Development of a taxonomy of strategic market segmentation: a framework for bridging the implementation gap between normative segmentation and business practice

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Even though market segmentation is one of the most established concepts in marketing, there are still some shortfalls in the body of research, which create a gap between theory and practice and lead to failure in the implementation of segmentation. The concept of strategic segmentation is specified as key in resolving these issues. It is shown that in any form of strategic segmentation, the following two questions need to be answered consistently: What is the objective of performing market segmentation? Which unit of analysis will be selected for the segmentation? Based on empirical findings, a taxonomy of four market segmentation strategies is developed that addresses these shortfalls. The findings show that segmentation can be induced from the customer as well as from the market; but most importantly, there has to be consistency between the objective and the unit of analysis of a market segmentation. These findings provide both useful managerial implications as well as a framework for further research.

KEYWORDS: Market segmentation; implementation; taxonomy; marketing strategy

INTRODUCTION

When reviewing the evolution of market segmentation in the academic literature, it can be observed that over several decades the same problems of market segmentation research and application have been mentioned repeatedly and thus, remain current today. Many of these problems can lead to failure in the implementation of market segmentation (Goller, Hogg, and Kalafatis, 2002).

At the same time the application of market segmentation often fails due to inadequate implementation (Dibb and Simkin, 2001). Two different forms of implementation issues can be
identified. On the one hand, there are deviations between theoretical concepts and the application of market segmentation in ‘real world’ situations (Danneels, 1996; Kalafatis and Cheston, 1997). On the other hand, implementation is inadequate due to the absence of reconciliation between operational segmentation and strategic marketing (Piercy and Morgan, 1993; Piercy, 1997; Jenkins and McDonald, 1997).

Failure in market segmentation implementation resulting from the gap between theory and practice is caused by the normative nature of segmentation models. Danneels (1996, p. 36) defines normative segmentation models as ‘[…] the conventional segmentation–targeting–positioning sequence that is presented in most text books in marketing and retailing. […] It suggests that practitioners should go about their business in a certain way’. This definition corresponds to what other authors call a conventional view of segmentation (e.g., Piercy and Morgan, 1993). This gap between academic research and managerial reality has been pointed out for several decades now, as illustrated in the seminal article of Wind (1978), who has conducted the broadest review on market segmentation research since that time. He highlighted the need for, and importance of further research into the implementation and strategic translation of market segmentation findings. Despite all progress in market segmentation research, the implementation issues as well as research into the use of market segmentation in the ‘real world’ has been ignored for a long time and even today, is still not examined adequately (Danneels, 1996; Dibb and Simkin, 1997; Dibb and Wensley, 2002; Goller et al., 2002).

The strategic importance of market segmentation is emphasised throughout the entire body of marketing literature. This is an observation supported by several empirical studies which show that either market segmentation or related tasks such as market research and market sensing are distinctive marketing competencies that can lead to competitive advantage (Conant, Mokwa, and Varadarajan, 1990; McKee, Varadarajan, and Pride, 1989; Piercy and Morgan, 1994; Snow and Hrebiniak, 1980; Vorhies, Harker, and Rao, 1999). However, with the exception of some studies, most research into market segmentation has largely focused on issues of various segmentation bases as well as methods to build or evaluate segments (Snellman, 2000).

Due to the lack of research in this field, there has been no explicit definition of strategic market segmentation other than general allusions to its importance. The following definition of strategic market segmentation should clarify its meaning in the context of this paper. The definition is based on the work of Piercy and Morgan (1993), which represents one of the exceptional contributions to the market segmentation literature, and which provides a general understanding of strategy as goal-oriented planning (for an overview of definitions see Barney, 2002, p. 6). Hence, strategic market segmentation represents the strategic intent of market segmentation to ensure that the objective of market segmentation is consistent with the firm’s overall business and marketing strategy. At the same time, it ensures that a firm’s operational capabilities in marketing, sales and market research can fulfill the strategic intent of market segmentation. Therefore, strategic market segmentation can be considered as the glue between a firm’s marketing strategy and operational segmentation. It ensures a fit between segmentation objectives and a company’s competencies, facilitating a successful implementation of market segmentation.

Normative segmentation approaches usually ignore strategic integration as well as a firm’s feasibility of carrying out market segmentation. At the same time, however, implementation of segmentation often fails due to missing strategic embedding at a corporate level or due to shortfalls in operational capabilities in marketing, sales, and market research (Dibb and Simkin, 2001; Dibb, Stern and Wensley, 2002). Therefore, further insight into the fresh-water field of strategic market segmentation can help to overcome this gap between normative segmentation and implementation problems in business practice.
The aim of this research is to gain a better understanding of strategic market segmentation by exploring different strategic intents of market segmentation. Based on the empirical findings, a taxonomy will be developed as a framework both for helping to overcome the strategic as well as the implementation problems of market segmentation, and for providing a fruitful base for further research.

This introduction is followed by an extensive literature review, which documents the developments in market segmentation and highlights the shortfalls that are addressed in this paper. Following from this, the conceptualisation of strategic market segmentation is described. Based on this conceptualisation, the design as well as the results of the performed empirical research are explained. Finally, the results along with their limitations are discussed, and management implications as well as directions for further research are outlined.

DEVELOPMENTS IN MARKET SEGMENTATION RESEARCH

Market segmentation is generally accepted as one of the most fundamental and most important concepts in marketing (Kalafatis and Cheston, 1997; Danneels, 1996; Wind, 1978). Dibb (1998) even states that the concept is viewed as the panacea of modern marketing. Both academics and practitioners have paid considerable attention to market segmentation, which has resulted in an intense application and a tremendous amount of research in this field. General overviews have been given at regular intervals, which, among other issues, review the development of research in, and application of market segmentation (see e.g., Wind, 1978; Plank, 1985; Snellman, 2000; Goller et al., 2002).

