problems ate into the project timeframe, leaving little opportunity to consider the segment roll-out and to anticipate problems which might subsequently occur.

3. Implementation Blockers – After the Segmentation

Time shortages, limited resources and personnel pressures meant that plans for implementation were not as comprehensive as required, at the outset of this phase. Recognising the dangers of the situation, the project team moved quickly to ensure that a sufficiently detailed implementation plan was put in place. Now the benefits of careful project planning and the programme of workshops which had been a feature of the initiative became apparent. Awareness of the project and the resulting segments were already high, with many personnel having inputted to the process. The visible support of the senior leadership team for the process and its outputs helped cement the credibility of the new segments. Inevitably, the choice of priority segments to be targeted did create considerable discussion, but largely amongst those not privy to the portfolio planning exercise.

Five significant problems were faced in operationalising the emerging segments:

- Data mining. Millions of customers had to be assigned to segments. This demanded considerable time, senior level support and the skills of external specialists. Once populated, the segments' relative financial value could be calculated and performance standards established to allow progress monitoring.
- Competitor intelligence. Despite routine competitor analysis, only once the segments existed could the nature of the direct competitive threat within particular segments be properly assessed. There was a time lag before new research could be set up to gain these insights.
- Corporate and business planning. Senior managers had to balance the demands of the segmentation project with those of the annual corporate and business planning. Creating a project team helped mitigate this problem, but inevitably conflicts of interest, availability and commitment continued.
- Resistance to change. Senior sales managers were resistant to the project throughout. Despite being involved in the workshop programme, they argued about the make-up of the segments and about the agreed profiles. Their concerns, many of which probably were caused by anxiety about change, could not be ignored. Further sessions were required to overcome these anxieties and to ensure that their views were fully incorporated.
- Changing focus in programmes. Given the new-look customer segments, the revised priorities, and the greater awareness of competitor strategy which resulted from the project, changes to the organisation's sales and marketing programmes were inevitable. Bringing about such changes invariably brings problems and is demanding on resources and budgets. The CEO's explicit commitment to the new

strategy and renewed growth targets in the corporate strategy helped foster the required change. The project team also decided to build confidence in the segmentation output by initially focusing on a few of the segments. This enabled the impact of the new sales and marketing to be demonstrated through improved customer retention and acquisition rates. Even so, some time elapsed before fully revised programmes were in place for all newly prioritised market segments.

Discussion

The case study reinforces the academic literature on practice-based segmentation in two ways. First, it supports the sequential nature of the segmentation process and the different barriers occurring during this process. Second, the revealed barriers are consistent with those described by other researchers. These were *organisational culture* issues related to inter- and intra-functional communication, managerial enthusiasm and involvement, and the role of senior leaders. Despite a rigorous *segmentation approach*, ensuring that all personnel had the required grasp of segmentation principles proved challenging. There were also problems of 'fit' with the corporate planning cycle. The *operational* problems were primarily traceable to a lack of flexibility in distribution, and salesforce resistance to the radically new segments. *Resource* barriers were much as expected: time pressures were the most serious, with data shortfalls and pressures on personnel also causing problems.

A distinctive feature of this case is that many of the managers had previously experienced strategic or change management initiatives, either through MBA programmes or from working in other industries. The project team, therefore, started the project with a working understanding of the potential barriers. In the following discussion we pinpoint areas in which this knowledge enabled these barriers to be avoided or overcome and those where it did not. We also consider the different mechanisms which managers used to overcome the encountered barriers.

At the start of the project a systematic audit of the required financial, people and other resources enabled potential implementation barriers to be identified. Steps were then taken to secure the involvement of senior management, select a suitable inter-functional project team and to recruit a specialist marketing manager to 'own' the programme. These actions capitalised on existing in-house expertise, ensured involvement from those likely to be affected by the programme outcomes, and enabled the early identification of skill gaps which needed to be filled by external specialists.

Areas which were more problematic centred on a poor level of support and a culture of resistance from managers in some areas of the business. Had the strength of these feelings been anticipated, the project team would have been better able to deal with them. The use of personal mentors for those likely to be most affected by the project outcomes was one option that could have been considered. Problems with the timing of the project, if recognised, could have been resolved by reallocating some of the key managers' other responsibilities.

