Segmentation in business-to-business context – a case study of companies in the energy sector

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ABSTRACT,
A thorough analysis of energy suppliers operating in the business-to-business market. Current literature has been studied and connected with results from real companies. Interviews with questions regarding segmentation have been conducted and the quality of their segmentation is measured by their level of market orientation. Results have shown that segmentation is not really advanced in most companies. Even though there was a company segmenting using variables from different complexity and in a certain sequence, most companies only use some simple variables, whereas one company did not even segment. It is proven that best performance will be achieved using your variables in a sequence, preferably simple and complex variables.

Keywords
Segmentation, preferred customer, market orientation, business-to-business, energy sector

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1. INTRODUCTION

Segmentation is a term that is often used, mostly in terms of customer segmentation in business-to-consumer markets. However, the subject of this thesis will be the segmentation of customers in the business-to-business markets. Segmentation is part of the STP-model (Segmentation, Targeting, Positioning), which is used to divide customers into separate groups. According to Mitchell & Wilson (1998), business-to-business market segmentation is a continuous process of searching for potential and actual buyers that can be put together into different groups, which all have their different needs. In this way, fitting marketing practices can be applied to these groups in order to fulfil both the needs from the customer in the best possible way, and to facilitate your own objectives optimally. This process of segmentation should then be reviewed on a regular basis, to include new findings and retain the best possible division of buyers (Mitchell & Wilson, 1998).

The main goal of this study is to empirically investigate whether or not companies use segmentation and if so, in what way. When multiple companies have been reviewed in this analysis, these can be compared with results from other students conducting similar research but then in another sector. Consequently, this provides for a large sample of companies, which also means that enough data will be collected to make a comparison between theory and practice and determine the best way of segmenting in business-to-business markets.

This analysis will be conducted in the energy sector because this sector is very relevant to business-to-business. Every company needs energy in order to carry out their business-related practices, hence needs to purchase this from an energy supplier. Furthermore, it is extremely important for energy suppliers to provide the best value to their current and potential buyers, arguing from the fact that a contract with a big company as a buyer results in a lot of revenue. Another reason for the relevance of this sector is that there are a lot of different types of perspectives on energy nowadays. These will be different for a lot of companies. Some buyers might value green and sustainable energy greatly, while for other buyers the costs of the energy might be the most valued criterium. This demands good segmentation practices in order to provide every buyer with the product in a way that they value most.

There are several researchers who studied the concept of segmentation and have found different ways of segmenting markets, using different variables. However, segmentation in B2C markets is far more often researched, while the business-to-business dimension gets way less attention in literature. This might be caused by the fact that business-to-business segmentation is often seen as harder and more complicated than business-to-consumer segmentation. Hague & Harrison (2013) argue that there are several reasons for this, the most important ones being: "business-to-business markets have a more complex decision-making unit, business-to-business buyers are more 'rational' and business-to-business target groups are smaller than target groups from business-to-consumer markets." Griffith & Pol (1994, p. 39) consent with this statement by arguing: "Segmenting industrial markets is generally a more complex process than segmenting consumer markets. Industrial products often have multiple applications; likewise, different products can be used for the same applications. Industrial customers vary greatly from one another, and it is frequently difficult to discover which differences are important and which are irrelevant." Nevertheless, it has no subordinate role in everyday business life.

This means that there is no real lack of literature or explanations about segmenting in business-to-business markets. However, there is lack of literature that tells us in which exact combination and sequence the variables have to be used or what the importance is of each possible variable. Bonoma and Shapiro (1983), propose a possible sequence of variables, ordered from easy obtainable to least easy obtainable. They give the advice to move from the outside to the inside, but also state that managers can use this approach in the way they want, so also the other way around. The research gap thus is that there is no evidence which tells us what the best combination is.

The research question of this thesis will be:

What combination of variables do companies operating in business-to-business markets use to segment their buyers, and what proves to be the best combination of variables?

This paper will be written with the ultimate goal of answering the research question in the best way possible. It will be structed as follows. Section 2 provides a clear overview of already existing literature and describes the theoretical framework that is used in this paper. Section 3 explains the data and methodology used for this paper. After this, section 4 gives the results of the conducted empirical research and section 5 consists of a final conclusion and limitations of this research.

2. LITERATURE REVIEW

In this literature review the currently already existing literature of segmentation in business-to-business markets will be discussed. Despite the lack of research in this field compared to the business-to-consumer field, there are several models or theories that are described in literature. These models all take a certain set of variables in order to segment markets. This review will choose two relevant models from literature, see which variables they use and have a look at the contribution of the models in customer segmentation practices. The models that will be reviewed are the two-stage market segmentation model and the 'nested approach'. These approaches are selected because they are both one of the most relevant models in this field and have some differences in their views on business-to-business segmentation, which will appear so in the following section. After this, concepts that will be linked to segmentation in this thesis are discussed. These concepts are: preferred customer and market orientation.

2.1 The two-stage market segmentation model

In the two-stage market segmentation model proposed by Wind & Cardozo (1974) markets are being segmented into two stages. The first stage consists of macro-segments that are based on characteristics of the buying organisation, while the second stage involves breaking up these macro-segments into micro-segments that are based on characteristics of the decision-making-units. Examples of characteristics of the buying organisation in the first stage are: company size, geographical location, SIC-code (standard industry classification) and purchasing situation. When looking at these characteristics, one may notice that these are all easy to observe characteristics. On the other hand, characteristics of decision-making units in the second stage are more difficult to observe. Examples of this are: buying decision criteria, purchasing strategy, structure, perceived importance of the product and the attitude towards the supplier (Wind & Cardozo, 1974).