Smith was the first to introduce the concept in 1956, and distinguished between market segmentation and product differentiation as alternative marketing strategies. Since his pioneering article, the concept has received considerable attention in academic literature, and has become dominant in both research as well as business practice (e.g., Danneels, 1996; Dibb and Simkin, 2001; Goller et al., 2002; Wind, 1978). More than four decades later, there is continuing academic interest in market segmentation, as can be seen in the considerable amount of current marketing research literature (Dibb and Wensley, 2002; Wedel and Kamakura, 2000). A review of earlier literature reveals that research activities in the past have focused on four main areas: (1) development of segmentation bases and models, (2) research methodologies, (3) development and applications of statistical tools, and (4) implementation of segmentation into strategy (Goller et al., 2002).

Neglect of the strategic importance and operational constraints of market segmentation has led to an underestimation of the segmentation problems in the ‘real world’ (Dibb, 1999). Even though more than twenty years have passed since Wind (1978) pointed out this discrepancy, to date, only very little has been published in scholarly journals about the actual implementation of market segmentation (Danneels, 1996; Dibb and Simkin, 1997; Dibb and Wensley, 2002). As a further consequence of this lack of research, it seems that market segmentation in the academic sense is rarely applied in practice (Dibb and Simkin, 1997).

However, there is a small number of studies that do examine how market segmentation is used by companies, an overview of which is provided in Table 1. The results of these studies confirm that the implementation aspects and problems associated with market segmentation are key areas for further research. The findings exhibit that we know much more about the theoretical and methodological segmentation issues than we do about the translation-into-strategy process (e.g., Cross, Belich, and Rudelius, 1990; Meadows and Dibb, 1998).
Nevertheless, the empirical findings with regard to actual practice among organisations are still neglected in current market segmentation research. To bridge this gap, it is necessary to broaden the view on market segmentation by examining companies’ strategic goals and their ways of pursuing such segmentation. Through this integrated view of market segmentation, we can gain a better understanding of the diversity of market segmentation approaches and the various implementation problems.

LACK OF RESEARCH IN STRATEGIC MARKET SEGMENTATION

Even though the concept of market segmentation was initially introduced as a strategy (Smith, 1956), soon the focus of attention in this field moved towards operational and methodological questions (e.g., Snellman, 2000; Wind, 1978). Most of the current market segmentation research is focused on issues of various segmentation bases as well as methods to build or evaluate segments (Snellman, 2000). Therefore, Wedel and Kamakura (2002, p. 182) point out that ‘this focus in academic literature may mislead one to believe that segmentation is essentially a marketing research problem. Quite to the contrary, market segmentation strategy does not entail a mere market condition to be identified.’ In more recent academic papers, it is emphasised that market segmentation is a key decision area for organisations undertaking marketing and strategic planning (Dibb and Wensley, 2002; Dibb and Simkin, 2001; Jenkins and McDonald, 1997; Piercy and Morgan, 1993). In brief, there are two separate schools of thought regarding market segmentation that appear in the marketing literature; one focuses solely on operational issues, while the other follows a more holistic approach (Plank, 1985).

As pointed out above, the distinction between strategic and operational market segmentation has been neglected to date, and strategic segmentation has been virtually ignored in marketing research (Piercy and Morgan, 1993). However, to understand companies’ needs for, and goals with regard to segmentation in practice, a strategic view of market segmentation is essential. Without considering a company’s market segmentation strategy, it is difficult to develop a specific segmentation process that facilitates a strategic fit (Goller et al., 2002). Therefore, successful

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<th>Author(s)</th>
<th>Research Question</th>
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<tr>
<td>Cross, Belich, and Rudelius (1990)</td>
<td>How do marketing managers use market segmentation?</td>
<td>Quantitative (Telephone Interviews); Exploratory, Descriptive; n=32</td>
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<tr>
<td>Danneels (1996)</td>
<td>How is market segmentation applied in apparel retailing in Belgium?</td>
<td>Qualitative (Interviews); Exploratory; n=22</td>
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<td>Meadows and Dibb (1998)</td>
<td>How is market segmentation applied in the financial service sector in the UK and which implementation barriers exist?</td>
<td>Qualitative (Case Studies); Exploratory; n=4</td>
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<td>Dibb and Simkin (2001)</td>
<td>What infrastructure barriers, process issues and implementation barriers exist in market segmentation in industrial marketing?</td>
<td>Qualitative (Case Studies); Confirmatory; n=4</td>
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implementation of market segmentation requires a proper strategic foundation. In view of the implementation problems that arise from concentrating research on operational aspects of segmentation only, this paper pursues a holistic approach that acknowledges the importance of strategic market segmentation in bridging the implementation gap.

At the same time, in this context, it is important to point out that strategy formation and implementation on a corporate level are two major factors explaining heterogeneity in performance (Mintzberg, 1990; Slater and Olson, 2001), a general statement that applies equally to strategic market segmentation (Goller et al., 2002). As a consequence, segmentation is more powerful when it is a fundamental part of strategic marketing, rather than simply a marketing tool (Vishwanath and Krawiec, 1999). However, there are several pieces of empirical evidence that demonstrate that the strategic relevance of marketing is often disregarded (Morgan, McGuinness, and Thorpe, 2000).

One example of such evidence is the research of Kalafatis and Cheston (1997) which provides a broad theoretical and empirical overview of market segmentation research. Even though they focus exclusively on segmentation in business markets, their findings with regard to implementation and strategic shortfalls in segmentation research are also valid for other industries. In accord with Jenkins and McDonald (1997), they come to the conclusion that ‘It is apparent that academics are becoming increasingly aware of the gap that exists between concept and practice’ (Kalafatis and Cheston, 1997, p. 523).

DIVERSITY IN STRATEGIC MARKET SEGMENTATION

Investigations into strategic aspects of market segmentation have to go beyond Porter’s (1980) generic strategies of differentiation, cost-leadership, and focus as strategic options in a market segmentation context. Nowadays, it is no longer appropriate simply to distinguish between differentiation and standardisation because there is empirical evidence to show that the vast majority of companies conduct segmentation and follow a differentiated marketing strategy (e.g., Schuster and Bodkin, 1987; Kalafatis and Cheston, 1997). These findings highlight the necessity to examine more closely the various differentiation strategies and to draw finer distinctions between them.