During the creation of the segments, the project benefited greatly from the systematic process which had been established. The new marketing manager undertook the day-to-day running of the project, including reviewing the existing customer groups, identifying the new segments, and calculating their financial value. Through methodical project management, he brought together personnel with the right mix of customer and competitor know-how, extending the workshop programme accordingly. Meanwhile the external expert had also demonstrated his value, playing an instrumental role in developing a more appropriate set of targeting criteria.

Regardless of this carefully orchestrated process, some unexpected resource problems arose. Despite commissioning additional marketing research, shortages of data threatened the creation of segments and the targeting process. Time constraints exacerbated the problems, with demands for extra workshops and meetings having serious repercussions for staff time. The root cause was the difficulty securing cross-company agreement for the new segments, with each functional area having its own views about segment attractiveness. As the project timeframe became progressively eroded, there was less time available for detailed planning of the project implementation.

During the implementation phase the benefits of the workshop programme became apparent, with good understanding of the programme and its outputs right across the organisation. Strong support from the CEO and wider senior leadership team helped endorse the new segments and ensured they were reflected in the corporate plan.

Nonetheless, some of the encountered barriers were greater than expected, with time and resource pressures among the most significant. Pressure points arose because the task involved in assigning customers to new segments was more demanding and time consuming than anticipated. Senior managers struggled to balance their workload because the programme timing clashed with the annual business planning cycle and various regulatory reviews.

The level of resistance to change, a major theme throughout the project, exacerbated the time pressures. Even managers who had been involved throughout the programme were anxious about the personal impact of segment changes. New segments lead to new business priorities for the business and changes to existing marketing programmes. Although resources were in place to implement these changes, the level of resistance from managers had not been fully anticipated. The leadership realised that having a system for mentoring key individuals might have alleviated some of these difficulties. Instead, the problems were handled by phasing the introduction of the new segments and by setting up extra workshops to address staff concerns. This had implications for budgets, time and levels of personnel involvement. The necessary internal communications and 'hand-holding' of concerned staff were significant demands on the project's team.

Implementation Success: Rules, Mechanisms and Context

The literature review, which preceded the case analysis, meant it was possible to anticipate some of the implementation barriers. The energy company's experiences suggest that while actions taken to reduce the impact of such barriers had some effect, they were not sufficient to remove them entirely. This suggests a role for more detailed managerial guidance on identifying and overcoming segmentation barriers. The implementation 'rules' in templates A, B and C have been devised to reflect the successful aspects of the implementation programme and to learn from areas in the case study where success was more elusive. The *Infrastructure* rules are for consideration during initial planning of the segmentation project (template A), while the *Process* and *Implementation* rules apply to the later stages (templates B and C respectively). Three sub-categories of rules are presented in each template, concerning: the segmentation approach; the resources; and, organisational culture/operational issues. The organisational culture and operational themes are combined in this last grouping, due to the overlapping nature of some of the issues.

TEMPLATE A: 10 Infrastructure Rules: 'Before' Segmentation

Approach Adopted:

- **Learn from previous corporate mistakes:** Review past marketing/strategy initiatives, to identify cultural and operational problems causing failure. Learn the lessons from previous good and bad practice.
- **Decide on coverage:** Decide to identify segments which cover all operations or to focus on a particular country, product group, sector or brand. Previous strategic initiatives will suggest which is more likely to succeed.
- **Optimise project timing**: Handle the project's timing demands by scheduling work to avoid seasonal business peaks, new product launches, or annual strategic planning or budgeting.

Resources:

- **Identify and release resources:** These include marketing intelligence and marketing research funds, time/commitment from suitable personnel, analytical skills, supporting technology, administrative provision, effective communication media, and senior executives' time. Ensure the time of key personnel is protected.
- **Rectify shortfalls in resources and skills:** Recognise the true range and depth of skills and resources needed. Identify and rectify deficiencies as soon as possible.
- **Select a suitably skilled team:** Ensure the team has the necessary skills: including insights into market trends, customers, competitors, organisational capabilities and corporate strategy. Include managers from other functions as needed (eg: sales, logistics, customer service, NPD), checking that all affected by the segmentation are involved/represented. Identify or hire in staff with analytical skills.
- **Evaluate marketing intelligence and the MIS:** Quickly identify and remedy data shortfalls to allow time to populate the MIS. Existing IT-based information may need to be supplemented with additional customer data. Collect extra competitor intelligence and market trend information as required. Ensure ready access to the required data and those who own them.

