Business to Business Marketing: A Different Way to Look at Market Segmentation

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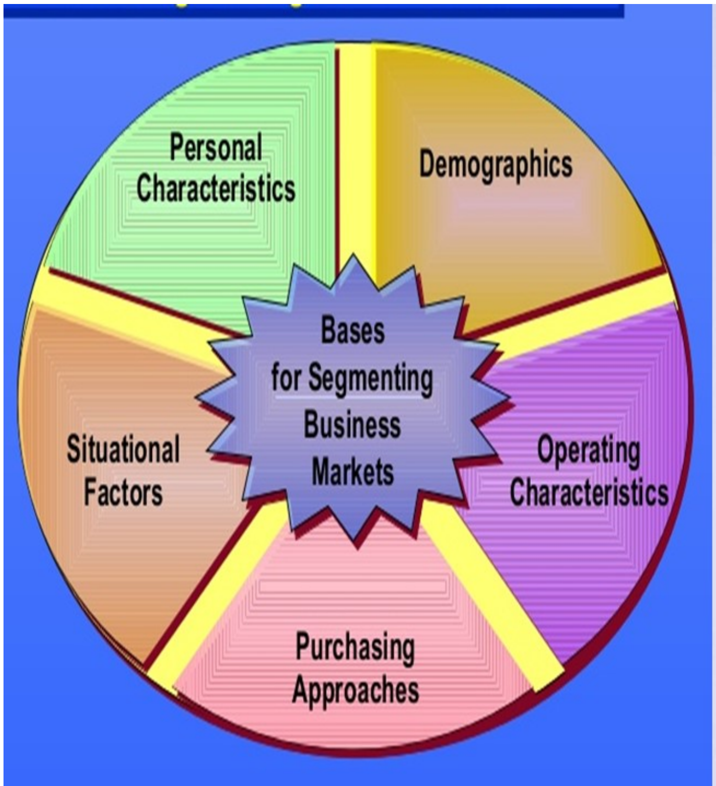

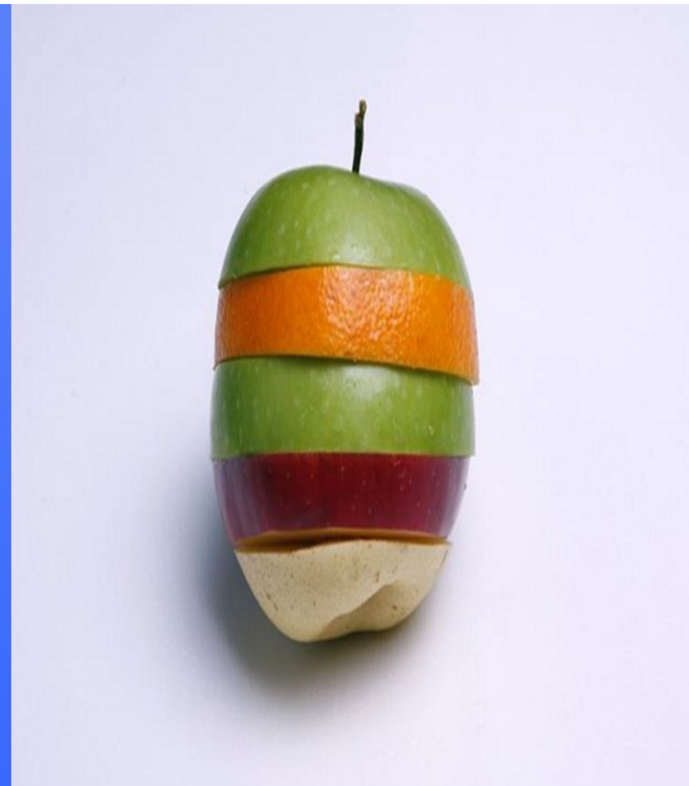

Market segmentation is a fundamental concept in identifying profitable business opportunities. Market segmentation divides markets into subsets of consumers or businesses who share a similar set of needs and wants, evaluating the subset segments, and then implementing strategies to target high value segments.

Segmentation is widely used in consumer marketing. This becomes very obvious walking down the aisles of your local supermarket seeing product form segmentation such as liquid laundry detergent or powder, special shaving products for African American men, or easy to prepare food products targeted to the working parent.