Regarding the implementation and use of market segmentation, the generalisibility of segmentation models and processes is questionable (Goller et al., 2002). In view of this, a holistic approach can be useful to consider the organisational as well as the environmental context of segmentation (Piercy and Morgan, 1993). To cope with the variety of forms of strategic segmentation, it is at first necessary to identify the different types of segmentation approaches.

There is further evidence that supports the assumption of diversity in strategic market segmentation. In this context, Wind (1978, p. 334) proclaimed the need to explore ‘…alternative approaches to the translation of segmentation findings into marketing strategies’. Furthermore, it has been asserted that there is no doubt about the fact that segmentation can be conducted in many different ways (Beane and Ennis, 1987). Thus, a categorisation of different strategic market segmentation approaches is an appropriate way of gaining further insight into this uninvestigated research area. Even if taxonomies are becoming increasingly important in the study and teaching of marketing strategy, and provide frameworks for classifying companies on the basis of strategy (Speed, 1993), there is still a dearth of research on marketing strategy classification (Slater and Olson, 2001).

Generally, building typologies is one of the most important and basic steps in conducting any form of scientific inquiry because they help to bring order to the complex set of interrelated
phenomena (Carper and Snizek, 1980). While taxonomies provide a comprehensive, yet parsimonious, orientation to the study of business strategy as well as other areas of marketing, classifications in marketing strategy are in backlog compared to these research fields (Slater and Olson, 2001). The strengths of using taxonomies as a research tool can be consolidated to the understanding of organisational diversity and the handling of complex information in a parsimonious manner (Mechanic, 1963).

To date, only two conceptual papers (Piercy and Morgan, 1993; Jenkins and McDonald, 1997) have used taxonomies as a research tool for gaining further insights into segmentation research, each developing a specific typology for different methods of market segmentation. Piercy and Morgan (1993) undertook a managerial analysis of market segmentation and developed a framework that acknowledged the organisational decision-making level as well as the explicitness and the focus of market segmentation. This approach showed that a successful implementation of a market segmentation strategy depends on implicit/internal and explicit/external consistency, along with strategic and operational integration. This conceptual framework was adopted by Jenkins and McDonald (1997), who established four archetypes of market segmentation, based on the degree of organisational integration as well as on the degree to which the market is customer driven, as demonstrated in Fig. 1.

While Piercy and Morgan’s (1993) framework is not built on empirical evidence, the second approach is based on single case studies such as the studies of practitioners’ use of market segmentation (see Table 1). For this reason, the conclusions suffer from generalisation problems and methodological shortcomings (Goller et al., 2002). Nonetheless, these approaches provide a basis for further research to assess market segmentation not only as a process for clustering customers, but also as a strategy based on internal implications, along with environmental and market conditions (Jenkins and McDonald, 1997; Dickson and Ginter, 1987).

The study presented in this paper was designed to discover further aspects of diversity in market segmentation strategies caused by internal and external conditions. For this reason, a taxonomy of organisations based on their market segmentation strategies employed was processed. The relevance of such research to this issue is to suggest that market segments can be viewed not only as explicit, objective, but also as implicit and subjective concepts which are as

![Figure 1. Market segmentation archetypes. Source: Jenkins and McDonald, 1997.](image-url)
much a creation of the organization as they are of the external environment’ (Jenkins and McDonald, 1997, p. 18).

**DIMENSIONS OF STRATEGIC MARKET SEGMENTATION**

The definition of strategic market segmentation introduced at the beginning of this paper already expresses the importance of strategic intent (objective) and the unit of analysis (object). Market segmentation strategies may be seen to be analogous to marketing strategies, namely, an integrated set of decisions by which a company expects to achieve its marketing goals (Day, 1990; Slater and Olson, 2001).

After defining the aim of performing a market segmentation, one of the first and therefore, one of the most important questions is the research design of a market segmentation study. This defines the unit of analysis, which can be considered as the objects of segmentation (Wind, 1978). The objects of segmentation must be chosen according to the operational capabilities in a firm’s marketing, sales, and market research department. If a firm is not able to gain information from the targeted units of analysis, or cannot satisfy these objects with its marketing activities, the application of market segmentation will fail.

As a consequence, in this study, segmentation strategies were translated into objectives and objects of segmentation for operationalisation purposes. If a firm rather follows a complex segmentation strategy it may tries to pursue several goals simultaneously and may uses various units of analysis for its segmentation. Other firms may only follow a focused segmentation strategy by defining a single goal and choosing one specific customer group to build a segmentation. In this case objectives as well as objects represent two categories of strategic market segmentation which contain various more or less independent options. The selection for both categories was derived from qualitative research as well as from a literature review.

**Objectives of segmentation**

The strategic goals of a company determine the requirements for segmentation bases and segmentation methods to be uncovered by market research (Wedel and Kamakura, 2002). In general, it is widely accepted that one benefit of market segmentation is a better understanding of customers’ needs and characteristics (Dibb and Simkin, 1997). Some more specific goals of segmentation are provided in the academic literature.

Thus, segmentation can aid the search for new product opportunities to improve marketing activities, or to gain a better understanding of one’s customers (Beane and Ennis, 1987). Furthermore, segmentation can only be useful to marketers if it enables them to choose between different options to achieve a certain goal, which can relate to customer acquisition, customer retention, design of marketing measures, profitability or the identification of new markets (Hoek, Gendall, and Esslemont, 1996).

Additional evidence of segmentation objectives is given by Wind (1978), who states that the implementation of a market segmentation depends on its intent, which can be either strategy generation (e.g., identification of new target markets), product-related decisions (e.g., positioning, price, design, communication), or concern about new respective existing products (e.g., modifications, changes). The list of specific segmentation goals can be extended by a firm’s pursuit of more satisfied customers, a more appropriate resource allocation, an increase in customer value, a clearer identification of market opportunities, and a better design of marketing
programmes (Berger et al., 2002; Dibb, 1998; Dibb and Simkin, 2001; Kotler, 2002; Meadows and Dibb, 1998; Wind, 1978).

