The gap between theory and practice

- An investigation of how service companies practice the theories of segmentation

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Spring semester 2014
Degree project, 30 hp
Abstract

Segmentation is one of the most fundamental corner stones in the theory of marketing. It has been a subject for research for over 60 years. The subject has been actualised because of the lack of research within the practice of segmentation. There is an obvious gap between how the theories are recommending the companies to practice segmentation and how the companies actually do it. Attempts have been made to cover the gaps between theory and practice through providing implementation strategies, but still the gap remains.

We will in our degree project focus on the gap between theoretical segmentation and practical segmentation within the service sector. Our conclusions from this degree project have the aim to provide information regarding 'how' companies practise segmentation within this setting. Therefore the research question we have conducted is:

*How are Swedish service companies practicing segmentation in their business?*

Our research question is answered through three main objectives, which together creates our conceptual framework that is tied to theories regarding business-to-business segmentation, CRM and the service setting.

The data collected were done by the use of a qualitative method, through semi-structured interviews with seven companies from the service sector. The respondents from the companies were mostly marketing managers with insight regarding their company’s segmentation strategy.

The empirical findings were analysed in comparison to our theoretical framework, to establish the difference between theory and practise. Main conclusions drawn from our degree project were that the companies understood the importance of segmentation. However the difference between theory and practise were large, companies adapted the basics but rather than creating a strategy of which customer to pursue, the majority acted retroactively trying to capture every customer as an initial step, to later focus on a specific group. The reasons found for this behaviour was that the companies applied a short-term focus rather than a long term, not having enough time to spend on segmenting and the fear that by using segmentation they might miss other customers in the process. Recommendations to the practitioners of segmentation, is to have a more long-term focus, as well as to be decisive in their segmentation. Future studies are recommended to focus on where within an organization the responsibility for segmentation should lie and the relationship between CRM and Segmentation in the service industry.
Thank you!

First of all we would like to thank our families for their tremendous support in times of need. We are grateful for your intellectual contribution and even though we have been talking in riddles for the last 5 months you have at least tried to understand and help us much as you have possibly been able to.

We would also like to thank our supervisor Vladimir Vanyushyn who has supported us with his knowledge within the field of marketing and guided us through out this entire degree project. To our anonymous respondents we would like to send some extra large thanks, without you this project would not have been possible. We are very grateful for all your contributions.
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1. Introduction

In this chapter we will give you an introduction to our degree project, it will give you a clue of what our project is about. The chapter includes background information on our chosen subject and research method. We will also present why we have chosen this subject as well as we will present you to our research question. The introduction will also include the purpose of the study and will end with our delimitations.

Market segmentation, is today one of the most fundamental theories in the field of marketing. The theory itself, grouping customers into different clusters for product differentiation, was established by Wendell R. Smith in 1956. A long time has passed since professor Smith spend the summer of 1952-53 as consultant at Alderson & Sessions (at that time one of the most well known marketing consulting organizations), the most likely place where he was inspired to write the article “Product Differentiation and Market Segmentation As Alternative Marketing Strategies”. (Wright, 1966, p.64). Since then much has happened within the fields of marketing. The question is how much has happened?

The phenomenon of market segmentation has been well studied, but a new light was shed upon the subject when Yankelovic and Meer released their article “Rediscovering market segmentation” in 2006. They discovered that the way companies conduct their segmentation today, in majority, is not optimal and does not yield the results that represents the full potential of a good segmentation process. So discussion has been raised whether segmentation theories are fully applicable, Jenkins & McDonald questions the fact that segmentation theories are rather based on conceptual evidence than empirical evidence (1997, p.18).

So there is an on going debate about the subject of segmentation. Even though there are so much research regarding the subject of segmentation today, we believe that there is a lack of research in what is actually being practiced by the companies. Foerdermayr & Diamantopoulos (2008, p.224) mentions that the current literature on the subject of segmentation is focusing on the question of ‘how’ segmentation should be practiced. However there is a small amount of research concerning 'how' segmentation actually is practiced in companies. Furthermore, they continue to explain that previous research conducted on the subject has rather than reviewing the empirical findings chose to focus on describing applications of different segmentation schemes. This presents us with an opportunity to find how companies are practicing segmentation today.


1.1 Choice of subject

Our interest as marketing students in the field of segmentation derives from our desire to understand people and understand the actions of people. According to us segmentation is about understanding the actions of a group of similar customers. If an understanding about the action of the group of customer is reached then the company can try to adopt their service or product for the liking of the customers.

According to Dibb & Simkon the need for market segmentation originates from the need to find equilibrium between what the customer wants and the assets that the company withholds (1997, p. 52). We believe that in a modern marketing mind set marketers should always strive to reach the liking of the customers, and not “trick” them to buy the service or the product. We also believe that segmentation is a powerful tool for any company. Jenkins & McDonald states, “Academic segments are meaningless, however, unless they are capable of application in real world situations. Given the need readily implementable segmentation schemes, it is frustrating that so little of the market segmentation literature considers the interpretation and the implementation of segmentation schemes” (1994, referred to in Kalafatis & Cheston 1997, p. 520). Thus it motivated us to dwell deeper into the subject and we are fascinated to get a better insight into how companies and organizations actually use segmentation in practise.

1.2 Problem background

1.2.1 Segmentation

The original definition of market segmentation is the one presented by Wendell R Smith in 1956, he states that market segmentation “consists of viewing a heterogeneous market (one characterized by divergent demand) as a number of smaller homogeneous markets in response to differing product preferences among important market segments. It is attributable to the desires of consumers or users for more precise satisfaction of their varying wants.” (1956, p.6) Lin’s (2002, p.249) definition shows us that the concept of segmentation has not changed for a time period of over 50 years, Lin describes the purpose of segmentation as of finding categorizable consumption patterns that you do by dividing the market into different submarkets. A definition that we find fairly similar to the one Smith presented.

Why companies actually uses segmentation strategies is so that a company can distinguish between different types of buyers. It is important to know that the market does not create the segments, this is the task of the marketer to find these and determine which segments the company actually should target. For example there are different desires for a student going in to a liquor store looking for something to bring to a party and a businessman looking for a bottle of wine to have for dinner, to fulfil the need of the student as well as the businessman the liquor store needs to be aware of the differences. It is also important to differentiate the terms segment and sector, two linguistic units that are easily mixed up when discussing segmentation strategies. (Kotler & Keller, 2006, p.240)
Smith argues that segmentation often involves a lot of advertisement and promotion (1956, p.6), something that Yakelovich & Meer (2006, p.1) agrees with in their paper Rediscovering Market Segmentation, in which they believe that the advertisement has taken over a big part of how segmentation is used today, and thus lost touch with the potential of a good market segmentation. Yankelovich et al further explains that segmentation cannot be solely divided into parts of demographic nature, such as age, sex, education and income but needs addition from the non-demographic traits concerning values, tastes, and preferences (2006, p.1).

Furthermore Dibb (2001, p.94-95) explains the impact of technology, in which companies can move closer to a one-to-one contact with the customers, providing if executed well a long term relationship, Dibb also argues that this trespasses into the subject of CRM. Dibb also raises the question if the segment of one is the logical step of marketing segmentation or even marketing segmentation at all, since the traditional view of segmentation refers towards a group (Dibb, 2001, p.94-95).

1.2.2 CRM

There are also discussion raised whether companies should move towards what is in literature referred to as either ‘the segment of one’ or ‘one to one marketing’, meaning an individualized segmentation process where data is stored of the customer and from this data one calculates the needs of the customer also called customer relationship management (CRM) (Dibb, 2001, p.194). Market segmentation might be too expensive since in some cases you need to develop more than one marketing program for the company. More marketing programs means more costs, which sometimes would lead to the conclusion that a mass marketing strategy might even be a cheaper alternative (Dibb, 2001). Gordon Wills (1985, p.36) upholds the importance of segmentation, stating, “each individual is, of course, a segment. To manage each as a unique target would be logistically impossible. Marketers, however, are generally faced with a myriad of potential customers whose sheer numbers rule out the feasibility of highly customized marketing. The solution is segmentation.”. This raises question whether companies

1.2.3 Service setting

Argument has been made that all marketing is service marketing, based on that customers does not buy product or services instead they buy something that provides them with a value, Grönroos goes against this accusations and states “that every industry is a service industry would indicate, from a marketing planning point-of-view, that the planning situation, and the tools, concepts, and models used are the same for service companies as for firms marketing goods. But, the marketing planning situation is, in my opinion, different when marketing services than when marketing physical goods” (1978, p.590). Worn in mind that there is a difference between physical good and services one can understand that there also is a difference in how to market these two value satisfaction offerings (Grönroos, 1978, p.590-591).
We do believe that it is important to give an actual definition of the term service marketing. According to Judd the definition of service marketing is “a market transaction by an enterprise or entrepreneur where the object of the market transaction is other than the transfer of ownership (and title, if any) of a tangible commodity” (1964, p.59).

One of the most important attributes of a service is that it is intangible. It is more of an experience that is co-founded between the consumer and the company. This means that there is an interaction between the company and the customer. This is where it gets complicated. Since the company is developing the service together with the individual customer, is it then possible for the company to generalise individual customers into different segments?