In sharp contrast is business to business (B2B) where recent research shows limited use of market segmentation and where it is used, little value is received. It may be that segmenting business markets is more complex than consumer markets because business to business marketing is much more than a simplistic approach of finding customers who may be interested in your product.

Historically, B2B was viewed as the segmentation between the seller and buyer using a variety of segmentation bases including demographics, sometimes called firmographics, operating variables, purchasing approaches, situational factors, and buyers' personal characteristics. Simply, whoever bought from you was the focus of the segmentation analysis.

Today, B2B marketers recognize there are situations where the company buying your product is not the ultimate user or consumer. So, segmentation is more than just B2B. At times it is B2B2B or even B2B2C (consumer), thus segmentation requires a different approach.

B2B

B2B in its simplest form is when a business sells its products to another business who uses the product themselves. For example, B2B is selling commercial dishwashers directly to restaurants. The restaurant market may be segmented by large restaurants or hotels depending on segmentation criteria. Based on analysis, the commercial dishwasher company decides to focus sales on restaurants with seating capacity of at least 150 people.

This is not to be confused where a business sells products to business intermediaries who resell the product. When Coca Cola sells soft drinks to Wal-Mart, Coca Cola segments the market on the basis of consumer use of soft drinks and uses the B2B intermediary as a channel of distribution. However, Coca Cola may also segment the carbonated drink market by outlet type, food stores, drug stores, mass merchandisers, small grocery stores, convenience stores, and other outlet types.

B2B2B and B2B2C

But what happens when a business sells its product to a business customer and that customer incorporates the product into its own product for resale to either another business or to consumers? Does the segmentation method change? Do they look at segmentation differently? Do they attempt to segment the market on the basis of their customer or do they also look at the business segments of their customers?

B2B2B

Several examples can help clarify this. XYZ Company manufactures electric motors. Electric motors have widespread application for use in other companies' products. They are used as components in elevators, escalators, water pumps, oil industry pumps, even electric motors for aircraft. XYZ segments the market not on the customer purchasing their product as a component first, but rather on the application of XYZ's capabilities. They develop segmentation criteria for different industries using pumps taking into consideration their own capabilities and strategy. Once they determine that the market for elevator motors and aircraft electric motors are growing but oil industry pumps and water pumps are not, they then focus on segmenting the suppliers to these industries. In essence, the demand for their products is derived from the demand of their customers' products.

B2B2C

This is also evident in the high technology industry. Chip makers sell to Apple, Lenovo, Compaq, HP, Samsung, and Dell, for use in consumer products such as cell phones, computers, and tablets and now smart televisions. Consumer behavior drives demand for these products. So, a chip maker must understand their customer's customer. A chip maker will also sell chips to companies for application for cloud computing such as Dropbox, Amazon, and HP Enterprises. The sales for the cloud businesses of Dropbox, Amazon, and HP Enterprises are driven in part by consumer demand for cloud storage or cloud applications. Companies in the B2B2C business must develop segmentation skills in the consumer market such as psychographic and behavioral bases for segmentation. Thus, additional segmentation skills are required beyond the B2B segmentation skills for B2B2C companies.

In a recent report to analysts, Intel revealed they are reducing investment spending in software, personal computers, and phones and tablets while investing more in data centers with cloud computing, retail solutions, transportation and automotive, smart homes and buildings, and industrial and energy. These are consumer driven segments. They will then focus on companies who are strong in the growth segments they identified.

Qualcomm similarly looks at the end user of their customers in deciding product developments, sales, and marketing priorities. They have identified segments where consumers drive demand including technology for the automotive market, smart homes, mobile computing, and wearables.

Segmenting business markets is no longer is just looking at your company's customers or potential customers. With the recognition of B2B2B and B2B2C, segmentation is now focusing on the market segments served by the customers to drive investments in product development, sales, and marketing effort.

Herbert Brotspies, D.B.A., is a Part-Time Participating Faculty in Marketing in the H. Wayne Huizenga College of Business and Entrepreneurship, Nova Southeastern University. He can be reached at **brotspie@nova.edu**