**Objects of segmentation**

Objects of segmentation as well as objectives need to be considered for strategic market segmentation. Companies have started to recognise, investigate, and exploit various possible levels of aggregation of their markets, considering their marketing strategies and implementing marketing instruments. This decision depends strongly on access to certain units of analysis and the strategic goal of the segmentation study. If, for example, a company performs a market segmentation to increase customer penetration and retention, it needs to select their existing customers as objects of segmentation and to have an appropriate database.

Generally, units of analysis are chosen from a continuum that ranges from an individual customer (one-to-one marketing) to a whole market (mass marketing) (Jiang, 2000; Wedel and Kamakura, 2002). As a consequence, the focus of market segmentation research can range from anonymous and aggregated prospects to personalised and disaggregated customers as segmentation objects (Snellman, 2000). Steenkamp and Hofstede (2002) outlined the issue of aggregation level in an international context by selecting a range starting at single customer level (no aggregation) and extending to whole country level aggregation.

Finally, objectives as well as objects of market segmentation are crucial elements of segmentation strategies. Therefore, both dimensions are the basis of the empirical study on strategic market segmentation presented in this paper.

**METHODOLOGY**

**Design of qualitative research**

As the phenomenon of strategic market segmentation has not been deeply investigated to date, the present empirical study was exploratory in nature. To ensure a high degree of generalisation and to capture the existing diversity, a multi-industry and cross-sectional study was conducted. First, the two dimensions of the main construct—objectives and objects of market segmentation—had to be more clearly specified and operationalised. For this purpose, focus groups as well as semi-structured in-depth interviews with managers responsible for market segmentation were conducted (Krueger and Casey, 2000; Silverman, 2000). As part of a research project at the University of St. Gallen called, ’Best Practice in Marketing’, three workshops of two days on the topic of market segmentation were carried out. Twenty-two marketing managers of eight different national as well as international companies participated in those workshops. This approach was appropriate in this situation because it was necessary to develop the construct for the first time and therefore, a high degree of detailed understanding of objectives and objects of segmentation was required. The qualitative research was followed by a quantitative survey.

**Design of quantitative research**

As mentioned before, the aim of this study was to develop a taxonomy of organisations based on their market segmentations strategies. Classification is one of the most important and basic steps in conducting any form of scientific inquiry and for that reason, it is a fundamental precept in marketing practice and theory (Carper and Snizek, 1980; Slater and Olson, 2001).
Two kinds of classification approaches can be distinguished: (1) A-priori taxonomies are based on conceptual work and describe ideal cases; (2) Post-hoc typologies are characterised by measurement of similarities and differences within a sample instead of the drawing of ideal and remainder categories based on a conceptual framework that is theoretically developed (Speed, 1993). As significant problems in market segmentation arise from the normative character of the concepts, a post-hoc classification is the proper approach to examine the application of market segmentation.

The appropriate statistical method to determine a taxonomy is a cluster analysis. Unlike other statistical methods, there are no prior assumptions about important differences between the research objects. This makes the cluster analysis a purely empirical method of classification and as such, it is primarily an inductive method (Punj and Stewart, 1983). Due to the exploratory character of this study, a cluster analysis method was appropriate for the specific objective of the study.

**Questionnaire development**

The questionnaire was developed on a theoretical basis as well as on the results of various in-depth interviews and focus groups. Due to the exploratory design of the study and the management perspective on this issue, the findings of interviews and workshops with practitioners played an important role in developing the questionnaire.

The questionnaire was pre-tested in two ways. First, it was distributed by post and feedback was requested. Second, people were observed as they completed the survey instrument. Both measures led to minor changes in the questionnaire.

**Sample and data collection**

A sample of 489 directors of marketing and directors of marketing and sales located in Switzerland was used for the study. This sample was randomly taken from a database. The questionnaires and a return envelopes were distributed by post. Five weeks later, a follow-up letter, which included the questionnaire again, was sent. In total, 104 responses were received. After deducting the undeliverables, the response rate was calculated to be 22%. To exclude those respondents from the sample which do not use any form of market segmentation we integrated a filter question. Eighty-nine out of the 104 gave a positive answer to this question while all others denied to carry out any form of market segmentation. Additionally, some respondents did not fill out the questionnaire completely. After excluding cases with missing values, 69 respondents (response rate 14%) were considered for the analysis. This relatively small sample lead to some limitations which will be discussed later.

To ensure that the questionnaire was actually completed by the director of marketing or by the director of marketing and sales, one question enquired about the position of the respondent. A check of the answers to this question confirmed that nearly all respondents were in leading positions in their companies.

**RESULTS**

**Measurement of strategic market segmentation**

The interviews and focus groups were conducted to extract the most relevant objectives and objects of strategic market segmentation decisions. This process helped to identify the
most important items for both dimensions of strategic market segmentation and resulted in a variety of options in both categories. The consideration of these findings in the quantitative study avoided the problem of normative predetermination of objectives and objects of market segmentation. Thus, a synthesis of the empirical and theoretical findings was generated, by which five main objectives of market segmentation could be derived:

1. **Exploitation of New Customer Potentials.** One goal for performing a market segmentation can be customer acquisition. If a firm looks for new customers in markets, in which the company already operates, it can use market segmentation to identify customer groups, which they have not reached so far with their marketing activities. The segmentation can help to identify customer needs or characteristics, which have not been considered in current marketing activities.

2. **Development of Existing Customer Potentials.** Pursuing retention and penetration of existing customers is another goal of segmentation, which includes sub-aims such as customer satisfaction and a better understanding of a firm’s customer base. Revealing the full potential of a firm’s customer base requires a detailed knowledge about them. A market segmentation of existing customers can help to gain a better understanding of their wants and can uncover opportunities for cross-selling or add-on services. This kind of segmentation may also improve customer retention, if it includes the likelihood to lose a customer.