1.3 Strategy as Practice

In this degree project we aim to research how segmentation is practiced in different organizations, this with an aim to establish if there is a difference between what the theories suggests should be practiced and what is actually used in business life today. To help us establish this we will be taking a look into how strategy is used in practice and thus focusing on the strategy behind the subject on segmentation. Whittington (2008, 613) describes that strategy was earlier concerned as something that a company has, but further goes into the subject stating that it is also something that people within these organizations do. Thus giving us the opportunity to study organizations in three ways; what the theory say that they should be doing, what they say that they are doing and what they actually are doing.

Strategy as Practice is a term used to study the practices of strategy specifically concerning the doing of strategy; who does it, what is it that they are doing and are there implications to the shaping of that strategy (Jarzabkowski, 2009, p. 1). Whittington (2008, p. 614-616) mentions several areas that the practice turn has struck within research covering both areas concerning general strategy into more detailed studies in management such as technology and marketing. Jarzabkowski (2004, p. 2) gives reasoning for this way of studying strategy, saying that the room made for ‘practice approaches’ within management studies is due to the gap created between theory that describes what people do and what people actually does. What she mentions is very close to what this degree paper aims to achieve connecting the practices of people within organizations to what theories say that they should do and what they are doing.

1.4 Research gap

With the vast research regarding segmentation, assembled over a period of 60 years, we find it peculiar that there is so little focus emphasised on how these theories actually are applied by organizations in the business world. Fordemayer & Diamantopoulos acknowledges that the research made within segmentation is focusing too much on how it ideally would work instead of focusing on how it actually is carried out (2008, p.224). This is related to the ‘practice approach’ where Jarzabkowski (2004, p.2) mentions that the reasoning behind the uprising of the practice approach in the management research was due to a gap between what is practiced and what theories describe that they do. Thus we believe that strategy as practice also could contribute to the field of marketing.
and segmentation, giving an explanation to the gap between what theorists believes to be practiced and what the organizations actually are practicing.

We know that there are a lot of theories in the field of segmentation, but as we have seen there are few articles that investigate how the companies are practicing the theories that are researched. Christian Grönroos claims that many of the traditional marketing theories are not applicable on the service industry when one is marketing a service (Grönroos, 1978). Therefore we believe it to be interesting to further investigate how and if service companies are applying the theories of segmentation.

In the research done by Fordemayer & Diamantopoulos they emphasize that the future research within the market segmentation needs to focus on how companies are applying the theories of the segmentation process today, both business to consumer and business-to-business. (2008, p.259)

Bailey et.al (2009, p.247) has in their article “Segmentation and customer insight in contemporary services marketing practice: Why grouping customers is no longer enough” identified a need for future research and suggests that further research is needed within the fields of segmentation and the practice of customer insight and the link to market segmentation. Service companies today have a large insight in the behaviours of their customers. But how much are they actually using this insight to group and segment their customers?

With the growth of technology and statistical programs, organizations can now use both data to develop a closer relationship with their customers throughout the usage of the segment of one. This has led to much theoretical material regarding segmentation and consumer behaviour and thus which part segmentation will play in today’s society. Therefore Bailey et.al (2009, p.247) suggests that future research within the field of marketing needs to focus on the link between CRM and market segmentation.

We will during this project try to cover the research gap identified, by conducting a qualitative study to understand the practice of different service companies and see if they are applying segmentation theories into their business. Using the strategy as practice method as a mean to research what strategy the organizations are practicing and comparing what we find to the current theories within segmentation studies we believe that we can identify how the theories are practiced, and if they are not practiced why so. Thereby we wish to contribute to the field of marketing research by identifying the gap between practice and theory so future studies may focus on how to cover this gap.

1.5 Research question

From our problem background and research gap we have arrived with the following research question:

How are Swedish service companies practicing segmentation in their business?

1.5.1 Objectives
Our objectives during this research is to:

- Investigate how segmentation is practiced in Swedish service companies
- Investigate how the segmentation that the companies perform differ from the established theoretical framework
- Investigate whether there is a connection between how the service companies are practicing segmentation and how they are using a CRM technology

These objectives will help us to provide an answer to our research question stated above. Firstly, discover how companies are using segmentation, if they are using it at all. Secondly to establish how and if the companies use of segmentation differ from what our established theoretical framework state. Finally, we will see if they companies are using a CRM system and which benefits they aim to achieve with that system.

1.6 Delimitations

We have decided to delimit our research to only focus on service companies. The reason we have chosen to only investigate service companies is based upon Grönroos theory that traditional marketing theories cannot be applied to service companies (1978, p.391). We therefore believed it to be of great interest to see if service companies apply one of the most traditional marketing theory of all, the theory of segmentation.

Segmentation theories can be applied by both companies with a business-to-business approach but also to companies with a business to consumer approach. We have decided to in our paper delimit our study to only focus on companies with a business-to-business approach. The reason why we have decided to delimit our research to only companies working in the business to business market is because there is a difference how companies segment their markets that are within the business to consumer industry and business to business industry (Kotler & Keller, 2006, p.258). We also decided to delimit our study to only segmentation in companies who is in the business to business market, since we believe that there is more room for disclosure in the theories of business to business. This is based upon the empirical review done by Foedermayr & Diamantopoulos where they look into 19 articles regarding the subject of segmentation, only six of these articles was based upon the business-to-business market (2008, p.225).

We will in our degree project only focus on how the companies are segmenting today and not how accurate they are. Our goal is to see if and in that case how companies today are segmenting. Because of our geographic positioning we have decided that we will only investigate companies that are active within the northern part of Sweden.
2 Scientific Method

In this chapter we will present our pre-understanding, from a theoretical and practical point of view, and an explanation on how these affect our degree project. We will continue with an explanation of the scientific approach undertaken, with an overlook of the ‘as-practice’ approach, as well as our philosophical stance and research nature. Finally we will explain our choice of theories and present our source criticism.

2.1 Pre-Understanding

2.1.1 Theoretical and Practical pre-understanding and its effect

Studies conducted within the social sciences should be completely free from biases (Bryman and Bell, 2011, p.29). However since our personal values does not only influence the choice of subject in our degree project but also influences the choice of method, data collection, analysis and conclusion it will be hard to stay completely unaffected by prior experience and frames of references within the subject (Bryman and Bell, 2011, p.30).

Knowing this, we as researchers acknowledge that prior exposure to the subject will have some effect on how this degree project is constructed. We both are students currently studying at Umeå University, aiming for the degree of ‘Civilekonom’. One of us with the majority of courses taken in the subject of Service Management, and the other within International Business. During the semester previous to this degree project the course that both of us completed were however solely within the subject of marketing, covering marketing strategies, consumer behaviour and segmentation. We both have backgrounds working with sales and encounters with CRM systems and forms of segmentation. The knowledge we have gained has therefore both been in a theoretical sense but also in a practical sense. We also have a genuine interest in the subject of segmentation and the practise of marketing as a whole. With this in mind our previous experience might have a subjective effect in our choice of theories and arguments presented. Our aim is however to stay objective in the ways we approach this subject and try to cover the broad spectrum that is segmentation. We will present several different authors point of view, not relying on previous knowledge as the basis for our theoretical background. Together with an overall critical and open mind-set, reflecting on the things that we express throughout the process of writing this degree project, we aim to ensure our objectivity and not let the effects of pre-understanding shape the results provided.
2.2 Methodological awareness

2.2.1 The practice approach

The aim of this degree project is to research how segmentation is practiced within service companies today. This aim has lead us to the works of Richard Whittington (2006, p.627) and his paper “Completing the Practice Turn in Strategy Research”, in which he explains the ‘in-practice’ approach towards researching strategies. In his research he concludes that “strategy is more than just a property of organizations; it is something that people do, with stuff that comes from the outside as well as within the organizations, and with effects that permeate through whole societies”. From this we emphasize that the strategy of segmentation is something that the actors within organizations shape and develop, thus making it possible to make a comparison of the praxis (how it is actually used) and how segmentation theorists explain that it should be used. Orlikowski et al (2010, p. 23-24) explains this view as regarding practice as a phenomenon, where researchers view what is actually happening in regard to what theories explain is expected to happen. Further they explain that there often is a large gap between scientific knowledge and lived reality, and state that techniques’ for researching such phenomena often is linked to immerse participant observation (Orlikowski et al, 2010, p.24). However in this degree project we will conduct semi-structured interviews and by doing so not take part in such participant observation that for example could be done with in-depth field observations (Orlikowski et al, 2010, p.24). Our reasoning behind this is that we regard segmentation as an organizational strategy thus making it hard to follow the whole process without constructing a longitudinal study. With this in mind we will engage the practice phenomenon in terms of capturing how segmentation is used in reality right now and make comparisons towards the theory, thus establishing if there is a gap between practice and theory.

2.2.2 Research Philosophy

There are three main philosophies within research that are commonly referred to as ontology, epistemology and also methodology. Perry et al (1999, cited in Carson et al, 2001, p.4) explains these in a simple manner stating that ontology is the reality, epistemology is explained by the relationship between that reality and the researcher and methodology is the techniques used by the researcher to discover that reality.

