

Looking for growth opportunities through segmentation: the Industrial Management Consulting (IMC) case study

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Summary

This case study illustrates how segmentation can provide a better understanding of a company's customers to improve the strategic direction and efficiency of the marketing effort. IMC is a fictitious name for a real management consulting company that offers a wide range of consulting services in a specific industry sector. The study highlighted that the company had differentiated its markets and clients by products and services and not by client needs. This resulted in an inefficient and non-effective marketing effort. In addition, portfolio analysis showed that there was an over dependence on one segment requiring investment for growth and a lack of segments in the area of sustained earnings. Ensuring a better understanding of the company's clients, the segmentation study assists in providing strategies for improved earnings and long-term viability.

The case study was written by the company.

Background

In a dominant position within its industry, IMC has traditionally been focused on technical consulting. Recently, the company has attempted to move into higher-end strategic

management consulting to increase its profitability. The company now faces two main challenges:

- 1 increased competition from major consultancy firms; and
- 2 a perception problem with its existing clients who strongly identify the brand with technical expertise.

A market audit was performed in late 2002 in order to gain a better understanding of how to approach these major challenges. Brainstorming techniques and internal company systems were both used to provide the data for the analysis.

The segmentation process

❖ *Defining the market*

When defining the market, the first step in the segmentation process, it soon became evident that IMC's current market definitions were based on products and not on customer needs. In a brainstorming session a wide range of perceived customer needs were brought to light. Further debate identified the four key markets (as defined by needs) as follows:

- 1 Facts - customers only want data and basic analysis such as market data, production levels, and available resources and so on.
- 2 Insights - assessment or identification of potential opportunities, which may come from the output from detailed analysis.
- 3 Solutions - customers have specific objectives and require data collection, analysis and a solution to achieve the objective.
- 4 Implementation - actual physical implementation of the solution provided.

The 'Solutions' market was identified as a potential growth market, which meant it was consistent with the company's objectives.

❖ *Benefit analysis*

Based on the established key discriminating features (KDFs), a benefit analysis was undertaken to identify the real needs-based buying requirements in the 'Solutions' market. These appear in Table 1.

Table 1 Benefit analysis in IMC

<i>Key Discriminating Feature</i>	<i>Which means that . . .</i>	<i>Delivering the benefit of . . .</i>
<i>Product</i>		
Consistent report methodology	Good communication	Speed and clarity in understanding
Linked into the supply chain	Holistic view	Growth opportunities
Methodology/approach up-to-date, robust	Reliability, little chance of error	Peace of mind, confidence
Experience of consultants	Depth of knowledge	Value for money
Specific competence focus (versus generic)	Detailed knowledge, market insights	Provides market opportunities
Functional	Practical solutions	Achievable recommendations
<i>Intangibles</i>		
Reputation - track record	Trust	High probability of success
Reputation – innovative	New and creative solutions	Provide/maintain pioneering status
Other user recommendations	Confidence	Confidence
Brand - good reputation	Trust	Internal and external endorsement
Internal political understanding	Success will assist career aspirations of the purchaser	Increased personal status and income
Client understanding	Customer's aspirations are understood	Meaningful and tailored solutions
Customer empathy	Customer's situation is understood	Support and realism in the solutions
<i>Services</i>		
Global reach	Local knowledge and support	Solutions adapted for local circumstances
Ongoing support – mentoring	Continuing relationship	Increased understanding and trust
Resource level - availability	Fast response and speed in undertaking assignments	Quick delivery, reduced waiting time

These buying requirements were then linked to the purchase decision criteria, a selection of which appears in Table 2.

Table 2 A selection of purchase decision criteria

<i>Criteria</i>	
<i>What is bought</i>	Data - market data, online industry data, benchmarking and so on Trade knowledge – insights High-level problem solving skills Legitimacy Implementation skills - project management Moral and political support
<i>How and when it is bought</i>	Timing - regularly/irregularly Source - formal tender, response to an IMC initiative

❖ *Forming segments*

Seven initial clusters were established when the needs and benefits were understood and like-minded customers identified and grouped together. However, six clearly unique segments remained after weighting the benefits resulted in two of the seven initial clusters being merged. These six segments are summarised in Table 3.

Table 3 IMC's segments

<i>Segment</i>	<i>Characteristics</i>	<i>Marketing drivers</i>
Predatory	Growth through hunger – mergers and acquisitions, and aggressive drive for market share. Knows what's wanted but needs help in surveying the landscape and preparing the attack. CEO - personal ambition. Industry knowledge and good understanding of the client required.	Industry knowledge and insights. Track record. Understanding of the business and of the politics.