Once an organisation makes use of this model, certain output that can be used in practice will be expected. According to Wind & Cardozo (1974), proper output of applying this model would consist of two parts. The first part is a key variable in order to segment the market the organisation is operating in. The second part of the output would be a set of independent variables which are ideally being used to either tell where the key variable is lying or to tell where this key variable can even create an even greater insight into the characteristics of the segment.

While this model is one of the most widely used models in current literature, one must note that it is relatively old literature for this field of research, which means that a lot of literature has been written that either uses, modifies or criticises this model. One main point of criticism is given by Freytag & Clarke (2001, p. 474), who criticise this model by stating that this model "does not directly mention the relevance of the buyers' attitude to collaboration as a segmentation base." Conversely, an example of a paper which created a model that is partly based on this two-stage market segmentation model, is the article 'How to Segment Industrial Markets'. This article introduced the so called 'nested' approach, which will be discussed in the following sub-section.

2.2 The nested approach

As mentioned above, this approach is partly based on the two-stage market segmentation model. The difference is however, is that Bonoma & Shapiro (1983) developed it into a multistep approach, presumably to allow greater flexibility. Kalafatis & Cheston (1997, p. 522) even regard this first multi-step model as ''one of the most significant developments in business segmentation theory". Furthermore, they compliment this model because they think it paid attention to the problem faced regarding the profusion of segmentation criteria.

The nested approach can be described as five different 'nests' that all contain different segmentation criteria. Bonoma & Shapiro (1983) say that all these criteria are related to one another as nests. Moreover, the outermost nest contains the most general, observable characteristics of companies, while the most innermost nest contains the most personal and subtle characteristics. The criteria on which these nests are based are as following, the first being the most outermost nest, and the last being the most innermost one. Stated in the correct order: demographics, operating variables, purchasing approach, situational factors and personal characteristics of the buyer. As one might notice, this approach is designed in a way that it places the variables, upon which the segmentation can be based, in a subsequent order, starting at easy analysable and ending with the data which would be the hardest to obtain.

The purpose of this approach is that companies start in the first, easily observable nest and proceeds towards the more difficult to discover nests. All of this must be done systematically, in order to identify important factors that otherwise would not have been discovered. In practice, however, it often turns out that managers start somewhere in the middle of these 'nests' and then work towards the outward nests. They often ignore situational criteria (Bonoma & Shapiro, 1983).

Despite the fact that this approach is very clear and conceptual, a warning for this approach is also included in the article of Bonoma and Shapiro (1983). They state that companies using a segmentation practices should not consider an approach not useful because they are unable to gather all the necessary data. They argue this by saying that "segmentation process requires that assessments of analytic promise and data availability be made independently." (p. 8).

Since this approach is considered as one of the most important business-to-business segmentation models, a lot of theories and approaches are based on this the nested approach. A few examples will be given. The first example is the model of Barry & Weinstein (2009) which introduces a model which explains influences on buyer's personal characteristics, thus emphasizing on the inner steps of the nested approach. The second example is their own paper, which they released a bit later. After they developed the nested approach, they classify two general approaches towards segmentation. One is based on customer needs, while the other is focusing on the ease of implementation (Bonoma & Shapiro, 1984).

It thus seems that the nested approach gets a lot of attention in a positive way. However, there is also criticism on their approach. Mitchell & Wilson (1998) compare the nested approach with other 'bullet-point approaches' to management and argue that using the approach gives a false sense of the actual sequential distinction between the different nests and hence gives little preparation for reality. Furthermore, they claim that the approach does not pay enough attention to customer needs and is driven by supplier convenience.

2.3 Preferred customer segmentation

Bonoma and Shapiro (1983) argues that, besides their nested approach, there are multiple other options for firms in terms of segmentation. One of these options they stated was that a firm simply does not engage in any segmentation because they think the problem is too large to approach.

Assuming that every firm has customers they rather do business with for certain reasons, it can be argued that every firm has preferred customers. A preferred customer is a customer that has a high buyer attractiveness for a supplier, when being compared to other customers (Schiele, Veldman, & Hüttinger, 2011). According to Hüttinger, Schiele & Veldman (2012), the necessary condition to get preferred customer treatment could be supplier satisfaction. Essig et al. (2009, p. 104) defines supplier satisfaction as "a supplier's feeling of fairness with regard to buyer's incentives and supplier's contributions within an industrial buyer–seller relationship as relates to the supplier's need fulfilment." Possible factors that influence the satisfaction of the supplier are mentioned by Vos, Schiele and Hüttinger (2016). They argue that profitability, growth opportunity, relational behaviour and operative excellence directly impact supplier satisfaction. As a supplier, the customers that satisfy most of these factors will be regarded as preferred customers.

In the context of this paper, looking from a supplier perspective, when a firm has preferred customers on the basis of for example profitability, one could say that it segments their buyers on this variable. In this way, it is possible that even though a firm is not fully aware that they are segmenting their markets, while in principle they are engaging in segmentation practices, by selecting preferred firms on basis of certain variables. These could thus also be considered as segmentation variables.