Bryman & Bell mentions two different ontological positions; Objectivism and Constructionism (Bryman and Bell, 2011, p.21). Objectivism is defined as an ontological position that implies that social phenomena confront us as external facts that are beyond our reach or influence (Bryman and Bell, 2011, p.21). Constructionism counters that philosophy saying that: social phenomena and their meanings are continually being accomplished by social actors (Bryman and Bell, 2011, p. 22). Due to the fact that in this degree project we will conduct qualitative interviews we argue that the ontological position of constructionism suits this study best. Given that the aim in this study is to explore how segmentation is used by different organizations, the participants explain their view of segmentation and how they are utilizing it within their company. With this we argue that even though segmentation is a marketing strategy it is the social actors within the organization that establishes how that strategy will be structured and realized. These arguments we consider relevant in relation to what
Whittington (2006, p.627) expresses within the ‘practice strategy’ that it is the people within the organization that shape the strategy, which in this degree project concerns segmentation.

There are different kinds of epistemological positions: Positivism, Interpretivism and Realism (Bryman and Bell, 2011, p.15-20). Positivism according to Bryman & Bell (2011, p.15) is an epistemological position that argument for the application of natural sciences both to social reality and others. Carson (2001, p.5) also mentions that positivist school relates to the facts or causes of social phenomena and attempts to explain causal relationships by means of objective facts. Further Carson (2001, p.5) explains that a positivistic research concentrates on description and explanation, where thought is governed by explicitly stated theories and hypotheses. The interpretive position is explained as an opposite side to positivism. This approach allows the focus of research to be towards understanding what is happening in a given context (Carson et al, 2001, p.5). Bryman and Bell states that scholars who adopt the interpretive view argues that the subject matter of social sciences is fundamentally different that of natural sciences, and thus require a different logic of research procedure, one that reflects the distinctiveness of humans as against the natural order (2011, p.16). Carson et al (2001, p.5) states that interpretivism differs from positivism that tries to explain causal relationships by means of ‘objective facts’ and statistical analysis, interpretivism uses a more personal process in order to understand reality.

Realism is explained by Saunders et. al (2012, p.136) as another philosophy that relates to a scientific enquiry. They also explain that realism is what we sense is reality: That objects have an existence that is independent of the human mind. Bryman & Bell (2011, p.17) describes two different kinds of realism namely empirical realism and Critical realism. Saunders et al (2012, p.136) also describes these two but explains them as Direct and Critical realism. Direct realism is described as what you see is what you get: what we experience through our senses portrays the world accurately. Critical realism however, argues that what we experience are sensations, which are images of the things in the real world, not the things implicitly (Saunders et al, 2012, p.136).

In terms of the epistemological nature of this degree project we will adopt an interpretive philosophy, with the aim to understand and observe how segmentation is used in practice. Thus arguments for this research nature is connected to how practice theory is studied. Whittington (2006, p.615) tells us that there are three main themes within this theorem. Firstly society, which shared understandings, cultural rules and procedures, guides human behaviour. Secondly, people’s activity in practice, not just asserting ‘what’ is done but also ‘how’ its done. Lastly, the actors, which skills and initiative that is needed to activate what happens, in-practice. It is argued by some (Saunders et al, 2012, p.137) that an interpretivist perspective is highly appropriate in the case of business research, particularly within fields of marketing and human behaviour, since they function of a particular set of circumstances and individuals at a specific time. Hence our choice of the interpretive philosophy, our aim is to capture how the social actors within organisations practise segmentation and through personal communication get a better understanding of reality. We will focus on understanding and interpreting the way segmentation is practiced and is active during the collection of data. Carson et al (2001, p.9) describes the differences between positivist and interpretivist research, saying that in interpretivist research the researcher is involved but in positivist the researcher is independent. Furthermore, that in positivist research
the sample is often quite large and in interpretivist research the sample size is smaller. This we believe justifies our choice of the interpretive philosophy.

2.2.3 Research Approach

Bryman and Bell (2011, p.13) explains the different views on relationship between theory and empirical data. They describe two different perspectives; the inductive approach and the deductive approach. These differ mainly in the way that theories are used to view the empirical findings. An inductive study often aims to have theory created from the outcome of the research, meanwhile the deductive approach moves from theory to findings often trying to test a hypothesis (Bryman and Bell, 2011, p.11). Bryman & Bell (2011, p.14) states that even though these strategies seem like opposites they be better thought of as tendencies rather than as distinctions. Meaning that even if the researchers decide upon a deductive approach some inductive elements might be included (Bryman & Bell, 2011, p.13). With that in mind we believe that our research is mainly deductive. Reasoning behind this is due to the fact that we base our research in current theories regarding segmentation, CRM and the service setting to then observe the practice of segmentation within the business life. In our analysis we will apply an inductive reasoning where we will relate theories to empirical data to provide insights to explain if there are differences between what is practiced and what the theories suggests. Carson et al (2012, p.12) mentions that this is most appropriate for an interpretive research philosophy, saying that a deductive framework may be derived from literature analysis and evaluated empirically and inductively to allow new insights to emerge.

2.3 Research Design

In combination with the different views on which the researcher conducts his research there are different research strategies. Saunders et al (2012, p.161) explains that there are ‘qualitative’ and ‘quantitative” research designs, and these differ in the sense of which data is generated and how that data is generated. Qualitative data is often generated through interviews and finds data that can be categorized, meanwhile quantitative data is generated from sources aiming for numeric data, such as questionnaires etc. (Saunders et al, 2012, p.161).

Bryman and Bell (2011, p.26) tells us that the quantitative method focuses on quantification in the collection and analysis of the data, and often has more of a deductive-positivist orientation. They also mention that qualitative methods often have a more inductive and interpretivist orientation, showing the differences between the research strategies (Bryman and Bell, 2011, p.27).

The research method that we have chosen is a qualitative one, thus generating data in the form of words rather than numbers (Bryman and Bell, 2011, p.386). Our main source of data generation will come from interviews with relevant individuals at service companies. Saunders et al (2012, p.372) argues that interviews can be a good tool for researchers to use when wanting to gather valid reliable data. With our aim to observe and analyse how segmentation is used in practice, through an interpretive position, qualitative research will give us the possibility to observe the participants within a social setting, gaining knowledge and an appreciation of the culture of a social group (Bryman and Bell, 2011, p.389). We will take upon a non-standardized approach when
conducting this research, the respondents may misunderstand the questions and give answers that are not covering the subjects that we aim to pursue within this research. To ensure that the interviews withhold a certain quality we have chosen to conduct semi-structured interviews based on an interview guide, covering the themes that we wish to bring up in this degree project (Saunders et al, 2012, p.374-375). A quantitative research method within this practice, would not satisfy us as researchers as well as not contribute to the field as thoroughly. Even though we will use some deductive aspects within this thesis, we do not state any hypothesis and do not hold society as an objective reality (Bryman and Bell, 2011, p.27). An in depth description of the interview guide and limitations will be provided under the practical method chapter.

2.3.1 Research Nature

Saunders et al (2012, p. 170-172) describes the term research nature, and the different types of studies that exist. These can be either of the exploratory, descriptive or explanatory nature. The nature of our research design is exploratory in which we will ask questions to discover what is happening and gain insight within the research area. This works well with our research design as Saunders et al (2012, p.171) also recommends having unstructured interviews and to rely on the quality from the participants of the study. This study may also in some cases be descriptive in which we accumulate an accurate profile of the events, people within the organization as well as the situations that are relevant, however with the uncertainty and difference within the chosen companies this will not be the main nature of this research (Saunders, 2012, p.171). The emphasis of explanatory studies is to explain relationships between different variables or problems (Saunders et al, 2012, p.172). Within the analysis this degree project might have some explanatory traits but we do not aim to generalize the data further, thus this is neither the aim of this research.

2.4 Choice of Theories

In this degree project we have chosen to use theories presented in both scientific articles and books, to both ensure the quality of the content as well as enable us to make a good analysis. To better understand the empirical findings and enable us to answer our research question the first step in the choice of theories were to look into the subject of segmentation. Since the interview guide and analysis will be based on current theories of segmentation and the empirical findings would be held in comparison to them, we believe this to be essential to the quality of the degree project.

The article published by Foedermayr & Diamantopoulos in 2008 (p.228) is one of the articles most recently written upon the subject of segmentation, it brings up a good overview of the existing theories within segmentation, and thus we have used it as a main framework for our theoretical framework. It also shares our view that the research done upon the subject of segmentation today, being too aimed at a perfect scenario and not measuring what is actually happening.

The organizations that partook in this research were all active within a business-to-business setting, thus the theories regarding the subject of segmentation are both general and Business-to-Business specific. The participants that we searched for in this degree
project had to acquire a management position in the service companies, and thus we also cover the service setting in our theory chapter. The major theories regarding the service market is focused on both the definition of service, comparison of goods and services within a market setting as well as the relationship between customers and business, as service is consumed and produced at the same time.

We have also decided to look into theories regarding the subject of CRM, mainly due to the demand of research on the connection between CRM and segmentation. The use of CRM theories in this degree project is linked to segmentation where we want to study if the organizations are using the CRM system as a supplement to their segmentation or if the CRM system is used to replace segmentation, as the purpose of segment of one.