3. **Increasing Customer Profitability.** Increasing the value of each customer and the total customer bases is closely related to financial goals and marketing metrics. Market segmentation can be used to identify the most and least valuable customers. The identification of a customer’s value and the development of optimised marketing activities, which consider the value of a customer, can increase customer profitability. A segmentation, which is performed to increase customer profitability, supports decisions, which customers to focus on and which to get rid off.

4. **Improving Targeting of Marketing Measures.** Another objective of segmentation is the achievement of greater efficiency of marketing activities. This leads to improved decisions for an improved design of the marketing mix through better resource allocation. Market segmentation is a basic step before targeting specific customer groups. By gaining detailed knowledge about customer groups and their specifics, firms can design more appropriate marketing measures. Furthermore, a market segmentation can help to improve controlling of marketing activities.

5. **Identification/Exploitation of New Sub-Markets.** Sometimes a company conducts a market segmentation to evaluate new product or market opportunities. Through this kind of segmentation, new (sub-) markets for new products or new applications of existing products can be identified. Market segmentation can reveal customer groups, whose needs are not served sufficiently yet by any competitor. Firms can design specific products for these newly identified segments. Or firms may identify market segments for their existing products, which they have not considered yet.

The objects of segmentation were bordered by a continuum which accords with Jiang (2000) and the results of the qualitative research. The findings of the qualitative research resulted in an explicit distinction between existing and potential (future) customers on the personalised and disaggregated level.
Finally, four aggregation levels of objects of market segmentation emerged within a continuum from anonymous/aggregated to personalised/disaggregated units of analysis:

1. **Anonymous Sub-Markets.** Whole markets are the unit of analysis for segmentation, which are usually described in terms of product attributes and specifications. Market segmentation which use (sub-)markets as units of analysis are useful for positioning purpose. If markets for specific products or product use are specified the competitive situation can be better analysed. Activities and positioning in a specific market segment can be planned based on a substantial information base.

2. **Anonymous Groups/Typologies of Customers.** This unit of analysis is often chosen to describe a company’s target group a priori (e.g., male, DINKS, between 25 and 35 years). In addition, several market research institutes (e.g., Nielsen, Sinus, GfK) provide typologies which describe a country’s entire population through general characteristics. Typologies are useful to describe the size of a segment and to forecast the potential value of a segment. But typologies usually do not allow firms to identify single customers in a segment for contact or individual offers.

3. **Personalised Existing Customers.** In this case, the objects of segmentation are taken from a firm’s current customer base. These units of analyses are the base for any form of database marketing or customer relationship management. Firms actively and passively collect many information about their customers, which can be very valuable for a segmentation. Many firms introduce bonus and membership programs to gain more detailed information on their customers. Others collect many information about their customers because of registration procedures and transaction activities. In any case existing customer deliver plenty of information, which can be very helpful for market segmentation.

4. **Personalised Potential Customers.** Finally, segmentation can also include potential customers of which a company is aware, and on whom it has individual data. In contrast to data from a firm’s customer base information about potential customers are hard to collect. But new customers are very important for growth strategies, especially if firms act in a very competitive environment. Information about individual potential customers enable a firm to identify attractive customers, where they can focus their marketing and acquisition efforts on.

The qualitative research and the literature review, resulting in a final operationalisation of the dimensions of strategic market segmentation, is summarised in Fig. 2. This operational measurement of the strategic market segmentation construct was used for taxonomy building.

Both objectives and objects of market segmentation were measured on a 7-point ratio-scale. The respondents were asked to indicate how much each of the stated goals apply to their market segmentation strategy (scale: from 1="does not apply at all" to 7="applies totally"), and how intensely they use the given objects of segmentation (scale: from 1="rarely" to 7="regularly"). In addition, respondents had the option of giving an additional goal of segmentation to ensure that no important objective had been ignored in the survey. Because this option was virtually never used, it could be concluded that no vital segmentation objectives had been omitted.

**Data analysis of quantitative research**

A cluster analysis based on nine items derived from the conceptualisation of strategic market segmentation was conducted. These items were derived from the two constructs, objectives of
segmentation (five items) and the objects of segmentation (four items), described above. Before conducting the cluster analysis, the input data were standardised to avoid the double counting effect of highly correlated dimensional variables (Ketchen and Shook, 1996; Morrison, 1967). The standardisation of the input created a loss of information regarding means and scatter information. Therefore, only the standardised variables were used for the cluster algorithm, and the non-standardised data were used for further analysis and the interpretation of the cluster solution (Harrigan, 1985; Ketchen and Shook, 1996).

Before performing the cluster analysis using Ward’s method as a clustering algorithm, a single linkage cluster analysis was carried out to identify possible outliers. This applied to two cases, which were excluded from the following analysis. This was necessary because Ward’s method tends to be heavily distorted by outliers (Dibb and Wensley, 2002; Ketchen and Shook, 1996).

Ward’s method is best suited for studies where the size of clusters is expected to be similar (Ketchen and Shook, 1996). The result did not suggest any significant differences in the number of observations per cluster. Hence, Ward’s method appeared to be the appropriate clustering method in this case. Based on the elbow criterion (Ketchen and Shook, 1996) and because the clusters were distinctive and quite clear to interpret (Dibb and Wensley, 2002) a four cluster solution was chosen.

To obtain a robust cluster solution with internal validity, a K-means cluster analysis was carried out after conducting the cluster analysis using Ward’s method (Dibb and Wensley, 2002; Punj and Stewart, 1983). Based on the four-cluster-solution and their means, a non-hierarchical K-means cluster analysis was conducted. Nearly all cases were in the same clusters as in the cluster solution of Ward’s method, which indicated the internal validity and robustness of this cluster solution.

Punj and Stewart (1983) point out that the K-means cluster algorithm is superior to Ward’s method if a non-random starting point is defined and the number of clusters, which has to be predetermined, is based on a preliminary cluster solution. In view of this, the K-means cluster solution was chosen for further analysis and interpretation.