Cautious	Organic growth through corporate expansion. Slow-moving and bureaucratic. Risk averse. Looking for a good deal.	Brand. Track record. Consultant's knowledge and experience. Methodology - solid and up-to-date. Price.
Opportunist	Dynamic and relationship orientated. Looking for opportunities. Open to new ideas and proposals. Looks for long-term relationship. Understands value pricing.	Trusting relationship (Key Account Management). Industry knowledge and insights. Understanding of the business. Track record.
Innovative	Maintaining pioneering status important. Looks for creative ideas and new technology. Flexible approach preferred. May turn to those that bring in innovation from other industries.	Reputation and track record of innovation. Industry knowledge and insights. Ability to provide meaningful and tailored solutions. Ability to act quickly.
Security-seeker	Sensing danger and will come looking for guidance. Looking for security, brand and track record. Looking for support and a practical solution to avert threats. Cash flow may be restricted.	Brand and track record. Frequent personal attention and reassurance. Industry knowledge and insights. Flexibility in payment schemes and schedules.
In denial	Unwilling to face the reality of their situation. Requires a persuasive approach with empathy and understanding. Dislikes a forward and direct approach - must be treated with cultural and political sensitivity.	Brand. Track record. Understanding and empathy.

❖ *Segment attractiveness*

A chart of segment attractiveness was produced using quantitative data and internal financial data as illustrated in Figure 1.

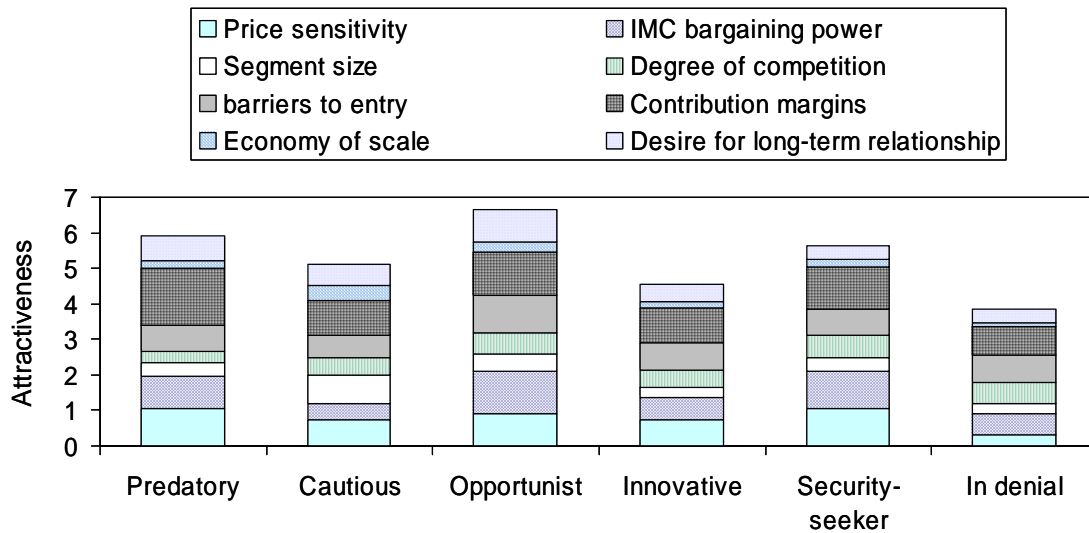


Figure 1 Segment attractiveness for IMC

❖ *Relative company competitiveness*

As tempting as it may have been at this point to focus on the segments that had the highest scores for attractiveness, it was recognised that competing consultancy firms had different competitive strengths in the various segments. The degree to which the company could take advantage of the opportunities was established by assessing its competitive strength and that of its main competitor in each segment based on the segment’s DBCs and constituent CSFs. The competitive strength analysis for the ‘Predatory’ segment appears in Figure 2.

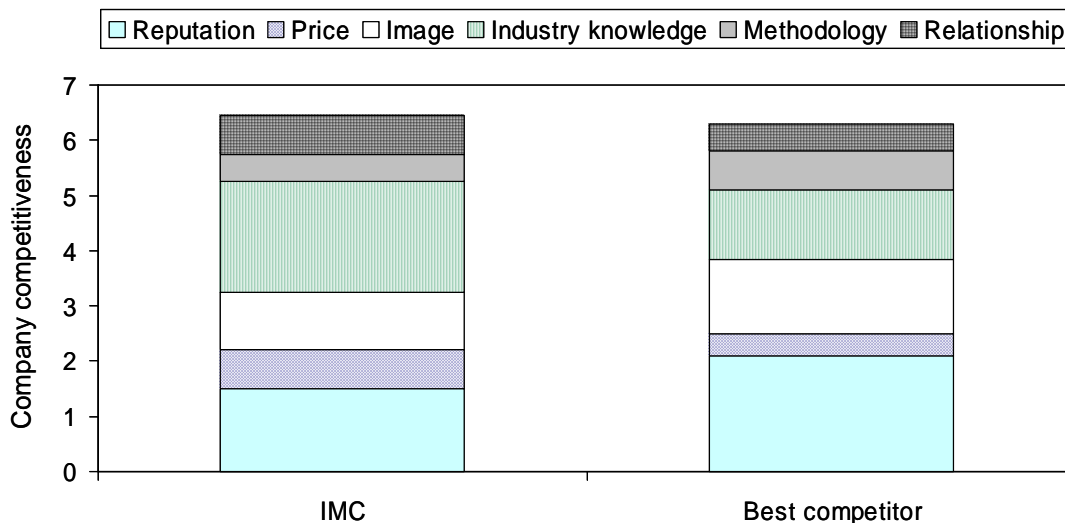


Figure 2 Competitive strength evaluation – Predatory segment

The relative competitiveness score for IMC in the Predatory segment came to 1.02.