Organisational culture/operational:

- **Determine leadership, reporting and the senior project champion:** Identify a senior and credible project champion to steer the project through procedural hurdles and to ensure co-operation. Establish effective communication channels throughout the organisation. Allocate key tasks to named managers, with clear reporting times.
- **Communicate aims and expectations:** Encourage commitment by clarifying the potential benefits of the project and be honest about the demands. Manage expectations so that changes in how customers are managed and targeted are anticipated. Clarify and communicate expected timeframes and reporting points.
- **Allocate mentors and establish facilitation:** Allocate mentors to support the managerial team and monitor individuals, so that problems or skill gaps can be identified and addressed.

TEMPLATE B: 10 Process Rules for Success: 'During' Segmentation

Approach Adopted:

- **Choose a suitable approach/process:** Consider whether there are the skills and experience to handle the project 'in-house' or decide to outsource. Involve personnel with previous segmentation experience, combining in-house capabilities with outsourcing as appropriate. An external facilitator may help reduce political in-fighting and provide best practice guidance. Identify milestones and put measures in place to ensure they are achieved.
- **Adopt a balanced set of targeting criteria:** Select a balanced mix of targeting attractiveness criteria, so that attractive segments are chosen and the organisation has the capabilities to pursue them. Include short- and longer-term considerations and use a mix of internal values and external market-facing factors.
- **Prioritise segments to target:** Ensure the segmentation maximises the opportunities associated with changing market conditions. The leadership team must be responsive to the opportunity analysis and review the organisation's portfolio accordingly. Realign resources to support the attractive target markets, modify performance metrics, and support managers through the resulting changes.
- **Determine relevant positioning strategies:** Create positioning messages to address new segments. In existing segments use new customer insights to modify positioning. Reconsider positioning messages each time competitive analysis is reviewed, so that the positioning strategy reflects the changing market.
- **Specify marketing mix programmes:** Operationalise the targeting and positioning with bespoke marketing mixes for each segment. Ensure the marketing programmes fit with the findings from the customer, market trend, internal capability and competitor analyses.

Resources:

- **Apply appropriate resources:** Address skill gaps and provide relevant training and mentoring. Seek external support for data collection and analysis, if needed, to free up the time of key managers. Ensure the ongoing availability and commitment of members of the segmentation project team.
- **Access and analyse suitable data:** Identify and address data gaps, ensuring that the most important are met first. Brief researchers to collect the information and identify skilled analysts to examine the data and derive the market segments.

Organisational culture/operational:

- **Encourage lateral thinking:** Where major changes to existing customer segments are likely, be aware that managers who are uneasy about change may act to try to maintain the state quo. A senior champion must encourage lateral thinking, so that organisational capabilities and existing practices are critically reviewed. Use cross-functional discussion to smooth the subsequent implementation.
- **Debrief colleagues regularly:** The project team should regularly review marketing intelligence, consider new segments and discuss targeting options. Ensure other personnel are debriefed and involved in the project. Use workshops attended by knowledgeable personnel, external analysts, suppliers and industry observers, to collect information on market developments.
- **Identify emerging blockers:** Recognise that problems will arise in any segmentation project and be ready to handle them. A review programme should be set up so that emerging impediments can promptly be spotted and remedied.

TEMPLATE C: 10 Implementation Rules for Success: 'After' Segmentation

Approach Adopted:

- **Produce a detailed implementation plan:** Segmentation projects do not end when segments are created. Prepare a detailed plan to ensure that people, budgets, sales and marketing programmes, product development, performance measures and the outlook of senior managers, are re-aligned to reflect the new-look customer segments and priorities. Bring required products quickly to market, make necessary changes to customer service or logistical support, trade or channel relationships must be managed, and the required pricing and promotions actioned.
- **Internal marketing of the segmentation strategy:** Proactively tackle resistance to changing marketing programmes and budgets. Understand and respond to managers who are concerned about the unfamiliar customer groups. Involving personnel in the segmentation process should have minimised these problems and increased buy-in to the project outcomes. Use senior staff to promote the segmentation and its conclusions through workshops, out-briefings and meetings.
- **Track implementation:** Regularly review implementation progress through cross-functional meetings, involving senior executives and other personnel. Identify internal blockers to progress, assess competitors' reactions, market acceptance and organisational deficiencies in handling particular market segments.
- **Monitor commercial performance**: Carefully monitor that expected performance improvements in targeted segments are achieved. Use a balanced set of short and long term-performance measures, reflecting customer closeness and competitiveness, as well as financial gains. Realign marketing mixes if short-term uplifts are not seen. Communicate performance improvements to personnel.