To test the final cluster solution, a discriminant analysis and a multiple analysis of variance (MANOVA) were performed. All discriminating functions of the discriminant analysis were
significant (Level of significance for Wilk’s Lambda for all functions: 0.000). The functions grouped 97% of the cases in the same way as they were classified by the cluster analysis, which indicates the high quality of the cluster solution. Also all multivariate test of the MANOVA (Pillai’s Trace, Wilk’s Lambda, Hoteling’s Trace, Roy’s Larget Root) were significant at the level of $p<0.001$. Thus, the tested null hypothesis that there is no differences in the means of the dependent variables for the different groups formed by the results of the cluster analysis can be rejected. This gives evidence that the clusters cause differences in the means for all objectives and objects of market segmentation when they are simultaneously considered as dependent variables. All in all, the result can be evaluated as a robust cluster analysis.

Since cluster analysis can create as well as reveal structure, replication is critical for establishing validity (Breckenridge, 2000). To ensure the further validity of the cluster solution the sample was split into two sub-samples. The split-half method proposes to divide the data into two equal parts to see if the result of the total sample can be replicated upon both halves (Bailey, 1994; Aldenderfer and Blashfield, 1984). The same cluster procedure as for the total sample was performed for each half. Table 2 illustrates that the means of almost all variables differ significantly from the sum of all cases in each cluster solution. Moreover, there are only small deviations in the means as well as in the ranking of the different clusters for each clustering variable. Finally, 74.6% of all cases in the first half and 87.5% of all cases in the second half were assigned the same clusters as in the initial solution based on the total sample. The corresponding of both halves with the total sample is not outstanding. But in consideration of the overall small sample size this matching can be judged reasonable good, which makes the cluster solution acceptable.

All in all the reproduction of the final cluster solution with different methods (hierarchical, K-means) and with different samples (total sample, split-half method) give some evidence for its validity, which are sustained by the discriminant analysis. Taking into account that this study has an exploratory character the degree of validation is acceptable. Nevertheless, the results need further validation by future research.

Development of the taxonomy

To interpret the different clusters, the means of the clustering variables were compared. To assess whether they differed significantly from each other, an analysis of variance and the Scheffe multiple-comparison test were performed. While the analysis of variance tests whether the means of the clustering variables differ significantly from the means of the whole sample, the Scheffe-Test analyses whether the means of the clustering variables differ significantly between the four clusters (Slater and Olson, 2001). The results of these tests are shown in Table 3.

With the exception of the cluster variable, ‘increasing customer profitability’, all means vary significantly from the means of the sum of all cases. Therefore, this variable is ignored in the interpretation of the clusters. The results of the Scheffe-Test show the unique characteristic of each cluster.

Cluster 1 can be interpreted as the measure-oriented segmenting company. Compared to the other clusters, the overriding objective of this group is to improve the targeting of their marketing measures. There is low interest in exploiting new customer potential or (sub-) markets. This type of company concentrates only on segmenting personalised existing customers. However, overall, this group segments its objects very rarely.
<table>
<thead>
<tr>
<th>Development of Existing Customer Potentials (Objective)</th>
<th>ANOVA</th>
<th>Cluster 1</th>
<th>Cluster 2</th>
<th>Cluster 3</th>
<th>Cluster 4</th>
</tr>
</thead>
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<tr>
<td>Total</td>
<td>0.001</td>
<td>5.25</td>
<td>3</td>
<td>6.24</td>
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<tr>
<td>1st Half</td>
<td>0.005</td>
<td>4.71</td>
<td>4</td>
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<tr>
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<td>6.14</td>
<td>1</td>
</tr>
<tr>
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<td>1</td>
</tr>
<tr>
<td>2nd Half</td>
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<td>4</td>
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<td>2</td>
</tr>
<tr>
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<td>3</td>
<td>6.50</td>
<td>1</td>
</tr>
<tr>
<td>1st Half</td>
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<tr>
<td>Total</td>
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<td>4.07</td>
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<tr>
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<td>1</td>
</tr>
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<td>2</td>
<td>6.17</td>
<td>3</td>
</tr>
<tr>
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<td>2</td>
</tr>
<tr>
<td>1st Half</td>
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<td>3.14</td>
<td>3</td>
<td>5.79</td>
<td>1</td>
</tr>
<tr>
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<td>2.83</td>
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<td>4.67</td>
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Table 3. Cluster means, ANOVA statistics and Scheffe-test

<table>
<thead>
<tr>
<th>Clustering-variables F-Statistic/p (Sig.)</th>
<th>Measure-oriented Segmenting Company</th>
<th>Segmentation Virtuoso</th>
<th>Customer-segmenting Company</th>
<th>Market-segmenting Company</th>
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</thead>
<tbody>
<tr>
<td>Cluster 1; n = 12</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Cluster 2; n = 17</td>
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<td></td>
</tr>
<tr>
<td>Cluster 3; n = 21</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cluster 4; n = 17</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Means Scheffe Results</td>
<td>Means Scheffe Results</td>
<td>Means Scheffe Results</td>
<td>Means Scheffe Results</td>
<td></td>
</tr>
</tbody>
</table>

Development of Existing Customer Potentials (Objective)
5.96/0.001***

Exploitation of New Customer Potentials (Objective)
17.70/0.000***

Increase Customer Profitability (Objective)
2.16/0.102

Improving Targeting of Marketing Measures (Objective)
8.13/0.000***

Identification/Exploitation of New Sub-Markets (Objective)
8.11/0.000***

Anonymous Sub-Market (Object)
46.99/0.000***

Anonymous Groups/Typologies of Customers (Object)
22.81/0.000***

Personalised Existing Customers (Object)
22.16/0.000***

Personalised Potential Customers (Object)
24.48/0.000***

Has to be read as follows (first row, first column): the mean of cluster 1 (C1) is significantly (p<0.05) smaller than the means of cluster 3 (C3).

* The mean difference is significant at the 0.05 level (p<0.05).
** The mean difference is significant at the 0.10 level (p<0.10).
*** F-Statistics are significant at the 0.05 level (p<0.05).
The second cluster can be interpreted as market segmentation virtuoso. All goals of market segmentation of this cluster are of extreme importance compared to the other clusters. Within these goals, the development of existing as well as the exploitation of new customer potential is vital. This group is also outstanding in terms of a regular use of all four kinds of segmentation objects. Compared to the other clusters, it is significant that the companies in this cluster do not focus on specific objects of segmentation.