❖ *The portfolio matrix*

A four-box portfolio matrix was used to assist in classifying the company's position in each segment and this appears in Figure 3.

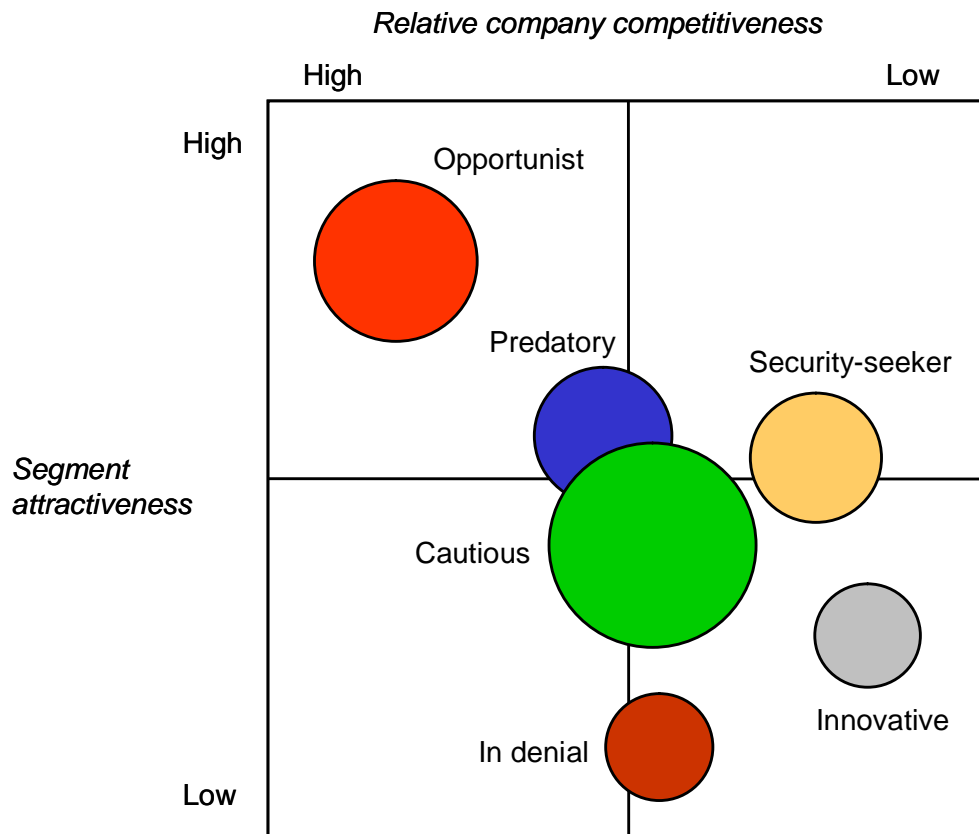


Figure 3 The segment portfolio matrix for IMC in the 'Solutions' market

Setting marketing objectives and strategies

Through the segment portfolio analysis it was possible to identify broad strategies for each segment depending on their position in the matrix. It became apparent that, in general, the company was not competitively strong in the 'Solutions' market and was over-reliant on the Opportunist segment, which required investment in resources, with limited presence in the segments which could be producing cash for this investment.

A number of strategic options were considered for each segment and the general strategies for the segments were:

- 1 Aggressively sell into the Opportunist and Predatory segments.
- 2 Become more competitive in the Cautious segment through product quality, therefore moving the segment to the left for sustained earnings.
- 3 Focus senior management on looking for merger and acquisition activity in the Security-seeker segment.
- 4 Cut marketing expenditure and effort to the minimum in both the Innovative and In denial segments.

Tactical marketing plans were based on a more detailed examination of the critical success factors in the company's competitiveness analysis, and focused on those factors where competitor's scores were significantly higher.

Conclusions

The segmentation project highlighted that the traditional segmentation methods, particularly those used in business-to-business markets, were losing their relevance in today's fast moving and ever changing world. Through focusing on customer needs and benefits, rather than products, a completely different type of segmentation occurs. IMC, through the project, has now a better understanding of its current and potential customers. Identifying and understanding the segments has enabled the company to be more effective in its marketing with greater success at winning contracts as the company moves away from its traditional base of technical consulting towards strategic management consulting.

Direction for the company's strategic and tactical activities is now based on a solid analysis of customer needs, enabling the long-term future for the company.