2.5 The pathway to theoretical knowledge

To be able to cover the different themes mentioned above we have used different methods. The articles that we have used have a yearly range between 1956 to 2012, this is mainly because we wanted to cover the broad definitions that segmentation entails but also link it to the recent research establishing a broad knowledge regarding the subject.

The books used in this degree project are relevant within their area, with famous and relevant authors within the segmentation and marketing subject, for example: Kotler and Keller and their the book “marketing management”, in which the latest version were used. Different books regarding methodology have been used to best cover the different aspects that this research entails, we have also used articles regarding the “as-practise” approach to further explain the methods of this paper. The articles used in this paper were found using different databases, both Umeå University's library's search engine at as well as business source premier and Ebsco. We also used Google scholar as a search engine that has been external from the university libraries. The keywords we used the most in these engines were: Segmentation, Strategic Segmentation, Market segmentation, Business to Business segmentation, Industrial Segmentation, CRM, Customer Relationship Management and Service marketing. We have also found articles through reference lists seen in other articles, and then searched for these in the databases mentioned.

2.6 Source Criticism

This study has as an aim to capture reality and see how the procedure of segmentation is done in business. At the start of the search for literature we based our search topics on previous knowledge about the subject, this pre-understanding were gained during our education at Umeå University both through previous courses and lectures. With that in mind our aim has been to create a broad theoretical base in which we have used several articles and books to compare and compose a fair theoretical chapter. However we understand that there might be some weaknesses with the literature sources that we have presented within this degree project, one of them is the use of secondary sources.
Secondary sources are something that we have aimed to avoid, however in some cases the original article or author could not be found by us in which secondary sources have been used instead. To guarantee the quality and reliability of secondary sources we have searched for other authors to ensure that the content is correct. There are exceptions to this were the original article could not be found on databases or restricting our access to read them.

With the practise and research of segmentation having a long history the literature we have used varies in terms of when it is written. The focus have been on finding articles that are written in the 21:st century, but there are cases were older articles have been used. The majority of articles used have been peer-reviewed and found in databases that only publish peer-reviewed articles. The peer-review articles that we have used are all well cited and well acknowledged in their respective area. The framing theories that we have used are mainly from well-known authors within their respective subject, we believe that to gives us a good foundation for our theoretical chapter as well as a good coverage of the subject as a whole. The research done upon the segmentation process is some what skewed, researchers has been focusing of the choices of segmentation variables, and this at the expense of other stages in the segmentation process (Foedermayr & Diamantopoulos, 2008, p.224), this is also reflected on the various amount of research that we have been able to gather on the different parts in the segmentation process section.

Of course there are additions to these major theories from other less well-known articles and authors that we believe bring up reasonable additions to the framework presented. However there might be a chance that we have overlooked some theories that were fit to be included in this degree project, but we have read numbers of articles and books and believe that the theories presented in this degree project are most relevant for our study.
3 Theoretical framework

In our theoretical framework we will present the theories that we have found relevant to provide this degree project with a broad theoretical background within the fields of Segmentation, CRM and the Service setting. The theories will later in our thesis be the foundation of our Interview guide as well as in our analysis. At the end of this chapter we will present a summary of the theories used in this degree project.

3.1 The definition of business to business market segmentation

The definition of business-to-business segmentation is a topic that has within research been debated for quite some time. The definition provided by Smith (1956, p.6) is not a definition that is enough when we are moving in to the subject of business-to-business segmentation. We believe that the definition created by Mitchell & Wilson, is the closest we today can arrive at as an comprehensive definition of business to business market segmentation: “Business to business segmentation is an on-going and iterative process of examining and grouping potential and actual buyers with similar product needs into subgroups that can then be targeted with an appropriate marketing mix in such a way as to facilitate the objective of both parties. The process has strategic and tactical marketing implications and should be periodically reviewed to incorporate the lessons of experience and to maintain an optimal cost/benefit ratio.” (1998, p.431) The main use of business segmentation is both to contribute with a strategy that will give the company a competitive advantage but it has as well an operational function providing counselling who to target both in sales and marketing (Freytag & Clarke, 2001, p.474)

Figure 1. The segmentation process
3.2 The segmentation process

The segmentation process is a process that includes different steps that a company should follow to properly create a segmentation strategy at its own market. We will followingly shortly describe the different steps in the segmentation under follows a more in depth description of each step. To segment its own market a company should firstly define its market, by defining its own market a company determines where it should act. The second step in the segmentation process is for the company to choose segmentation variables, segmentation variables are the different variables that the company are going to use to segment their market. Thirdly the company are supposed to chose a segmentation method. When the company is choosing segmentation method they are choosing the method that they are going to use to determine their segments. The fourth step is segment formation, in this step the company is supposed to actually form the segments, this is supposed to be done from the perspective of different criteria’s that the segments should fulfil. The fifth and last step in the process is to evaluate the formed segments. (Foedermayr & Diamantopoulos, 2008) The figure beneath (figure 1) describes the on-going segmentation process.

3.2.2 Market definition

The first step in a segmentation process and a big challenge for many companies is to define their market. It is important for companies to know which market they are competing in so that they easier can define customers and competitors (Weinstein, 2006, p.115). Weinstein claims that the market definition that many companies today are doing is too simplistic, that they are usually only focusing on the geographic area, their product, the industry they are in, state-of-action and or their state of mind. (2006, p.116)

According to McDonald & Dunbar (1995; cited in Foedermayr & Diamantopoulos, 2008, p.24) it is important to find a balance in the market definition. If the definition is to narrow the company risk to miss possible segments, but if it is too broad the company risks an overwhelmingly large segmentation process.

To define markets in a proper way the company needs to focus on their mission and objectives, the company should also try to understand the values that are required by the customers and last the company should also understand the competitor’s value proposition. (McDonald & Dunbar, 2004, p.84).

There is little research done upon the subject of how managers actually define their market. According to Foedermayr & Diamantopoulos there is only one study done upon this subject, this article is produced of Jenkins in 1994 where Foedermayr & Diamantopoulos conclude that companies had a focus on the product-based concept (2008, p.248). This reasoning goes against the value understanding that McDonald & Dunbar presented.
3.2.3 Segmentation variable selection - in business to business, a nested approach

The second step in a segmentation process is to select what is being referred to as segmentation variables (Foedermayr & Diamantopoulos, 2008, p.249). According to Wedel segmentation variables are sets of attributes that are being used to arrogate potential customers to consistent clusters (2000, p.7).

In business markets the variables discussed above is applicable, but business markets also do have their own variables that only applies to the business model of business to business. These variables are presented in the nested approach done by Shapiro & Bonoma (1984, p.104). This approach is relatively old and it does not take in consideration the differences of product-based business and service-based business. Therefore we do believe that one of the variables that Shapiro and Bonoma mentions as situational factors are not applicable to the service industry. Since a service is produced and consumed at the same time, variables as urgency order fulfilment, product application and size of order are variables (Shapiro & Bonoma 1984, p.108) that a service company will have difficulties using as segmentation variables. Mitchell and Wilson criticized this model for not taking in consideration the customers needs and mean that this model “is clearly driven by supplier convenience” (1998, p.437). However they later acknowledge the relevance of the model since it might be helpful to provide structure and a conceptual commencement for research (1998, p. 437). We agree with the criticism given by Mitchell and Wilson and acknowledge that the model is focused from a supplier perspective, but we also believe that the model presents a generalizable theory in how to segment a business to business market and therefore we believe that this will contribute when we in our analysis compares theory and practice. The nested approach has also been empirically supported by the research provided by Rao and Wang (1995 p.72).

3.2.3.1 Demographic segmentation variables

The demographic segmentation variables are probably the segmentation variables that are top of mind when someone mentions segmentation. The variables that are included in the demographic variables in business to business segmentation are customer location which also can be referred to as geographical variables, what industry the segment is within and it also focuses on the size of the company (e.g. number of employees, and turnovers) (Shapiro & Bonoma, 1984, p.105-106). There are different units which one can divide customers into different geographical areas such as nations, states, cities and neighbourhoods. (Kotler & Keller, 2006, p.247) The company needs to know where their potential customers are, this to be able to reach and serve them, “therefore, [geographical segmentation] becomes an exercise in logistics, not organisational policy” (Wills, 2007, p.38).