2.4 Market orientation

To decide whether or not a firm is properly segmenting or not, a certain measure has to be used. Market orientation can be an example of such a measure. Kohli & Jaworski (1990, p. 6) define market orientation as "the organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it." This means an organisation can be market-oriented to certain extents. A question that can be asked is that why some organisations are more market-oriented than others. Jaworski & Kohli (1993) try to answer this question by constructing a 32-item scale to measure market orientation of an organisation. These items are statements which could be answered using a 5- or a 7-point scale, ranging from 'strongly disagree' to 'strongly agree'. The answers to these items can be then used to conclude on the matter to what extent an organisation is market-oriented.

With their analysis, Jaworski and Kohli (1993) found that market-orientation is positively related to performance. In this paper, the extent to which an organisation is market-oriented will be used to conclude on the performance of its segmentation. In order to link market orientation with the quality of segmentation, this thesis makes the assumption that the better an organisation is market-oriented, the better its segmentation practices are. The basis for this assumption is that market orientation implies the knowledge of a market and segmentation requires that knowledge to divide that market.

3. METHODOLOGY

In this section, the approach of filling the research gap will be explained. Furthermore, data collection will be justified.

3.1 Research design

The gap that is found in the literature about business-to-business segmentation is that it is still unknown which variables are the most important to use and in what combination and sequence. Except for Bonoma & Shapiro (1983) there is almost no literature prescribing which variables are the best to use and in what combination and sequence. Even the prescription of this paper can be questioned, as they contradict their approach by mentioning that in some cases, the order does not matter and can be changed to one's own likings.

In order to research this, data has to be collected. In this thesis, four companies from the same sector will be asked to fill in a questionnaire. The sector covered by this thesis will be the energy sector. This questionnaire consists of a pre-defined 32-item scale to measure market orientation (Jaworski & Kohli, 1993). This questionnaire can be found in appendix A. In this way, the market orientation of each of the four companies will be determined. From this, a conclusion can be derived on how good the segmentation practices of the organisation are, because of the aforementioned assumption in this thesis that argues that the better market-oriented an organisation is, the better its segmentation practices are. In an explorative research, it is usual to have small sample sizes (Malhotra, Nunan, & Birks, 2017). This will also be the type of research used in this thesis. This sample of four companies is drawn from the same sector, since this enhances our conclusions because better comparisons can be made between companies from the same sector.

Besides the questionnaire, an oral interview will also be conducted with each company. There will be questions about the segmentation practices and its variables and about preferred customer status. These interview questions provide empirical data of which variables organisations use in practice and can be found in appendix B. This data will be linked from the data about market orientation from the questionnaire and conclusions about the performance of segmenting can be made accordingly. The interview will be recorded in audio files in order to document the interviews properly.

A baseline will be established here so an indication on how well the score of the company was can be given later on. Every company's segmentation practices will be reviewed individually. First, the segmentation process on itself will be assessed. To do this, an 'average' will be established and it will be simply determined whether a company's segmentation practices are above or below this average. This baseline will be established using theory. A study of Abratt (1993) studied lots of companies and observed which variables they used, using a big sample. In his study, geographic and demographic variables are the ones most commonly used by companies. These types of variables will be called simple variables. Assuming this study as representative for the sample of companies in this paper, usage of only simple variables will be considered as 'average', because based on different models these variables are easily observable. Usage of less or no variables will be seen as below average, whereas usage of more complex variables will result in above average segmentation practices. In this context, 'complex variables' can be defined as variables that are harder to obtain and observe, variables that are based on personal characteristics, instead of variables based on demographics.

Furthermore, a baseline for assessing the market orientation score also has to be established. This will be seen as average. In their paper, Kohli & Jaworski (1993) argue that the score of 3 is average and most companies have this score. Thus, the baseline will be set on a score of 3. Scores higher than this imply that a company is above average market oriented, whereas a score below 3 implies that a company is below average market oriented.

3.2 Reliability and Validity

As mentioned before, a qualitative research will be conducted in this paper. Although the terms reliability and validity are often used in quantitative research, it is also important in qualitative research.

Starting with reliability, Joppe (2000) defines this concept as: "The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable." Thus, reliability is very important for the quality of the paper. This gets confirmed by Golafshani (2003), who mentions that reliability is a concept to evaluate on the quality of a study, and that quality is the most important test of a qualitative study.

Furthermore, there is another concept to bear in mind when conducting a study, which is validity. As Gaberson (1997, p. 1092) argues: "Researchers make inferences from measurement results about how much of the variable being measured is present. Validity refers to the extent to which these inferences are sound." Originally, there are three types of validity, content validity, criterion validity and construct validity. Here the focus will be on construct validity, as today this is considered as the central theme of validity. It refers to the degree to which results are obtained with use of an instrument are actually related to the subject of interest. (Gaberson, 1997).

For three parts in this paper these concepts have to be taken into account. These parts are the sources used in this paper and the research instruments used, consisting of the interview and First of all, sources need to be reliable. This is also called the credibility of your sources. Because in this paper only academic sources from scholarly articles or scientifically approved websites are used, the reliability of these sources is high.

Secondly, the interview needs to be both reliable and valid. According to a study of Conway, Jako & Goodman (1995), one-to-one interviews with standardised questions are very reliable. Because interviews for the purpose of this paper are conducted in a similar way, the interviews can be considered reliable. The results of the interviews are also valid, because the questions asked are concerning segmentation and the preferred customer concept and this is the main subject of this paper.