Resources

- **Allocate responsibilities, timelines, resources:** Specify clearly who is responsible for what and when. Agree and allocate resources and budgets for the priority segments. Ensure segments deemed a low priority are not allowed to attract resources.

Organisational culture/operational:

- **Remedy emerging blockers:** Identify internal, resource and operational barriers which might impede aspects of the detailed implementation plan, so that such problems can be proactively managed.
- **Promote senior endorsement:** Ensure senior champions endorse, promote and control the agreed segmentation. Use strong leadership to calm uncertainty about change and to ensure the best fit between the strategy and marketing programmes.
- **Address organisational alignment:** Assess existing operating structures and management teams, to reveal areas needing re-orientation. The senior leadership team must proactively deal with the consequences for leadership and reporting. Re-align budgeting and financial reporting procedures accordingly.
- **Reward progress:** Reward staff for positive contributions to this demanding and resource-hungry process. Words of encouragement from leaders, promotions or a re-structuring of bonus schemes and remuneration, all have a part to play.
- **Deal with poor co-operation:** Develop a strategy for handling poor co-operation. Use training and mentoring to overcome deficiencies in skills or experience. Minimise the negative impact of staff who are resistant to new ideas, using career management or mentoring, censoring, or by moving unsuitable individuals to other roles.

These rules comprehensively reflect the segmentation implementation barriers which organisations face, drawing on the research findings from this and earlier published studies. However, managers seeking to apply these rules also need more detailed guidance on ‘how’ they can best be implemented, with particular emphasis on the mechanisms to be used. Our case study findings have captured some of the mechanisms used by the utilities business to implement the segmentation programme and also highlight others which managers felt would have been beneficial:

- *Auditing:* At the start of any segmentation programme, a period of auditing is warranted. Two main forms are possible: (i) a systematic review of available financial, data, personnel and other resources matched to the needs of the project; and (ii) reflection upon the organisation’s previous record and experiences of change management programmes and strategy implementation.
- *Project teams:* Identifying and empowering an appropriate project team ensures clear allocation of project responsibilities. As the energy company discovered, this needs to involve managers from a range of different functions in order to minimise resistance later in the project.
- *Outside experts:* This additional resource can be usefully deployed to fill internal skill gaps, supplement the project team, and bring a more objective perspective to the programme. ‘Designing in’ such expertise from the outset is possible where shortages of personnel or of particular skills are identified as problematic. However, as the case study shows, the *flexibility* of this resource means it can also be used to fill emerging gaps as a project progresses.
- *Workshops:* Setting up a programme of workshops, to which those involved in the project are invited, helps to set aside the necessary people and time resources for conducting the project. As the energy company found, concentrating these workshops into a relatively short period of time can increase the sense of purpose. Off-site events devoted entirely to the segmentation programme can be especially valuable: as a mechanism for kick-starting the process; to earmark time to conduct required analysis; or to negotiate required implementation changes. Using external facilitators can help defuse political sensitivities.
- *Briefings:* The internal marketing of a segmentation project can be even more challenging than the analysis and design of the segments themselves. Agreeing a consistent format for these briefings ensures that all stakeholders are regularly

updated about the project's progress and outcomes. In combination with a workshop programme, these briefings provide a mechanism for breaking down internal barriers as the project progresses. For example, the energy company scheduled extra sessions to manage particular problems around targeting decisions.

- *Mentoring:* Establishing a system of personal mentoring can be invaluable for projects with wide ranging strategic implications. Feelings of insecurity and anxiety among staff are inevitable during such periods of change. Managing these concerns through one-to-one mentoring can lessen the potential for personal interests to threaten project outcomes.