According to Wills “who are my customers?” is the question the companies need to ask themselves to find out about their demographic segmentation variables. Both Wills and Kotler & Keller emphasises that demographic variables on their own does not provide the company with hardly any useful information, but it has to be combined with other variables to become useful. (2006, p. 249; 2007, p.40).
3.2.3.2 Operating variables
The operating variables are the variables where one focuses on the companies operative activity and a how to serve these in the best way. Technology is the first variable to look at. The technology variable is set to focus on what customer technologies the company should have in focus. The next variable is user or non-user status, this categorises the amount of activity that the consumer should put in to the service or product, it categorises consumers into heavy users, medium users, light users or non-users. The last variable of the operation variables is customer capabilities, and this is dividing up customers into whether they need many or few services. (Shapiro & Bonoma, 1984, p.105-106)

3.2.3.3 Purchasing approaches
The company's customers purchasing habits are important to know of and match to easier fulfil their needs. Therefore there is a variable called purchasing approaches meaning to focus on how a segments desirables purchasing approach should be. The first variable to look at is the one called ‘purchasing-function-organisation’, this has the purpose to focus on whether the purchase organisation at the desired segment should be centralized or decentralized. Another variable is existing relationships, the company should ask themselves if they just should go after the most desirable companies or if they should go to those that the company already has established a relationship with. The last variable of the purchasing approach that the company should also take into consideration what purchasing criteria’s the segment should have, if they prefer quality over price and so on. (Shapiro & Bonoma, 1984, p.106-107)

3.2.3.4 Buyers personal characteristics
The last set of variables that the company should take in consideration is that it is not the companies that make the purchasing decisions but people inside the companies, “although the organizational framework in which they work and company policies and needs may constrain the choices” (Shapiro & Bonoma, 1984, p.108). The variables that one should look into are buyer motivation, individual perception and also risk management strategies. (Shapiro & Bonoma, 1984, p.108-109) The theory presented is similar to the segmentation variable of psychographic. Psychographic is when the company combines psychology and demographics to interpret consumers.. (Kotler & Keller, 2006, p.252)
3.2.4 Segmentation method selection

As the third step in a segmentation process the company needs to choose a segmentation method. There are two methods that are most commonly referred to in the literature, either a-priori or the post-hoc method (Green, 1977 p.64; Wind, 1978 p.317; Wedel, 2000, p.17; Foedermayr & Diamantopoulos, 2008, p.252).

The a-priori method is when the researcher determines the number of segments priori actual research is done (this is usually then based upon previous experiences). An example of an a-priori segmentation method would be that the company determine some group-defining descriptors in forehand, an example that Green provides us with is respondents favourite brands. Respondents are then categorised into favourite-brand segments and are analysed in order to understand their different characteristics, an example of this would be demographics (Green, 1977, p.64).

In a post-hoc method the number of segments and size of them is decided after the analysis of the study has been made. The respondents are segmented based on their profiles. After the segments have been divided the company examines other differences regarding other characteristics. (Green, 1977, p.64).

There are other more sophisticated segmentation methods, but these demand “specific software programs, technical expertise and more experience” (Foedermayr & Diamantopoulos, 2008, p.252).

3.2.5 Segment formation

The step that follows the segmentation method selection is the segment formation, this is the part when the company is actually dividing the customers into different clusters (Foedermayr & Diamantopoulos, 2008, p.252). According to McDonald & Dunbar (2004, p.268) there are two general aspects that every company needs to carefully consider. In the segments that the company decides to form there need to be a minimum number of potential customers to fulfil their basics needs, which is bringing an economical value to the company. The other aspect that the company needs to take in consideration is how many segments the company can manage to have.

Since every segment needs an individual marketing strategy a company needs a manageable number that is realistic for the company to work with. (McDonald & Dunbar, 2004, p.268) There is another important aspect beside from the manageable number of segments, companies should not have too few segments because this might create a lack of homogeneity in the segments, which could affect the efficiency of the segments. (Rudeliys et al., 1985 cited in Foedermayr & Diamantopoulos, 2008, p.253).

To have an effective segmentation formation Kotler & Keller (2006, p.262) recommends that five effective segmentation criteria’s used is to be used, these implies that the segment needs to be: measurable, substantial, accessible, differentiable and the last criteria is that the segment needs to be actionable. The measurability criteria focuses on the size of the segment, how strong the purchasing power of the segment is and also if there are any specific characteristics within in this criteria which can be measured.
The criteria that the segment should be substantial are closely related to the aspects of McDonald & Dunbar (2004, p.268) saying that the segment should be profitable. A segment is supposed to be the largest consistent group that could provide value when going after this with a custom-made marketing program. The criteria who is referring to that the segment should be accessible, refers plain and simple to that the company needs to be able to reach the customer in this segment the in an effective way. With the differentiable criteria Kotler & Keller emphasises the importance that the segment are clearly differentiated from each other. If the segments are not differentiable then it will be difficult for the company to establish different marketing programmes towards the different segments. The last criteria meaning that the programme should be actionable means that marketing programmes can be formulated to appropriately address the segments. (Kotler & Keller, 2006 p.262)

It is also important for the company when finally selecting the target segments to analyse whether the segments can create competitive advantage. It is also important that the segments are compatible with the company mission and are coherent with the corporate culture (Foedermayr & Diamantopoulos, 2008, p.254)

In the research done by Simkin and Dibb (1998, p.412) they find that companies instead of using the criteria used for effective segmentation the companies are rather segmenting on the criteria of profitability, market growth and market size.

### 3.2.6 Segmentation strategy evaluation

The effectiveness of the segments may of course be measured in results, how well the company has performed, but it would be a rather unspecific way to measure whether the segments were accurate or not. Foedermayr & Diamantopoulos (2008, p.258) argues that the financial performance of the company is only indirectly affected by the company’s segmentation.

An important aspect of the segmentation process is to evaluate how well the company has performed with its segmentation. Kotler & Keller (2006, p.262) states that there are two factors that companies must take into consideration when evaluating selected segments. The first aspect is the general “attractiveness” of the segment, this is being referred back to the segmentation criteria’s where Kotler & Keller claims that for a segment to be attractive it needs to fulfil some aspects of the segmentation criteria’s. The other evaluation aspect is based upon the long-term objectives of the company. Some segments may seem attractive in the short run, but they diverge from the company’s long-term objectives, these segments should if possible be avoided. (Kotler & Keller, 2006, p.262)

Craft (2004; cited in Foedermayr & Diamantopoulos, 2008, p.258) believes that companies should look at four components to evaluate their segmentation process. These components are underlying but when being analysed together they may provide some insight into the success of the segmentation. The four components are “long-term financial success, relationship building, market position, and immediate financial returns.” (cited in Foedermayr & Diamantopoulos, 2008, p.258; Craft, 2004)
But this is a subject where Foedermayr & Diamantopoulos believes that too little research has been conducted. They believe that there is a need of clarification and that one need to find the outcomes of the segmentation decisions made by the company (2008,p.258) to be able to properly evaluate the segmentation process.

3.2.7 Segmentation implementation issues

With segmentation being an important strategic tool for marketers to use in organizations there are some problems that arises with the implementation of the segmentation strategy conducted. Palmer and Millier (2002, p. 781) identified this problem stating that when it comes to implementation of segmentation strategies it can be hard for managers due to having to rely on other colleagues in other departments to conduct the strategy. Internal communication is important when it comes to implement segmentation strategies. Nigel et al (1993, p.127) explains that if there is a problem with implementing the strategy then it can be due to poor communication between the marketing researchers of a company and the management.

Other problems with the implementation of segmentation strategies lies closely related to failure to understand of segmentation and its practice (Dibb, 1995, p.191). She continues to describe that some managers misunderstand the strategies of segmentation or fail to see the strategic value that they bring (Dibb, 1995, p.191). This means that there often is a problem with understanding the strategies as a whole or how to best implement them within the company. Meadows and Dibb (1998, cited in Dibb and Simkin, 2010, p.488-489) explains that there are three main reasons for failure of implementation of segmentation strategies. These are:

1. Inadequate segmentation expertise,
2. Lack of a clear segmentation process,
3. Operational and practical constraints.”

(Dibb and Simkin, 2010, p.489).

Dibb and Simkin (2010, p.489) continues with the explanation that managers often focus on segments that are operationally lead or product focused rather than choosing a segment that is more customer oriented. As well as in the other way around that segments are chosen with little connection to the overall strategic thinking of the organization (Dibb and Simkin, 2010, p.489).

3.3 Prior research

Previous studies within the subject of segmentation specializing on the service and business to business sector cover different areas. Some empirical research are focusing more on specific areas within the segmentation spectrum and other have their focus on a specific area within the business world (finance, banking, etc.).

Kalafatis and Cheston (1997, p.529) show in his paper that 72% of the pharmaceutical companies around the UK believed that they were utilizing segmentation to segment their markets. In his paper he also discusses the fact that most of the versions segmented were based on relation to geographics, demographics and usage rate (Kalafatis and Cheston, 1997, p.529)
Russel Abratt (1993) discussed in his article the industrial side and their use of segmentation with focus on the practical use of market segmentation, he used a sample size of 32 industrial companies in south Africa. In his studies he determined the variables used to segment markets which covered geographic, demographics, usage-rate, buying situation, appropriate use, psychographics, values, beliefs, other, purchasing organization and buying Centre (Abratt, 1993, p.81). Out of this the most of the companies used the geographic location as a means of segmentation the most. He further covered both criteria used to from segments in which 87% of the companies used “similarity of needs” as the most important aspect (Abratt, 1993, p.82). Furthermore his study continued with the criteria that the companies used to select target market segments in which he got the answer that “ability to reach buyers in markets” and “Competitive position in market” was the two criteria that were valued the most (Abratt, 1993, p.82). As a final aspect of his paper he presented the marketing tools that were used to reach these segments in the market, the most usual tools turned out to be “different products/services”, “different sales promotions programs” and “different advertising appeals” (Abratt, 1993, p.83).