Lastly, the questionnaire also needs to be reliable and valid. In terms of construct validity, the questionnaire from Jaworski & Kohli is valid, because it determines the level of market orientation at the company, the variable we need to measure the quality of segmentation. The reliability of the questionnaire itself is good, as it is drafted in a structured manner. But, as only the manger of the company itself fills in the questionnaire, it is possible that he pictures his company better than it actually is. However, as there are certain constraints to this study, like the time constraint, it is not possible to investigate all the companies thoroughly and compare it with the answers of the representatives. That is why this is the best way possible.

4. RESULTS

In this part of the paper, the results of the conducted interviews will be analysed and discussed. There were four interviews conducted at four companies who are all operating in the energy sector, and all in the business-to-business market. All of these four companies that have been interviewed are discussed separately, each with the same structure of analysis. After these separate discussions, a short summary of the total results will be provided.

4.1 Companies

As mentioned earlier, every company will be analysed using the same structure for all to them. This structure will be as following: a description of segmentation practices at the first, explaining whether or not a theoretical model is currently backing up their segmentation practices or if not which one they could use, explaining how the concept of preferred customer is integrated in the segmentation, measure how well the company scores on market orientation and finally conclude about the quality of the segmenting of the company and check whether or not this is in accordance with their market orientation score. These market orientation scores can be found in appendix C.

4.1.1. Company W

Starting off, the first company to be analysed is only operating on the energy market, similar to all the other companies analysed in this paper. Company W is serving both the business-to-business as the business-to-consumer market. They started off focusing on the business-to-business market where they were very successful from the beginning. At first, they did not operate in the consumer market because they mentioned that the consumer market is a very competitive market, where a good market share can only be obtained with large marketing budgets, which they did not have at that point in time. However, last year they started operating in the consumer market nevertheless. But still, they remain careful in this market, as they believe that selling by means of manipulating does not work.

According to the interviewee, this company does not segment their markets. Company W works with agencies, who have customers of their own. They have around one hundred of their agencies, who have, at average, 30 customers themselves. This means these agencies all have their own network, with own customers. Thus, these agencies are providing the revenue for company W. Whether or not these agencies want to segment their markets is up to them. Despite mentioning that they did not segment, later on in the interview they said that they recognized small users of energy and big users of energy, depending on the volume and the number of locations the customer wants to be provided with energy. This could be seen as segmentation to some extent.

As company W mentioned they did not engage in any segmenting methods, they obviously do not make use of theoretical models regarding this concept. Size of the customer is the only thing company W is looking into. Following the model of Wind & Cardozo (1974), this variable belongs to the macro segment and thus is easily observable. Also, in the model of Bonoma & Shapiro (1983), this variable belongs to the most outer nest, which is 'demographics'. As they only use one variable which is one of the easiest to observe, the segmenting of company W can be considered below average.

Preferred customer is a concept that is more relevant for this company. Currently they ask from their agencies that they do credit checks for each new customer they obtain. In this way, company W can see whether or not a customer is solvent, instead of bankrupt after three months. The 'potential' customer that is not considered solvent, will be rejected as a customer. These credit checks only take place in the business-to-business market, and then only for companies they do not know yet. Because the agencies all have their own network, they already know a part of their 'potential customers'. Despite these credit checks, company W does not really assign statuses to customers. They argue that every customer is handled as a king at their company. But in fact, they have some special service for their bigger customers, so called multi-sides. Company W mentions this as their unique selling point, facilitating multi-sides. The reason for this is that companies who own those multi-sides, are communicated with every month and additional to that, they can directly communicate with company W about changes in energy needs.

The market orientation score company W got is 3,12 on average. This is an above average score, which means this company is above average in its market orientation. This also indicates good segmentation practices, based on the assumption that has been mentioned earlier in this paper; when a company is well market oriented, its segmentation practices are also good. This might be confusing, because they almost do not segment at all. A reason for this can be that they do not really need to, because as mentioned, company W works with agencies who act as mediators between company W and other companies/consumers. This might be enough to score above average.

4.1.2. Company X

Company X is an energy provider that only operates in the energy market. Their focus lies on the business-to-business market, although they are also operating in the business-to-consumer market. However, on a really small scale. In fact, they are only serving the consumer market in a way that their customers from the business market ask them to provide their private energy as well. But company X remains an energy provider focused on the business-to-business market.

Contrary to company W, company X does engage in segmentation. The first step they take in their segmenting process, is to divide their customers into single-sides and multi-sides. Simply stated, single-sides are customers with one or two energy connections and multi-sides are customers with more connections. Subsequently, these multi-sides are getting divided into simple multi-sides and complex multi-sides. The simple multi-sides are companies with a permanent location and almost no changes in demand. Complex multi-sides are companies who want an energy connection only for a limited amount of time. These are called complex because they require a lot of internal actions for this company.

After the division of their market into single- and multi-sides, their segmentation practices proceed. The next variable they use is the sector of the customer. So, do they belong to the retail sector, the agrarian sector, the logistic sector, the industry sector or the service sector. These are all considered as different customer groups. Besides this division into different sectors, company X also divides the market into different volumes. They look at the volumes of the energy connections and how many connections a customer has. On the basis of this they can make groups and adjust pricing for these groups. The two variables mentioned above, sector and volume, are also the main variables company X uses in its segmentation practices. As the interviewee states, the division into sectors is used for better communication and the division into volumes is used for better scaling. Besides these most important variables, another variable is used; geographical location. Company X maps their agencies, so that they are assured they are represented throughout the whole country.