The next cluster is named, customer-segmenting companies. In comparison to the cluster described previously, these companies have similar objectives of segmentation. Only the evaluation of the goal to improve the targeting of marketing measures differs. This objective is statistically less significant than for cluster 1 and cluster 2. The segmentation is heavily focused on personalised customers, regardless of whether they are existing or new ones. Anonymous sub-markets and groups/typologies of customers do not play a role as segmentation objects for the companies in this cluster.

Cluster 4 can be labelled, market-segmenting companies. The identification and exploitation of new sub-markets is most important compared to the other goals within this cluster as well as compared to the other clusters. Even though the mean for this objective of segmentation is not significantly higher than in cluster 2 and cluster 3, it is ranked higher than the other goals of segmentation in this cluster. The great importance of this objective of segmentation is mirrored in the regular use of anonymous sub-markets and groups/typologies of customers as segmentation objects. The use of personalised information from existing and potential customers in this cluster is the lowest compared to all other groups.

**DISCUSSION**

Three problems have been discussed earlier in this paper. First, it has been shown that market segmentation has to be examined from a strategic rather than from a solely operational point of view. Further, the existing gap in market segmentation between academic literature and business practice has been illustrated. Finally, it has been concluded that concepts of market segmentation research have to take into account the fact that companies may have different goals when implementing a marketing segmentation strategy, which results in different segmentation approaches.

The result of the exploratory cluster analysis confirms the assumption that companies have different objectives and use varying units of analysis when following a market segmentation strategy. Even if the reasons for the differences between the clusters remain undiscovered, the results confirm that there is a significant diversity in the objectives and objects of segmentation.

Based on the correlation coefficients between the objectives and objects of market segmentation (Table 4), and as a synthesis of the results of the cluster analysis, the differences in the clusters can be reduced to two main dimensions of market segmentation strategies:

1. **Market-induced Segmentation.** Market-oriented objectives as the identification and exploitation of new sub-markets and customers have a significant and strong positive correlation with each other as well as with the use of anonymous and aggregated units of analysis. These segmentation strategies seem to start with the whole market, which becomes broken down into smaller segments in a top-down approach. Therefore, it appears that they are induced by the search for market opportunities.

2. **Customer-induced Segmentation.** Customer-oriented goals like customer acquisition and retention correlate moderately positively with each other as well as with the use of
Table 4. Correlation coefficients between objectives and objects of segmentation

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of Existing Customer Potentials (Objective)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exploitation of New Customer Potential (Objective)</td>
<td>0.282***</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improving Targeting of Marketing Measures (Objective)</td>
<td>0.267*</td>
<td>0.102</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Identification/Exploitation of New Sub-Markets (Object)</td>
<td>-0.057</td>
<td>0.374***</td>
<td>0.023</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Anonymous Sub-Market (Object)</td>
<td>0.088</td>
<td>0.170</td>
<td>0.228</td>
<td>0.279*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anonymous Groups/Typologies of Customers (Object)</td>
<td>0.168</td>
<td>0.444***</td>
<td>0.072</td>
<td>0.174</td>
<td>0.626***</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Personalised Existing Customers (Object)</td>
<td>0.328***</td>
<td>0.185</td>
<td>0.191</td>
<td>-0.029</td>
<td>-0.212</td>
<td>-0.014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personalised Potential Customers (Object)</td>
<td>0.270*</td>
<td>0.399***</td>
<td>0.129</td>
<td>0.151</td>
<td>-0.264*</td>
<td>0.033</td>
<td>0.612***</td>
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</tbody>
</table>

**Pearson Correlation are significant at the 0.01 level (p<0.01).
*Pearson Correlation are significant at the 0.05 level (p<0.05).
disaggregated and personalised customers. All these correlation coefficients are significant. It may be assumed that these strategies start with aggregating individual customers into segments. Thus, the strategic intention of these market segmentation approaches is induced by the potential of new and existing customers.

As shown in Fig. 3, all four identified strategies of market segmentation can be classified into the two-dimensional scheme that follows:

Findings suggest that there are certain similarities with the market segmentation archetypes of Jenkins and McDonald (1997). In particular, the dimension ‘degree of customer-induced segmentation’ is analogous to their description of the dimension ‘customer driven’. However, the dimension ‘degree of market-induced segmentation’ differs from the dimension ‘organisational integration’ as described by Jenkins and McDonald (1997).

The classification resulting from the study provides an initial step for closing the gap between normative segmentation approaches and business reality because it is based on empirical evidence. Hence, this framework will help to resolve implementation issues. At the same time, the classification copes with the claim for the incorporation of strategic aspects into concepts of market segmentation.

**EVALUATION OF THE RESULTS**

To evaluate the value and quality of the developed types of strategic market segmentation, formal as well as additional criteria for judging a classification are appraised. According to formal evaluation criteria, a classification should be comprehensive, mutually exclusive, and explicit (Speed, 1993). Comprehensive and mutually exclusive means that every case needs to be included in the typology, and each case can only belong to one type. Because the post-hoc classification by means of cluster analysis included all companies with valid data for conducting market segmentation and which were part of the sample, both criteria can be approved in the presented study. Furthermore, explicitness is ensured when the bases for building the typology are clear and traceable (Speed, 1993). For the classification of market segmentation approaches, different goals and objects of segmentation have been used as a base for generating the taxonomy. Therefore, all

![Figure 3. Systematisation of market segmentation strategies.](image-url)
required criteria for an evaluation of a typology have been met and the results can be judged to be ‘good’.

Speed (1993) formulates four criteria in addition to formal criteria to appraise the quality of typologies: meaningfulness, usefulness, parsimoniousness, and added-value for research. Meaningfulness is related to research excellence as well as managerial relevance. While a priori taxonomies are significant for academic questions, they do not provide very much help for managers, in contrast to post-hoc typologies. The impact on managerial relevance for the types of strategic segmentation is ensured because of its post-hoc character. Moreover, a conceptual foundation for the basis from which the typology was derived has been presented. As one of the main goals of the investigation was to consider theoretical as well as managerial aspects, the results can be evaluated to be meaningful from both perspectives.