Simkin (2008) conducted a study concerning the B2B scene within the segmentation area. He performed in depth case-studies with about 20 companies to better establish how the segmentation were utilized and the study was done with interviews with senior and line managers over several years (Simkin 2008, p.466). He describes that many of the organizations are grouping out their customers and calling these groups segments however they are often only based on geographical location of customers or the business sector that the customers are in (Simkin, 2008, p.466). He presented an approach that heavily focuses on analysis of the customer, with focus on customer profiles, buying behavior, decision making, influencing forces, needs and the personnel involved in the buying center (Simkin, 2008, p.471). The model presented is achieved by following six stages, this to achieve what simkin believes to be a problem with the segmentation in his study, that organizations are doing customer groupings rather than actual segmentation (Simkin, 2008, p.466-468). With the use of a model there are three different areas for each and every segment “customer profile”, “buying process” and “influencing factors”, which the six steps will help establish for each segment which is called the buying performa (Simkin, 2008, p.466-467). The steps are as following.

Create a team: A cross-functional team with people from different parts of the organization, ex: Sales managers, operational managers to better spread out the knowledge both regarding the product and the customers.

Define the customer groups: What groupings of customers exist now, in which manner are they described, in short, how are the organization “segmenting” at this moment.

Analyze: Analyze the customer characteristics within each of the groups established in the step prior, the team should be able to complete a buying proforma for every customer.

Further profile: Sort out your customers so that customers with similar buying proforma and similar ‘key customer values’ make sure that previous groupings with un-similar values not are grouped together and make sure you make a profile for each and every customer.
Segment new profiles: Divert the customers with similar buying proforma into new segments.

Segment selection: When the new segments are established the group can select which segments to focus on and start developing marketing strategies to establish how best to reach that segment. (Simkin, 2008, p.468-470).

Leiderman (2005) presents in his study a more structured approach to B2B segmentation, having a focus on maximizing sales resources. His study involves four different steps:

A clear understanding of goals and objectives, defining and preparing data that plays into those goals and objectives, building an appropriate model to measure different variables (potential per employee, framing, meaningful segments and profile development) and as a last step, applications both tactical and strategic (Leiderman, 2005, p.64). With these elements one can create different tables showing penetration in market, how much money each and every employee at a company worth to your organization (Leiderman, 2005, p.68). His model has heavy focus on data analysis to better establish segments as he states, “once the data has been prepared, matched and audited and the buckets have been determined, the analyst is ready to build segments (Leiderman, 2005, p.71)”. What a company gain by utilizing this system is that it will become easier to establish which segments are doing well and which they have to put more time into to reach a higher percentage of penetration. It also makes it easier to establish how much money the organization is making on each segment as it is easy to compare sales resources with the segmentation targets (Leiderman, 2005, p.75). Furthermore the organization can measure performance from market to market whilst also getting an understanding about their customers (Leiderman, 2005, p.75).

3.4 CRM

Payne and Frow (2005, p.167) has over the last years seen an increasing interest from academics as well as managers in the subject of customer relationship management (CRM) . The term CRM firstly appeared in the beginning of the 1990s. The concept of CRM is easily understood, managing customer relationship to build long-term relations with the customer, but finding a true definition is a more difficult task. CRM is often in literature referred to as one-to-one marketing (Chen & Popovich, 2003, p.675). According to Reinartz et.al (2004, 294) It is a challenge to completely define CRM since the definition is depending of the point that CRM is practiced in the company. CRM can be a technological solution trying to combine sales and marketing functions to create an improved targeting, but it can also be an instrument used especially for customer to company communication (Chen & Popovich, 2003, p.673). We believe the closest one may arrive at a definition of CRM is Goldenberg’s: “A cross functional, customer driven, technology-integrated business process management strategy that maximizes relationships and encompasses the entire organization” (2000, cited in Chen & Popovich, 2003, p.673).
As a result of CRM increasing in popularity an increase in competition has been seen since the use of CRM has lead to higher revenues and lower operational costs (it cost less to retain customer than building new customer relations) (Chen & Popovich, 2003, p.673). According to Gummesson companies must ask themselves if it is possible to measure pay off on relationships just like we measure pay offs on investments? (2004, p.141). Gummesson himself is convinced that a good relationship will lead to what he refers to as “return of relationship” and says that this can be achieved by “changing the balance between quality, productivity and profitability” (2004, 143), this is referred to as “the triples”. Gummesson states that he believes that a CRM system may lead to a positive development of the triples, this he displays in figure 2.

A reason why CRM has grown during the latest years is because the immense growth of the Internet. This has given an even greater reason for companies to build customer relationships. “Customers expect organizations to anticipate their needs and provide consistent service at levels above their expectations. In return the customers are loyal to the organization for longer periods of time”. (Chen & Popovich, 2003, p.680-681).

![Figure 2. Positive development of the triples. Gummesson, 1998](image)

Source: Revised from Gummesson (1998)
3.4.1 Characteristics of CRM

There is a wide range of CRM systems, but according to Zeng et al.(2003, p. 39) there are four characteristics that a well functional relationship management system shall include, these are: Relationship management, sales force automation, use of technology and also opportunity management.

3.4.2 Relationship management

The relationship management function of the CRM system is there to enable every employee to provide the customer with a good encounter. One of the functions that should be included in the relationship management systems is an instant customer input or what could be defined as an instant service response. If a customer receives an instant response to the needs one have then this will increase the customer’s satisfaction. One to one solution to customer’s requirements is another function that is important in the relationship management, to be able to provide this one to one solution the service must be customizable. If one succeeds with this one to one function then one can expect an increase in attraction of customers, one does also according to Zeng et. al. by doing this avoids the possibility of losing the most profitable customers, since one can customize the service for their particular needs. The CRM system should also include a possibility to provide direct online communication anywhere and at anytime, this is something that also will increase the customer satisfaction and will therefore maintain customers. To be able to have all these functions Zeng et. al. proposes that the company should have a customer service centre that works with these types of questions. (Zeng et.al 2003, p.39-40)

3.4.3 Sales force automation

To help the sales force to be as effective as possible Zeng et. al. suggests that the CRM system should include a function that tracks the customer’s history so that this can provide information for sales in the future. But to create this function Zeng et.al. acknowledges that to do this there is a need to make this work one has to coordinate different functions in the business place. There is also a need for “automation of sales promotion analysis” (Zeng et.al, 2003, p.40), this might lead to an increase of sales for the company and it can also help with keeping customers satisfied. (Zeng et.al 2003, p.39-40)
3.4.4 Use of technology

Zeng et. al. expresses that technology used in the CRM system is there to provide a value for the customers, this can create a differentiated and also an improved customized service. This creates a need for data warehouse technology, meaning that this system needs a lot of data so that it can support and provide data to all the analyses that is to be done. Zeng et. al. sais that it is important that this is implemented well and that the employees get proper training in how this technology works. (Zeng et. al., 2003, p.39-40)

3.4.5 Opportunity management

It is important for a CRM system to have an opportunity management function that is good at forecasting. This is so that the company can meet the requested demands from the companies they are doing business with. It is also important that the opportunity management function is analysing and can handle unexpected growth at business partners. If the system manages these two functions then the company using the CRM system will better meet the customers needs and also be able to optimize the supply and demand for different product and services. (Zeng et. al., 2003, p.39-40)

3.5 Service setting

In the problem background we mention the problem that Grönroos (1978, p.590) presented concerning the marketing planning of services companies, using the tools developed for the goods market. He argues that literature stating that there are no difference in the way of marketing goods or services but the traditional theories of marketing applies to both. Grönroos argues that this statement is wrong and that general marketing literature is more applicable towards the goods market. From a marketing planning point of view, he states that services and goods should be marketed differently (Grönroos, 1978, p.590).

3.5.1 The characteristics of a service

The description of a service in terms of characteristics are many, give that different characteristics are important for different sectors and industries, however there are arguments that support that three major characteristics are regarded as basic: A service is physically intangible, it is an activity not a thing, and production and consumption often happen at the same time (Grönroos, 1982, p.31).

With these characteristics in mind there lies importance in the interaction between sellers and buyers. Sasser & Arbeis (1976, p.62-64) puts heavy emphasis on this interaction, making the example saying that a service employee is a factory worker and a sales person all wrapped up in one. Therefore they state that for a company or organization that wants to be successful within the service industry should treat their workforce as their main customer, Sasser & Arbeis continues explaining that they are the most valuable resource within the company (Sasser & Arbeis, 1976, p.62-64). What Sasser & Arbeis describes is one out of three elements mentioned by Grönroos (1982, p.34) that are important for service companies and their customer relations. The other
two elements are physical environment and the customers to customer interaction. Physical environment or technical resources can be a variety of things dependant on what kind of service that is provided. Some examples are the tools of a plumber, the interior of a restaurant or the document’s used by an insurance company. The customer comes into contact with these physical environments when the service provider contacts them or when they visit the service company (Grönroos, 1982, p.34). As for the customer element in this spectrum is quite clear, they are active participants in the transaction, influencing the production process, and may or may not recommend the service to other potential customers by word of mouth (Grönroos, 1982, p.34). These interactions are described as resources and are used in the model developed by Eigilier and Langeard (1976, cited in Gröönros, 1982, p.34) these interactions are:

- Consumer vs the physical/technical resources
- Consumer vs the contact personnel, and
- Consumer vs consumers

3.5.2 Service marketing

In traditional marketing there are concept taught like the marketing mix and the Product, Price, Place and Promotion model (Grönroos, 1994, p.352). These models consist of a narrow set of decision-making variables, however Grönroos argues that this framework is what he calls a straightjacket for developing marketing theory and practise (2007, p.15). He further explains that in almost every industry regardless if they are selling a physical product or a service, the sheer number of customers and touch-point that these can be reached through has grown far beyond the simple ways of mainstream marketing interface basis (Grönroos, 2007, p.15). Grönroos goes deeper into the problem of definition of a service offering and what is regarded as a problem in definition between both services and products. In which he brings up the goods-service continuum. This explained by pure goods at one extreme and pure services at another, and most of the offerings made by companies today falls somewhere in between these extremes. This he explains is part of the problem in which marketing people today often encounter that every offering is designed pretty much the same, and thus also evaluated the same way. There are two different ways to approach this spectrum either an offering is a product, which may or may not have service support, or an offering is pure service, which may lead to use of goods, or are accompanied by goods (Grönroos,1978 , p.589-560).