According to the interviewee, they do not use any theoretical theories to back up their segmentation practices. Analysing these practices with theory from Wind & Cardozo (1974), the variables that company X uses - sector, volume, geographical location and the division between single and multi-sides – are all easily observable variables that belong to the macro segments. They do not use any complex variables from the micro segments. Moreover, when you put these variables into the 'nested approach' of Bonoma & Shapiro (1983), the only 'nest' that is covered with these variables from practice, is the most outer nest, which contains of demographical characteristics, the most easily observable ones. This means that, all in all, company X has segmentation practices which are around average. They only use demographical variables and do not go further into depth. However, they use four different demographical variables and use them in a sequence, which indicates that there certainly has been thought about segmentation.

Looking at the preferred customer concept, company X also uses credit checks, similar to company W, to classify their customers. They prefer having customer that pass these checks easily, but they do not refuse customer or prefer them less when they just pass. Thereby they mention that they do not have an official classification system in which they classify their customers. They do not have different statuses for their real customers because, again, similar to company W, they have agencies they work with which means they are not really in contact with the end customers. However, they did mention that the customers that they preferred most are customers with not too much volume on one connection, as that involves a big risk. But, company X does have different statuses for these agencies they work with. These depend upon different things; whether or not the cooperation is working and whether or not the communication good. They are busy monitoring this and are developing this in order to choose the best agencies to cooperate with. The status of a customers affects the service of company X slightly, as big customers get more service, mostly in the form of especially created billing modules.

The market orientation score company X got is 3,25 on average. This is an above average score, which means this company is well market oriented. The quality of their market orientation indicates that their segmenting is above average. This market orientation score proves that the four variables in a sequence they use are enough for an above average performance.

4.1.3. Company Y

As well as the other companies analysed in this paper, company Y only operates on the energy market. This company differentiates with the other in a way that this company only focuses on the business-to-business market. This was a conscious choice, because they perceived the business-to-consumer market as a waste of their efforts and investments. It often occurs that people change energy provider for a few euro's less a month. On the contrary, they thought that the business-to-business market would be worth investing in. This is also where they focus their marketing practices on.

Their segmentation practices start with dividing up their market into five different groups: real estate, big businesses, SME's, the agrarian sector and the Asian market. This last one might sound a bit odd, but they justify recognizing this group by saying that there are a lot of Asian entrepreneurs in the Netherlands, most of them being Chinese. By making this a separate group and hiring personal account managers who are capable of speaking Chinese, they are very attractive for these entrepreneurs. Then they have another group for which things are a little different, the so-called collectives. This are franchises with multiple locations and thus multiple connections as well. Within these different groups the segmenting process proceeds by dividing it into branches. For each of these branches they have personal account managers who possess specialized knowledge about the branch. Together with this division into branches, company Y also segments using volume as a variable. They already do this indirectly with the division into groups, the starting variable of the segmentation process, but they still do this within the groups and branches. The possible outcomes of the volume variable are a big-user or a small-user.

The preferred customer concept is not extensively discussed, as company Y did not wanted to say too much about this. They did mention that there is some service that they provide to some customers, which consisted of the aforementioned personal account managers. Moreover, they stated that customer who are buying more are obviously preferred to customers buying less, as they generate more profit. So, status influences the behaviour of company Y towards the customer to a certain extent, in terms of profitability and needs/demands of the customer.

Company Y stated that they do not use any theoretical models in their segmentation practices. If the used variables, groups, branch, and volume are being analysed, it can be said that they are all easily observable. According to the 'two-stage market segmentation model' from Wind & Cardozo (1974), these variables all belong to the first stage, the easily observable variables. Furthermore, according to the 'nested approach' of Bonoma & Shapiro (1983), these variables are all covered by the most outer nest, which also contain the most easily observable variables. Both theoretical models prove that company Y is using basic variables in its segmentation practices, which thus can be described as average.

The market orientation questionnaire of this company has not been filled in. Therefore, their segmentation practices can only be assessed solely on basis of which variables they use.

4.1.4. Company Z

Company Z is an energy provider that only operates in the energy market. They are serving the business-to-business market as well as the business-to-consumer market. Their company is divided into different parts, each serving a different type of energy market. This division is as following: consumer, SME's, and huge greenhouses where they need huge amounts of energy every single day. Consequently, there is no real focus on one specific type of the energy market, as there is a different part of the company assigned to each type of market.

Within these types of energy markets, company Z is segmenting. The reason for this is to create a good oversight of their customers and provide a better value for everyone. A lot of variables are being used for segmenting. Their starting point and most important variable of their segmentation practice is the motive of the customer, so which criterium the most influence has in the decision process of the customer. Examples of these motives could be price seekers or environmentalists. However, there were a lot more variables that are being used in the segmenting of this company. The first one is the division in branches. This means that they divide their markets according to the branches that they are in. Examples of these branches are retail stores, production facilities, restaurants, etc. Another variable was the volume of the customer, so how big is the company they are providing with energy, and how much volume does the energy connection consist of and how on how many locations does this customer want energy. The next two variables that company Z uses are the extent of innovativeness and the extent of sustainability. Customers with higher innovation might have more demand fluctuations compared to a non-innovative firm, which keeps doing things the same over a long period. Furthermore, a customer which cares more about sustainability might want as much green energy as possible and does not have price as their most important criterium. Then a more complicated variable, the thinking process of the customer, is being used. This thinking process implies the way companies are considering their options, so company Z can easily find out the best way to approach them. According to the interviewee, these variables are not all used in a specific order or combinations but are just utilized to easily filter their customers. However, they always start with the motive, which means they have a sequence to a certain extent. At the moment, the segmentation practices of company Z is still in the beginning phase. This means that right that even though the segmentation of this firm is already extensive, it might become even more extensive in the near future. Right now, their segmenting is in a continuous process, and they think it will stay like that no matter what, in order to always keep track of your segments in the best way possible.

