On the Shoulders of Giants

Technology has allowed market segmentation to get better and spread into new areas, but it still comes down to the basics, explains Professor Sally Dibb

Much has changed in the fifty years since market segmentation was hailed as the panacea of modern marketing. Technological advances have radically enhanced firms' ability to capture and manage customer data, generating a new segmentation landscape dominated by powerful CRM systems and accompanied by the promise of the 'segment of one'. As a consequence, marketers have a more in-depth understanding of their customers and there has been a proliferation in new applications which capitalise on the opportunities that this enhanced insight can bring. This is probably just as well, given the rise of the savvy customer who knows what s/he wants and has high expectations that it will be provided.

So against this dynamic backdrop, has the remit of market segmentation really changed? The quick answer is that the basic purpose of market segmentation has altered little. It is used by practitioners, as it has always been, to manage diverse customer needs and to allow judicious targeting of precious resources at the most attractive prospects for the organisation. This relies on the simplest of rationales, which Levitt (1983) expressed:

"the objective of marketing is to get and keep (the) customer, and that this is achieved by knowing what the customer wants, how (they) differ from one another and how these differences can be clustered into meaningful segments"

Whilst this basic principle hasn't changed, technology has changed the manner in which it is achieved and transformed the contexts in which it is applied.

Many organisations, for example, have recently been affected by legislative changes introduced in the aftermath of the 9/11 terrorism atrocities requiring the monitoring and reporting of suspicious spending behaviour. Anti-Money Laundering legislation requires financial institutions to participate in monitoring and reporting suspicious account activities which might identify the use of funds for criminal activity. Core to this initiative is the notion of 'profiling' for security purposes, sometimes referred to as the 'securitisation of customer data'. This involves financial organisations segmenting their customers, just as they would for commercial purposes, but in this instance with the aim of identifying and reporting *undesirable* rather than *desirable* individuals.

A very different application involves using segmentation principles in social marketing interventions, which apply marketing tools to solve social and health problems. Examples include targeting interventions designed to reduce smoking levels or to promote exercise. In the UK, segmentation is pivotal in targeting individuals in 'hard to reach' faith-based communities with healthy eating messages, while in Africa its potential impact in the fight against malaria is being recognized. Of course, this is just the tip of the iceberg. The true significance of these examples is that they illustrate the increasing scope and range of innovative applications for traditional segmentation ideas.

Many of these new applications are only possible because of the technological developments. Expectations abounded that there would be a new segmentation remit, brought about by the increased capacity to capture and manage customer data and by the Internet's impact on shopping behaviour. Commentators talked about a new segmentation reality, one which would be dominated by the notion of the 'segment of one', by mass customisation, and by all-powerful CRM systems. Their excitement and heightened sense of anticipation were understandable. Given that segmentation's purpose is to enable organisations to achieve closer and more resource-efficient matches with customer needs, the value is self-evident of technology which maximises the opportunities to capture and manage the required data. Financial services, utilities, and leisure are just a few of the sectors in which CRM and the associated customer insight are playing a crucial role in efforts to acquire, retain and maximise customer value. However, segmentation practice has not changed as fundamentally as we thought it would.

In a recent special issue on CRM in the *Journal of Marketing*, the editors expressed surprise when confronted with evidence that traditional market segmentation is working alongside CRM applications, rather than completely replacing it. They were even more intrigued by the apparent simplicity of these traditional segmentations, many of which grouped customers using only a few dimensions. Yet they really should not have been surprised. Market segmentation has, always played both strategic and tactical roles. Yes, the technological haze engulfing us has increased practitioners' capacity to refine marketing tactics, and to devise better tailored product and services packages for customers. However, a key role of traditional segmentation is its focus on bigger strategic questions, such as the identification of attractive target markets and the creation of a balanced portfolio of offerings. Implicit in this is that segmentation involves much more than bashing data with the heaviest available technological hammer! In fact, it is as much about understanding and meeting customers' needs profitably as ever. As Levitt himself explained:

"*If you're not thinking segments, you're not thinking. To think segments means you have to think about what drives customers, customer groups, and the choices that are or might be available to them. To think segments means to think beyond what's obviously out there to see".*

While the tactical application has undoubtedly evolved, it seems that the basic rationale for segmentation remains pretty much as before.

See the Special Issue of the *Journal of Marketing Management* on 'Bridging the segmentation theory/practice divide', (2009), Vol. **25**, No. 3-4, for an interesting selection of topical papers on market segmentation.

Other Reading

Boulding, W., R. Staelin, M. Ehret and W.J. Johnston (2005). 'A customer relationship management roadmap: what is known, potential pitfalls, and where to go', *Journal of Marketing*, Vol. **69** (October), pp. 155-166.

Canhoto, A.I. (2008). 'Barriers to segmentation implementation in money laundering detection', *The Marketing Review,* Vol. **8** (No. 2), pp. 163-181.

Dibb, S., and L. Simkin (2008). *Market Segmentation Success: Making it Happen!* New York: Routledge/The Haworth Press.

Levitt, T. (1983). *The Marketing Imagination*, The Free Press: NewYork.

Yankelovich, D. and D. Meer (2006). ‘Rediscovering Market Segmentation’, *Harvard Business Review*, Vol. **84** (No. 6), pp. 141-145.