Grönroos argues that mainstream marketing, with its framework and theories has forced the subject into a vicious circle and this in turn has made marketing less relevant within corporate decision-making and shareholders, and less relevant in the eyes of the customer (Grönroos, 2007, p.17). As a conclusion on the subject he states that marketing cannot develop further and improve within the existing frameworks and structures. If the practise is used only for acquisition and promise making the costs will only increase and the effectiveness of the methods will in turn only decrease. The level of innovation is lacklustre as the use of Internet, apps and mobile communications is often turned into direct marketing tools that offer no real innovative value (Grönroos, 2007, p.19).
3.5.3 Relationship focus

Brown et al (2005, p.3) finds within his research that executives do not mention at all that marketing managers is responsible for the customer. He further states that it rather seems like that the marketing role has been aimed towards “making promises to customers and generating new business” and that the role of nurturing the relationship with the customers and gaining their loyalty falls onto other departments hands within an enterprise (Brown et al, 2005, p.3). Another aspect of the current traditional marketing strategies that is argued against is its ability to establish, when needed, long term relationships with the customers, as well as keeping those relationships nurtured (Grönroos, 2007, p.15)

Grönroos (1982, p.35) mentions that “if this interactive marketing function is to be successful and managed in a market-orientated manner, there must be a clear conception of the needs or wants of the target groups of consumers”. Only each company knows what needs it could satisfy, to better allocate resources for a customer-oriented approach, if a company does not realise what needs they can satisfy, the business can become operations-orientated. Thus Grönroos (1982, p.35) presented a model (figure 3) used for planning and strategizing to better allocate resources to become more customer-orientated.

Reichheld and Sasser (1990, p.2) also brings up the subject of service quality and the cost of having defections happen with your customers, arguing that defections can affect a company’s profits more than scale, market share, unit costs and other things related to competitive advantage.

With loyal customers a company can also make more money of them, Reichheld and Sasser (1990, p.3) states that: “For one auto-services company, the expected profits from a fourth-year customer is more than triple the profit that the same customer generates in the first year”. Furthermore, companies with high loyalty can also charge premium prices for their services, a customer will pay more for a service that they are confident in (Reichheld and Sasser, 1990, p.4). In conclusion they say that even though achieving service quality is great that does not mean that companies should aim to keep
all customers no matter their behaviour, if a certain customer do not stay and become loyal and provide profits for the company, there are no point in investing time to attract them (Reichheld and Sasser, 1990, p.6).

### 3.6 Conceptual framework

In our conceptual framework (see figure 4) one can see how we tie our theoretical framework to our objectives. Our objectives are then combined into forming our research question. The goal with our degree project is to analyse how companies practices segmentation. This is done through asking companies within the business-to-business industry of questions based upon our theoretical framework. The answer to the questions will provide us with the information about how the companies are practicing segmentation so that we may analyse the findings and provide conclusions that may fulfil our objectives. Fulfilling our objectives will lead to a clarification of how companies within the service industry practice segmentation.

![Figure 4. Conceptual framework.](image-url)
4 Practical Method

This chapter includes a description of how the empirical evidence was collected, we also present information regarding the selection of companies and respondents. The chapter also includes a presentation of the criteria’s of qualitative method and how these are fulfilled. The interview guide is explained and discussed and the chapter ends with the ethical considerations that we undertook during this degree project.

In our degree project we have chosen to conduct a qualitative study with seven companies active within the service market. The reasoning behind choosing a qualitative method is due to that we need to get more insight in ‘how’ companies and organisations use segmentation. As Shiu et al (2009, p.173) explains that a qualitative research is “used in exploratory designs to gain insights into decision problems and opportunities”, they also state that “qualitative data have important uses in understanding and resolving business problem” (Shiu et al, 2009, p.173). A qualitative method is within this research applicable since we strive to understand the process behind the segmentation strategy as well as establishing the importance of segmentation to each company. By using a qualitative data collection model, the data collected also becomes richer when in comparison to a quantitative approach (Shiu et al, 2009, p.174), this is important for our research in the sense that all respondents might not have the accurate knowledge regarding the subject or a misunderstanding of the question asked. Due to the nature of our research and the aim our research question presents, we chose to conduct several interviews with different organisations within the service sector. We argue that this could be defined as a multiple case study. Saunders et al (2012, p.179) states that a case study is good when you wish to generate answers to questions of ‘why’, ‘what’ and ‘how’, and for this reason case studies are often used in exploratory and explanatory studies, which is the research nature of this degree project. A Case study is also a useful strategy when exploring existing theories, and if the strategy is well constructed it could even challenge theories, and report findings of new research questions (Saunders et al, 2012, p.180). Yin (2009, mentioned in Saunders, 2012, p.180-181) argues that the rationale for using a multiple case study approach, focuses on whether the data produced can be replicated across the chosen cases.

4.1 Organisations Selection

The companies and cases selected are all considered and related to best be relevant to the research question posed. Thus we reached out to different organizations within the northern part of Sweden. All of the organizations chosen within this degree project were selected in order to get a broad understanding of how different companies conduct segmentation, specifically in a business-to-business setting. To emphasize on the service sector as a main area of research we did not aim for a specific service industry from which the organizations had to be active in. Rather the only criteria were that they had to provide services to other businesses.
4.2 Respondents Selection
When contacting the different organizations within the set criteria for this research paper; Service Market, Business to Business, we actively searched for respondents that had insight to how their organization practiced their segmentation and in ultimately were in charge of the segmentation process themselves. Their position within their organization is displayed by table 1 also the duration of the interviews, and the industry, more detailed information regarding the respondents is explained in the empirical findings. Due to inadequate responses the interview with company G was excluded in both the empirical findings and the analysis, thus not contributing to the results of this degree project.

<table>
<thead>
<tr>
<th>Company</th>
<th>Respondent</th>
<th>Position</th>
<th>Industry</th>
<th>Interview duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>A</td>
<td>Market manager</td>
<td>Hotel</td>
<td>30 min</td>
</tr>
<tr>
<td>B</td>
<td>B</td>
<td>Market manager</td>
<td>Accounting</td>
<td>57 min</td>
</tr>
<tr>
<td>C</td>
<td>C</td>
<td>Office manager</td>
<td>Banking</td>
<td>37 min</td>
</tr>
<tr>
<td>D</td>
<td>D</td>
<td>CEO</td>
<td>Communication</td>
<td>23 min</td>
</tr>
<tr>
<td>E</td>
<td>E</td>
<td>Office manager</td>
<td>Employment agency</td>
<td>30 min</td>
</tr>
<tr>
<td>F</td>
<td>F</td>
<td>Market manager</td>
<td>Credit entity</td>
<td>46 min</td>
</tr>
<tr>
<td>G</td>
<td>G</td>
<td>Market manager</td>
<td>Consulting</td>
<td>26 min</td>
</tr>
</tbody>
</table>

Template 1. List of interviews

4.3 Interview Structure
Within qualitative research method there are two main types of interviews, the unstructured interview and the semi-structured interview (Bryman and Bell, 2011, p. 465). These two interview standpoints differ from each other, if one would take the unstructured approach, then the interviewer only has some notes to go by, and might even only ask one single question to then follow up on topics in a reactive way depending on how the interviewee answers (Bryman and Bell, 2011, p.467). The semi-structured approach is the approach that this degree project is based upon to gather empirical data. Bryman and Bell (2011, p.473) also recommends that one uses semi-structured interviews when conducting a multiple-case study, “Certainly, all Bryman’s qualitative research on different kinds of organization has entailed semi-structured interviewing, and it is not a coincidence that this is because most of it has been multiple case study research”. Emphasis is also put on the cross-case comparability that is needed in multiple case studies (Bryman & Bell, 2011, p.473), and the use of a set of themes and possibly some key questions (Saunders et al, 2012, p.374). Bryman and Bell (2011, p.467) refers to this as an interview guide, which the interviewer follows to
ensure that questions are said in similar wording from interviewee to interviewee. However Bryman and Bell (2011, p.467) and (Saunders et al, 2012, p.374) states that the questions may differ in the way that they are presented and some additional questions might occur depending on specific organizational context discovered and things that the interviewer picks up from the interviewee.