Looking at the preferred customer concept at company Z, it appears that they do treat customers in a different way. They use a classification system in which they divide their customers according to two variables, value and volume. Things that influence of the value one customers has are for example how much and how fast they pay and the loyalty of the customer. They also assign different statuses, however, instead of assigning these to customers, they assign these to branches. Therefore, they can easily observe in which branches they earn the most, which branches have the most potential for grow and which branches are underperforming and without a lot of opportunity. Because of this, company Z can see where to put the most effort and where there might be opportunities. Within the branches they also assign statuses to customer that belong to that branch, but not as extensive as the statuses for branches.

Company Z mentioned that they do not use theoretical models in order to help them with their segmentation practices. They started segmenting after a research someone did within their company, and partly based their practices on that. Assuming this research also contained the study of relevant literature, their segmenting might still be partly based on theory. However, no theoretical model is being literally followed in their segmentation processes. When analysing the variables used by this company, a separation can be made between variables. In Wind & Cardozo (1974), variables are split up in macro- and micro-segments. The separation is similar to the one made above; macro segments consist of the easily observable characteristics of a company, whereas micro segments are more difficult to observe. Company Z uses both easy and difficult to observe characteristics to segment their market. Easily observable characteristics they use would be: type of branch, volume of the customer, extent of innovativeness and sustainability. The difficult to observe characteristics they use are the motive and the thinking process of the customers. Comparing these variables from practice with the 'nested approach' from Bonoma and Shapiro (1983), it appears that company Z is using different nests. Type of branch and volume of the customer are both demographic variables. Furthermore, the extent of both innovativeness and sustainability are operating variables. Company Z also uses variables from the more complex 'nests', from purchasing approaches and personal characteristics. The motive belongs to the purchasing approaches and the thinking process belongs to personal characteristics. All in all, comparing the segmenting from this company in practice with the available theory, one can say that the segmentation practices are definitely above average, as they use complex variables as well, besides the 'standard' demographic variables.

In the article of Bonoma & Shapiro (1983), a separation between company variables and personal characteristics is being made. Applying this separation to company Z, type of branch, volume of the customer, extent of innovativeness and sustainability can be considered as 'company variables', whereas the motive belongs to the nest 'purchasing approaches' and the thinking process of the customers clearly to 'personal characteristics'. Theory prescribes that a company should start segmenting using the outer nests, the company variables, and from there proceed to the inner nests, which are more personally oriented. However, company Z starts with the motive, which belongs to the third nest, and then proceeds using variables from the first nest.

Following the market orientation questionnaire, company Z has a score of 3,21. This means that their market orientation can be considered above average. According to the assumption that the better market oriented a company is the better the segmentation practices are, this company's segmentation practices are also above average. This proves the statement made earlier, while only analysing their variables they used in the segmentation practices. As they used simple as well as complex variables this above average score was to be expected.

4.2 Summary of findings

In the individual analyses of the companies above is explained whether or not segmentation practices of the companies are above or below average. The implication of average is already explained in section 3 but will be repeated here. Only looking to segmentation on its own, a company can be considered as average when only easily observable variables are used for segmentation. Then these practices are compared with the market orientation of the company, which helps to check if these segmentation practices are really causing the firm to be better market oriented, based on the assumption that the better market oriented a company is, the better the segmentation practices are.

This sample contains four companies which all have been checked for both their segmentation practices and their market orientation. However, company Y's market orientation questionnaire has not been filled in as they did not want to share this information. Because of this, when discussing market orientation, only company W, X and Z are included. In general, results are very different. Company W mentions they do not segment their market at all, which is definitely below average. Company X and Y do segment their markets, but only use variables that are easily observable and no complex ones, meaning that their use of variables can be considered as average. Company Z uses more variables compared to the rest of the companies, using both simple and complex variables, implying that their segmentation practices can be considered above average. Most used variables of companies in our sample are branch/sector of the customer, size of the customer and the volume of the connection, which in the context of the energy sector basically implies the purchase volume. Company X and Z are the two companies that use their segmentation variables in a certain order or combination. Company Z starts this order with a variable from the third nest, which is unusual according to theory. None of the companies use theoretical models with their segmentation. All the companies mentioned that their segmentation practices are used continuously mainly because the market is also continuously changing, and they want to be as up to date as possible. A clear and visual oversight of these findings can be found in the table below. The complexity is based on the nest the variable belongs to, according to the nested approach of Bonoma & Shapiro (1983). The number of the number in the complexity column is in line with the number of the nest from the model, 1 being the easiest to observe and 5 being the hardest to observe.

When you look at the level of market orientation of the companies, Company W, X and Z all score above the established average score of 3. This would mean that their segmentation performance would also be above average. The high score of 3.21 on market orientation of company Z was to be expected, as they use the highest number of variables and the most complex ones. Company X even has a score of 3.25, only using the simple variables, although they use multiple and use them in a sequence. Company W has a score of 3.12, using no segmentation at all. This might contrary to our assumption, but as they work with agencies and consciously choose to not segment their market, their knowledge of the market might still be above average, even though they do not segment.

