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STRATEGY BASED SEGMENTATION OF INDUSTRIAL MARKETS

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1. Background

Market segmentation of consumer markets has received considerably more attention in literature than the segmentation of industrial markets. According to Bonoma and Shapiro (1983) "a careful search of the literature shows that only a few articles have had any direct, important impact upon the development of industrial market segmentation" (p. 4). Consequently, industrial market segmentation is currently primarily based on geographics and demographics. However, this leaves industrial suppliers unsatisfied, for segmentation of the market into homogeneous groups with regard to buying behavior has proved to be very difficult based on these criteria. Therefore, e.g. Laughlin and Taylor (1991) pointed out that there is a strong need for a managerial approach in industrial market segmentation.

In industrial markets, the products and services bought by organizational buyers are related to the objectives and strategies of their organizations (Chisnall, 1989). So, industrial buying behavior will primarily be driven by the strategy that is pursued by the buying organization. One is aimed at achieving ones goals by implementation of marketing strategy. Taking this point further, knowledge of the strategies pursued by industrial buyers could provide a valid base for segmenting the market with respect to industrial buyer behavior into relatively homogeneous groups. Research on strategic orientation has resulted in the identification of several strategic typologies (e.g. Porter, 1980; Miles and Snow, 1978). Relating such typologies to the focus of an organizations' activities (the business orientation, e.g. customer, technology, production), one can obtain a useful industrial market segmentation variable. In this respect, strategy typology is related to business orientation in order to be able to identify market segment elements (organizations). Thus, the problem definition of this study can be formulated as follows: to what extent can classification of organizations on the basis of their strategic orientation lead to segmentation of the industrial market with regard to buying behavior?

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2. Theory

Webster and Wind (1972) formulated an extensive general model of industrial buying behavior. They argue that four groups of variables are relevant in the buying process. First, the external environment of an organization determines the context within which industrial buying takes place. Second, buying behavior is influenced directly by factors related to the internal environment, i.e. technology, structure, tasks and objectives and people. The buying process is driven by the objectives of the organization and limited by available means. Third, the group of people involved in the buying process directly influences the buying decision (decision making unit). Finally, each individual exerts influence on the final decision. Johnston and Bonoma (1981) pointed out that the aforementioned process, especially at the level of the decision making unit, is influenced by factors specific to the kind of purchase (i.e. the importance, complexity, novelty and type of the purchase decision). In terms of the model of industrial buying behavior proposed by Webster and Wind the strategy pursued by an organization can be considered part of the internal environment.

In the literature several typologies of (marketing) strategies are proposed, e.g. Mintzberg (1973), Porter (1980) and Miles and Snow (1978). The Mintzberg typology is based on the process of strategy formulation within the organization. The Porter typology concerns a classification of competitive strategies into three generic strategic types: differentiation, cost-leadership and focus strategy. Miles and Snow have empirically identified four different types of strategies: prospector (innovative), defender (efficient), analyzer (efficient and adaptive) and reactors (no consistent strategy). Quinn and Hall (1983) proposed a framework, integrating the strategy typology of Miles and Snow with models identifying the criteria that determine the effectiveness of an organization. This is very much related to the business orientation. Considering the aforementioned typologies, it is clear that the Mintzberg typology is internal oriented and therefore less suited to consider in the context of market segmentation. Based on a comparison of the Porter typology and the Miles and Snow typology, Segev (1989) concluded that the latter considers the strategic environment and strategic decision making process more profoundly. Therefore, the strategic typology of Miles and Snow can best be considered with regard to industrial market segmentation. Apart from strategic types, different orientations toward business activities may be identified. Based on qualitative research we distinguish five different business orientations. They include:

1. client orientation, i.e. central focus is on the customer;
2. financial orientation, i.e. management is in the first place oriented toward financial performance, profit and turnover;
3. internal process orientation, i.e. focus is upon internal efficiency, internal procedures, and task division;
4. human relation orientation, i.e. focusses on a nice working climate and good personel relations;
5. technical R&D orientation, i.e. the organization is mainly focused on product development and new product/service possibilities.

Based on both strategic orientation and business orientation, one can identify different types of organizations. By relating these orientations to industrial buying behavior one can investigate whether strategy and business orientation are effective segmentation variables for the industrial market (see figure 1).
3. Empirical study
The research model is investigated by studying car phone purchase decisions by organizations in The Netherlands. A disproportional stratified sample was drawn from a database of 85,000 Dutch organizations. Stratification variables were type of industry and number of employees. An effective sample of 205 organizations was obtained. Data were collected by means of telephone interviewing. The information obtained includes both strategic type and business orientation; the buying task, the buying process and the decision making unit; and the buying situation (new task, modified rebuy, or straight rebuy).

Central issues in the analysis of the data are:
1. What is the relationship between strategic types (cf. Miles and Snow) and business orientation?
2. What relationship exists between organizational strategy and orientation on the one hand and industrial buying behavior on the other (over different buying situations)?
3. To what conclusion does the aforementioned analysis lead with regard to segmentation of the industrial market?

References