To ascertain the quality and usefulness of a taxonomy, Speed (1993) refers to the simple consideration as to whether the research focuses on a trivial or an important concept. Furthermore, the typology should discover new aspects ‘either through theoretical work, or more likely, through empirical study’ (Speed, 1993, p. 175). This includes the possibility of developing and testing a hypothesis. It has already been outlined that market segmentation is one of the most fundamental concepts in marketing, which renders it by no means a trivial concept. In view of the fact that to date, strategic aspects of market segmentation have only been discussed in a few conceptual papers (Piercy and Morgan, 1993; Jenkins and McDonald, 1997), the described typology offers new insights into strategic segmentation and in particular, into its application. This more detailed view of strategic market segmentation raises a multitude of hypotheses for further research, as will be outlined later in more detailed. Based on these facts, the quality of the results can be judged to be good.

The third additional criterion for judging a taxonomy is parsimony, which means there is a reasonable number of different types and bases from which they are derived. The variance of the distinguishing aspects within each group could reach dangerous levels if these numbers become too small. Most popular taxonomies are based on four or three types (e.g., Miles and Snow, 1978; Porter, 1980), which leads to the assessment that the quality of the typology is good.

The criteria used for the evaluation of the findings so far concentrate only on the internal quality of a typology, that is to say, on a consideration of the appropriateness of building taxonomies for this kind of investigation. Finally, the results can only be considered to be of high quality if they add value to the research. Reminding ourselves of the goal of the research, namely, to develop a framework to overcome implementation issues in market segmentation by regarding its strategic aspects, it can be concluded that this goal has been fulfilled. Because of the lack of research in this topic, as outlined earlier, it can be stated that the taxonomy adds value to research into market segmentation and in order to do that, it must be internally as well as externally of good quality.

Overall, the evaluation demonstrates the value of the findings and confirms that the building of a typology was the right tool to achieve the research goals.

**LIMITATIONS**

Even if a high value and quality of typology could be assured, there are certain limitations for the findings of the presented research. Due to its exploratory character and the use of classification, this study only provides descriptive insights into strategic market segmentation. For this reason, no explanation of the affiliation of a company to a certain type of strategic segmentation can be revealed.
Furthermore, this research was based on an industry-spanning study in Switzerland. To see if the results are country-specific, further investigations have to be initiated. At the same time, it is necessary to analyse whether there are industry-specific particularities which have been overlooked by the industry-spanning research layout. This limitation is also valid for other situational factors such as environmental influences, limited resources within companies, and access to relevant data, all of which have been disregarded.

In addition, there are also methodological limitations. The presented taxonomy results from a cluster analysis based on a relatively small sample. Even if academic literature does not give any rule of thumb for minimum sample size in cluster analysis, similar studies which resulted into four cluster solutions (e.g., Dibb and Stern, 1995; Slater and Olson, 2001; Bottomley and Nairn, 2004) used samples of at least 140 cases. Nevertheless, the robustness of the results has been illustrated but they require further research to strengthen the findings.

**MANAGEMENT IMPLICATIONS**

Regardless of its limitations, the results highlight some crucial aspects which help to avoid failure in market segmentation. As discussed, such failure is a considerable problem in business practice and is usually caused by inadequate implementation. These problems can be resolved by considering the strategic aspects of market segmentation.

As a consequence of this, companies should consider three aspects of strategic market segmentation:

1. The setting of a strategic goal for market segmentation that is consistent with, and conforms to the firm’s overall business and marketing strategy. This perhaps sounds rather obvious advice; but segmentation is often seen simply as a market research project. Thus, other departments as well as top management do not get involved in the segmentation project. This ultimately leads to an inadequate integration of the business and marketing strategy in the segmentation process.

2. Consideration of the feasibility of market segmentation by choosing the right objectives for market segmentation. This means that a company must have access to the units of analysis to collect the required information for building segments. At the same time, the units of analysis must be attainable for marketing and sales activities that are differentiated over the segments.

3. Objectives of market segmentation need to be consistent with objects of market segmentation. The developed classification of strategic market segmentation approaches has revealed typical combinations of market segmentation objectives and objects. For example, the strategic intent to win new customers complements potential customers as objects of segmentation. Customer acquisition is a very common goal but gaining access to the data of potential customers is very complicated and expensive. A firm that is not capable of gaining such access needs to adjust its goals. If it does not do so, the market segmentation will deliver no support in reaching the strategic goals.

**DIRECTIONS FOR FURTHER RESEARCH**

The developed typology brings new insights into strategic market segmentation. However, the reasons for the differences between various types of market segmentation have not been entirely
revealed by this study. Thus, the next step in further research should be to ascertain the causes of the different segmentation strategies. Additionally, there is a need for further research regarding the internal and external factors that influence strategic segmentation by applying contingency approaches. A ‘market segmentation virtuoso’, for example, could be a company with a unique set of capabilities to implement segmentation. There could be further reasons for their focus on so many objects of segmentation and for their pursuit of such a broad variety of strategic segmentation goals. At the same time, it may be assumed that the competitive environment forces those companies to achieve competitive advantage through market segmentation.

To make further recommendations for companies, it would be necessary to investigate the distinctive resources that are required for the different segmentation approaches. Additional research into strategy-specific knowledge, competencies and capabilities promises valuable perceptions for a better understanding of the different segmentation strategies.

In addition, further research on the required conditions for different segmentation strategies could provide promising insights. Thus, the proposed taxonomy could be applied to an investigation of the segmentation processes for the different strategies. It can be assumed that a specific segmentation strategy requires particular segmentation procedures and processes.

Overall, this framework provides a useful and fruitful basis for identifying further causes and reasons that explain heterogeneity in the performance of different market segmentation approaches. Finally, there is still an enormous need for more research to bridge the implementation gap between normative market segmentation approaches and business practice.

REFERENCES