Conclusions and Implications

Thirty years ago, Wind's (1978) segmentation research agenda highlighted the need for studies of segmentation effectiveness and productivity. Despite a burgeoning segmentation literature, much of the research published since has focused on the creation of segments rather than on managing segmentation in practice. By following one organisation's journey through the segmentation process and observing the implementation difficulties as they arose, we have classified the barriers and developed a series of implementation rules for practitioners which are designed to minimise their impact. Although our findings add to the checklists of barriers which have been generated by earlier implementation studies, we have also sought to understand more about 'how' such barriers can be overcome. A specific contribution from this paper is the specification of implementation rules for practitioners, focusing on the context in which these can be applied and the mechanisms which can be used. Further research is now needed to test these findings in other settings and sectors, and to examine other aspects of how implementation can be achieved.

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Table 1: Categories of Segmentation Barriers

Organisational culture:
Leadership (commitment and involvement),
Communication (inter/intra-functional co-ordination),
Customer focus,
Planning culture
Resources:
Data (availability),
Personnel (numbers with suitable skills and experience),
Financial,
Time (allocated to project),
Skills (understanding of segmentation principles and process)
Segmentation Approach:
Planned process,
Fit with corporate strategy,
Understanding of segmentation principles
Operational:
Company structure (flexibility, status of marketing),
Distribution and sales structure, flexibility)

Table 2: Diagnosing and Treating Key Segmentation Barriers

	INFRASTRUCTURE	SEGMENTATION PROCESS	IMPLEMENTATION
DIAGNOSIS	Problems include data gaps or lack of an MIS; shortfalls in other required resources; low level of marketing or segmentation expertise; lack of customer focus; weak inter/intra-functional communication; organisational resistance to change; insufficient commitment from senior management.	Barriers include a shortfall in required data for identifying segments; insufficient budget; lack of suitably skilled personnel; weak understanding of the segmentation process; poor sharing of data and ideas; inadequate inter-functional buy-in; poor appreciation of the fit with corporate strategic planning.	Problems include inadequate financial resourcing for implementation; insufficient time or suitably skilled employees committed to the segment roll-out; poor internal/external communication of the segment solution and lack of senior management involvement; unclear demarcation of implementation responsibilities; poor fit between tactical marketing programmes and the segment solution; organisation resistance to required changes and/or inflexibility in the distribution system.
TREATMENT	Prior to undertaking segmentation: • Conduct a review of available marketing intelligence • Identify relevant skills and personnel • Ensure senior management participation • Plan and facilitate channels of communication • Earmark required resources • Instigate internal orientation of segmentation principles and of the programme	During the segmentation process: • Specify sequential steps for the segmentation process • Identify skill gaps. Seek external advice and training • Prioritize information gaps. Collect data. Create/update the MIS • Instigate regular internal debriefs of data and ideas • Review the on-going fit with corporate strategy	Facilitate implementation: • Identify key internal and external audiences • Prepare an internal champion-led marketing programme to communicate the segment solution to audiences • Facilitate necessary changes to organisational culture/structure/distribution • Re-allocate personnel and resources to fit the segmentation solution • Specify a schedule and responsibilities to roll-out segment solutions • Instigate a mechanism for monitoring segment roll-out

Source: Adapted from Dibb, S. and Simkin, L., (2001).

Table 3: Business Segments for Prioritising or Harvesting

PUBLIC SECTOR:

- *The Professionals*. Professional purchasing managers, focused on good service and seeking value for tax payers, increasingly concerned about carbon footprint and green issues.
- *No Change Traditionalists*. Risk averse public sector traditionalists, committee led decision-making, influenced by their own networks and similar organisations.

SMALL BUSINESS:

- *Independents*. Price conscious small enterprises such as shops, business services or restaurants, focused on reducing operating costs and profitability. Heavily influenced by the media.
- *Ego Stroked Proprietors*. Deal-seeking localised chains/SMEs, in which the entrepreneur's ego must be massaged.
- *The Buyers*. Energy-aware light manufacturing and small industrial firms with energy managers and facilities managers, seeking simple buying and a good deal.

MULTI-SITE BUSINESSES:

- *Energy Savvy*. Large multi-site energy aware businesses, with an in-house energy team seeking significant cost savings and reliable multi-site billing.
- *Low Awareness Purchasers*. Multi-site customers needing cost savings, not energy-savvy or very focused on energy trends.
- *Site Churners*. Multi-site operators with quickly changing site portfolios; price is important but not as much as service levels.
- *Frequent Switchers*. Multi-site frequent switchers, deal-led and with no loyalty.