Looking at all these results, a best practice model can be constructed. A lesson that is learned is that the more variables and the higher the complexity of that variable is, the better the segmentation is. However, an even more important lesson is that these variables should be used in a sequence in order to get the best results. Furthermore, this sequence should follow the order of the nests as prescribed by Bonoma & Shapiro (1983). To begin with, the best practice model would use the variable single- / mulit-side to divide the big and complex customers from the customers that are easily manageable. Secondly, the extent of innovativeness and sustainability of the customers, which are variables from the second nest, will be determined. After this, the motive of buying should be found out. Lastly the thinking process of the customer, so for example determine their extent of risk-aversity to approach them with the right kind of offers. This sequence follows the prescribed order and uses variables that companies from the sample of this thesis also use and achieve good results with.

Regarding the preferred customer concept, all companies had preferred customer to some degree, however, company W and X only do credit checks to check potential customers on their solvability and based on these credit checks they can refuse the customers or take them on knowing they need some extra attention. Company Y argued that they do not really have preferred customer and that every customer is equal, but later on they admitted that the more a customer buys the more attractive it is. Company Z was the only one using a real classification system, dividing customers based on their value and volume. Company W and Y said they did not assign different statuses to their customers, whereas company X and Z said they did. Company X assigned different statuses based on the quality of their cooperation and

Variable	**Complexity**	**Company W**	**Company X**	**Company Y**	**Company Z**
Size of customer	1	x			x
Single- / multi-side	1		x		
Sector/branch	1		x		x
Volume of connection	1		x	x	x
Geographical location	1		x		
Type of organisation	1			x	
Motive of buying	3				x
Extent of innovativeness	2				x
Extent of sustainability	2				x
Thinking process of customer	5				x

Table 1 - Visualisation of findings

communication with the customer. Company Z assigns different statuses to their different branches, to know on which ones to focus more or less. Furthermore, it seems that the status of a company does affect the behaviour of the company towards the customer, however, to a small extent. Most companies say they offer some extra service towards their big customers, sometimes on request. As the big customer are generally seen as most important because of their great share in generated revenue, this cannot be called unusual.

5. CONCLUSION AND DISCUSSION

In the beginning of this paper the importance of segmentation was emphasized. By segmenting their market, companies allocate their resources better, in a way that the needs of every segment of customers can get served better. In this way a company can gain a competitive advantage over a company who does not segment. In the business-to-business markets, less literature is available compared to the business-to-consumer market. There are some existing models, however, these do not completely prescribe a certain combination of variables or in which sequence to use them.

An interview at four different companies was conducted in order to collect data about segmenting in the business-to-business market. Data about segmentation, preferred customer and market orientation was gathered. In this way, an insight into which variables companies really use was gained. Expected was that some companies did not segment at all, whereas others used some variables, but not in a certain sequence. Another assumption that was made beforehand was that the better market oriented a company was, the better its segmentation practices were.

Results from data collection were that one out of four companies, company W, did not use segmenting at all, two only used simple variables, and only one that used both simple and complex variables for their segmentation practices. In total, the most often used variables were the division in branches, the size of the customer and the purchase volume of the customer. All of these were used at all the companies from this sample that used segmentation. This proves that simple variables are definitely the most used type of variables. The one company that also used complex variables was company Z, they also used their complex variables in a certain sequence. Company X and Y also segmented their markets, but only with simple variables. However, company X also used these variables in a certain sequence. Solely based on the types of variables companies used and in what way they were used, company X and Z were top performers of the sample of this paper. Their top performance got confirmed by their market orientation scores. With scores of respectively 3.25 and 3.21, they also were the best market oriented of the sample. This justifies the earlier made assumption and proves market orientation to be a correct measure of the quality of segmentation. A small footnote, even the company which did not segment got an above average market orientation score, but this can be explained by the fact that they have agencies as customers who on their turn have the real businesses as customers. Their argumentation was simple, they did not really need segmentation.

In general, companies also provide some extra service to ‘preferred’ customers, often their bigger clients. This seems logical, as those bigger clients generate a bigger share of revenue than a small client. Companies are willing to put more effort in to retain these companies as customers and do this by offering extra service. Furthermore, most of the companies assign statuses to customers, based on different variables like value and volume. This means that in a way, companies also segment their market using the preferred customer concept.

All these findings implicate that even though situations for every company might be different, segmentation of a market proves to be a helpful tool for improving your marketing practices. Furthermore, variables, regardless the complexity of them, should be used in a certain sequence or combination. Companies that did this were better market oriented than companies that did not do this. Complex variables seem to improve the segmentation practices; however, this does not imply that a company’s segmentation cannot perform with only the use of simple variables. As long as there is though put in and there is a structure to the segmenting, companies seem to perform better.

Thus, answering the research question, companies all use different variables for their segmenting. There has not been proof of certain combinations of variables that are best to use, however, use of complex variables seem to achieve good results. But more importantly, regardless which type of variable, the best way definitely is to use the variables in a sequence. But interestingly, the company that used a combination only consisting of simple variables performed as good as the company that used both simple and complex variables. This might be caused because the company that used both, company Z, started their segmenting with a variable belonging to the third nest of the nested approach and then proceed with simple variables from the outer nest, while this model prescribes to start in the most outer nest and then proceed towards the inner nests, the more complex variables.

This thesis has been made with a few limitations. The market orientation concept, the measure of the quality of the segmentation, is determined by taking the average score of the questionnaire. However, this questionnaire is only filled in by one person, the representative of the company itself. It would be more reliable if it was filled in by more persons from the company. Due to time constraints and companies not wanted to commit multiple employees to such a research, this was not possible. Another limitation was that companies were not all of the same size. Three of my four energy providers were - despite also being big and nationally operating- relatively small compared to the other one. This could impact the comparison in its equality. This could be improved by future research.

This research is academically relevant in a way that it improves the general knowledge about segmentation of companies operating in a business-to-business context.

This thesis provides insight into which variables companies use and which combinations prove to be most successful. With this knowledge as a foundation, future research could research the variables found in this thesis individually and try to measure their performance more accurate.

With respect to the practical relevance, companies could look at findings of this thesis and use it to improve their own segmentation practices. They can learn that variables should be used in a specific sequence and which ways of segmenting are more successful. Furthermore, in general this thesis emphasizes the importance of segmentation for companies and thus might make it a more appealing concept for more companies.

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APPENDICES

Appendix A – Questionnaire market orientation Kohli & Jaworski (1993)

Market orientation (intelligence generation) Scale items

1. In this business unit, we meet with customers at least once a year to find out what products or services they will need in the future.

2. Individuals from our manufacturing department interact directly with customers to learn how to serve them better.

3. In this business unit, we do a lot of in-house market research

4. We are slow to detect changes in our customers' product preferences.

5. We poll end users at least once a year to assess the quality of our products and services.

6. We often talk with or survey those who can influence our end users' purchases (e.g., retailers, distributors).

7. We collect industry information through informal means (e.g., lunch with industry friends, talks with trade partners).

8. In our business unit, intelligence on our competitors is generated independently by several departments.

9. We are slow to detect fundamental shifts in our industry (e.g., competition, technology, regulation).

10. We periodically review the likely effect of changes in our business environment (e.g., regulation) on customers

Market orientation (intelligence dissemination) Scale items

1. A lot of informal "hall talk" in this business unit concerns our competitors' tactics or strategies.

2. We have interdepartmental meetings at least once a quarter to discuss market trends and developments.

3. Marketing personnel in our business unit spend time discussing customers' future needs with other functional departments.

4. Our business unit periodically circulates documents (e.g., reports, newsletters) that provide information on our customers.

5. When something important happens to a major customer or market, the whole business unit knows about it in a short period.

6. Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.

7. There is minimal communication between marketing and manufacturing departments concerning market developments.

8. When one department finds out something important about competitors, it is slow to alert other departments.

Market orientation (response design) Scale items

1. It takes us forever to decide how to respond to our competitors' price changes.

2. Principles of market segmentation drive new product development efforts in this business unit.

3. For one reason or another we tend to ignore changes in our customers' product or service needs.

4. We periodically review our product development efforts to ensure that they are in line with what customers want.

5. Our business plans are driven more by technological advances than by market research.

6. Several departments get together periodically to plan a response to changes taking place in our business environment.

7. The product lines we sell depend more on internal politics than real market needs.

Market orientation (response implementation) Scale items

1. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.

2. The activities of the different departments in this business unit are well coordinated.

3. Customer complaints fall on deaf ears in this business unit.

4. Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion.

5. We are quick to respond to significant changes in our competitors' pricing structures.

6. When we find out that customers are unhappy with the quality of our service, we take corrective action immediately.

7. When we find that customers would like us to modify a product or service, the departments involved make concerted efforts to do so.

Appendix B – Interview questions

Segmentation questions

1. Is your company serving multiple markets? And why?

2. Does your company use a method and criteria to segment a market? Why, why not?

3. What are the most important criteria

4. Which combination of variables/criteria do you use to group different customers into segments?

5. Are you using a prescribed model for market segmentation?

6. If yes, which model are you using?

7. What is your starting point for segmentation? (i.e. Customer size, geographical area)

8. How often does you company engage in market segmentation? (Ranging between occasionally or discontinues) and why?

Preferred customer

1. Do you have a classification system for customers? Why?

2. Is the classification system of customers different for segments? And why? Why not?

3. Do you assign different status types to customers? (e.g. preferred customer, top-customer, growth-customer, standard-customer, less interesting customer)

4. Which status types do you assign? And why?

5. How does a customer’s reputation/status affect your behaviour/offer towards him?

Appendix C – Market orientation scores

	Results Company W	Results Company X	Results Company Z
Market orientation A			
Question 1	4	3	5
Question 2	3	4	3
Question 3	4	3	3
Question 4	2	2	3
Question 5	3	2	5
Question 6	1	3	5
Question 7	3	5	5
Question 8	4	4	3
Question 9	3	1	3
Question 10	4	4	4
Average section A	3.10	3.10	3.90
Market orientation B			
Question 1	3	3	2
Question 2	5	5	2
Question 3	3	4	3
Question 4	3	5	5
Question 5	5	4	4
Question 6	4	3	3
Question 7	2	2	3
Question 8	2	2	3
Average section B	3.38	3.50	3.13
Market orientation C			
Question 1	2	1	1
Question 2	3	4	4
Question 3	2	1	3
Question 4	3	5	2
Question 5	2	3	3
Question 6	4	5	4
Question 7	3	2	3
Average section C	2.71	3.00	2.86
Market orientation D			
Question 1	3	5	3
Question 2	4	4	2
Question 3	1	1	1
Question 4	2	2	3
Question 5	4	4	4
Question 6	5	4	3
Question 7	4	4	3
Average section D	3.29	3.43	2.71
Market orientation score	**3.13**	**3.25**	**3.22**