4.3.1 Interview Questions

The interview guide or interview schedule conducted in this degree project consists of 12 questions overall. Which six of were themed questions in direct relation to segmentation, CRM and service market theories (see table 2). The majority of the questions were rooted in the theoretical framework to easier make a comparison to the theoretical aspects of segmentation in the analysis. The major themes that these questions covered were *segmentation, market definition, CRM, strategy implements* and *product to service comparison*. Furthermore there are questions that cover company specific problems, interactions, and management decisions. These questions were there to assess the knowledge of the respondent as well as to better understand the relationship and setting that the segmentation took place in (see Appendix 1). The questions were not sent to the respondents before the interviews, this was majorly to better analyse their reactions to the questions and to avoid pre-determined thoughts regarding the questions.

<table>
<thead>
<tr>
<th>Theory</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grönroos, 1972, 1982</td>
<td>Q.6 Do you experience any problems with using segmentation, taking in consideration that you are selling services and not products?</td>
</tr>
<tr>
<td>Weinstein, 2006</td>
<td>Q.7 How do you define your ‘Market’</td>
</tr>
<tr>
<td>McDonald &amp; Dunbar, 2004</td>
<td></td>
</tr>
<tr>
<td>Shapiro &amp; Bonoma,1984</td>
<td>Q.8 What kind of Segmentation Variables is your company using?</td>
</tr>
<tr>
<td>Kotler &amp; Keller, 2006</td>
<td></td>
</tr>
<tr>
<td>Wills, 2007</td>
<td></td>
</tr>
<tr>
<td>Kotler &amp; Keller, 2006</td>
<td>Q.10 Which criteria do you use when establishing your segments</td>
</tr>
<tr>
<td>Foedermayr &amp; Diamantopoulos, 2008</td>
<td></td>
</tr>
<tr>
<td>Craft 2004</td>
<td>Q.11 In what way do you evaluate your segments?</td>
</tr>
<tr>
<td>Zeng et. al, 2003</td>
<td>Q.13 Do you use a Customer Relationship Management system? Do you use it to categorize your customers?</td>
</tr>
<tr>
<td>Chen &amp; Popovich, 2003</td>
<td></td>
</tr>
</tbody>
</table>

Template 2. Interview guide.
4.3.2 Interview Proceeding

In our study the interviews were held face to face, to better observe the reactions and facial expression that the respondent were showing. The initial contact with the organizations was made by e-mail and a time and place were set according to agreement. The interviews were held at each company’s office within a conference room or an office. In three of the interviews both of us were present, one acting as the interviewer and the other as an observer, the interviewer would ask questions from the interview guide and the observer would fill in if needed be. Both asked the follow up questions interchangeably. In the remaining four interviews we split up due to scheduling and geographical location of the organizations. Each and every interview was recorded and transcribed and the interviews took between 26 to 57 minutes (see figure 6). The transcriptions were written in Swedish as the interviews were held in Swedish, this was intentional so the interviewees and the interviewers did not have to overcome language barriers.

4.4 Empirical and analysis approach

4.4.1 Empirical approach

We have decided to present our empirical results in a way where we display the most vital empirical data gathered through our qualitative interviews. The empirical data will be presented through an approach where we first focuses on the vital parts from the interview with person A then we will continue with person B and so on. We will firstly provide some information regarding the interviewed and also information regarding the company this person represents. The reason why we do this is to provide the reader with some background information so that the reader may follow the empirical data presented more easily. After we have provided the background information we will present the empirical data.

4.4.2 Analysis approach

Following the empirical findings we will provide the reader with our analysis chapter. The analysis is done through a template analysis where we use templates to display a comparison between the different respondents answers. In order to analyse how segmentation theories and theories of CRM are practiced in the service companies that we have interviewed, we will structure the analysis first analysing the different steps in the segmentation process followed by the analysis of the application of CRM.

The templates will display for the reader a rating how similar the companies are practicing the theories in comparison to the theories presented in our theoretical framework. We want to emphasise that we do not rate how well the companies are performing their segmentation, this is done only to compare the practice with the theories. The rating is subjectively done by us, the authors, we will not provide the reader with an explanation why the chosen number has been set, this because we believe the interesting analysis lies beyond these numbers. We believe the interesting analysis is why they both differ from each other but also from the theory. We will also in our templates provide a short description of how each and every company practiced the analysed theories. We believe that presenting through templates will make the analysis easier to follow for the reader.
4.5 Limitations of Qualitative Interviewing

Saunders et al (2012, p.380-381) brings up the subject of data quality, and the issues that a qualitative study is presented with. They summarize them into four different categories: Reliability, bias, generalizability, and validity (Saunders et al, 2012, p.380-381).

4.5.1 Reliability & Bias

The lack of standardization within the semi-structured and in-depth interviews is by Saunders et al (2012, p.381) described as concerns regarding reliability. In qualitative studies this is explained as whether the study can be replicated by other researchers (Saunders et al ,2012, p.381). Bryman & Bell (2011, p.395) describes this as external reliability, which they recognize that “it is impossible to ‘freeze’ a social setting”. However it is argued that the purpose of certain studies are not intended to be repeatable by others given that they reflect reality at the time that they were collected, in a situation that are subject to change (Saunders et al, 2012, p.382). In-depth and semi-structured interviews also provide value from the flexibility of the interviews, which enables the researchers to explore the complexity of the subject. Therefore Saunders et al (2012, p.382) argues that evaluating this type of research on basis of replication possibility is not feasible without undermining the strengths of the method. In this degree project we recognize that the findings that we present reflect reality at the point off when they were recorded, and thus are not meant to be repeated. Bryman and Bell (2011, p.395) talks about internal reliability which is when the observers, if there are more than one, agrees on what they see and hear.

During the interviews made in this degree project we agreed upon what we saw and heard, however when some interviews were conducted where we split up, the recordings and transitions were sent and read by the other member, this to better draw conclusions and provide a social setting before an analysis were done. When conducting the interviews similar conclusions were drawn from both of us thus ensuring the collected materials reliability.

Related to reliability are different kinds of bias (Saunders, et al, 2012, p.381) both interview bias and interviewee bias. These both reflect the way relationship and communication is between interviewer and interviewee. To avoid biases we asked open questions and we acquired knowledge about the organizations we were interviewing prior to meeting them. We also stated that this degree project will be anonymous for participants and that no company would be named in the paper. This we hoped would encourage the interviewees to explain fully how their segmentation worked and answer the questions wholeheartedly without leaving anything out, which as Saunders et al (2012, p.381) explains is considered response bias. We did as well disregard some answers from the respondents in which we felt that the question asked was ‘leading’ thus creating an answer lead onto by us.
4.5.2 Generalizability

Given that qualitative studies are often based on a small sample, the question of statistical generalizability of these studies arises, which is often seen as a problem within these studies (Saunders, et al, 2012, p.382). Saunders et al (2012, p.382) means that the way the findings of a study is generalizable is related to the extent they are applicable to other settings. Marshall and Rossman argues (2006 cited in Saunders et al 2012, p.383) that generalizability within qualitative research is related to the theoretical propositions that the research can provide. Furthermore Saunders et al (2012, p.383) says that it is up to the researchers themselves to establish this relationship to existing theory in order to demonstrate the broader significance of the particular findings that the research produced. As this paper aims to find out how segmentation is practised, the theory will have a big part in the comparison of the empirical data generated and the analysis of that data, this we believe ensure generalizability to this degree project. Saunders et al (2012, p.382) states an opportunity, that the relationship that the researchers establishes will allow their study to test the applicability of existing theory to the setting that they are examining.

4.5.3 Validity

Validity refers to which extent the researcher has been able to gain access to a participant’s knowledge and experience, and is able to put meaning into what the participant states from the language used by the respondent (Saunders, et al, 2012, p.382). Bryman and Bell (2011, p.395) refer this as internal validity, in which they mean whether or not there is a good match between researchers’ observations and the theoretical ideas they develop. They also bring up the concept of external validity (Saunders et al, 2012, p.382), which is to what degree the findings can be generalized across social settings. We believe our study to fulfil these criteria, in which as explained before, we have conducted an interview guide that were followed in all cases and both participants agreed on the understandings of the interviews conducted. As well as during the data analysis and conclusion, empirical evidence are linked to current theories in order to compare and assess the findings.

4.6 Ethical Considerations

Within this degree project the ethical aspect of research studies have been taken into consideration. Bryman and Bell explains the importance of the ethical aspect in saying that it cannot be ignored due to the reason that it is related to the integrity of the research and the actions involved (Bryman and Bell, 2011, p.122). Diener and Crandall (1978 cited in Bryman and Bell, 2011, p.122) have broken down the main issues with ethics within the business research into four areas, these four areas are:

- ‘Harm to participants’
- ‘Lack of informed consent’
- ‘Invasion of privacy’
- ‘Deception’
It is as explained by Bryman and Bell (2011, p.128) up to the researchers to take all reasonable precautions to ensure that the respondents are in no way directly harmed, in ways of physical, self-esteem, stress or career related questions. To ensure there would be no harm of any sort to the participants of this degree project, we explained the topic in the e-mail sent to the respondents at the initial contact, as well as an explanation how the degree project would be analysed and how the empirical data would be used before the interview began. We also made the decision that all participants in this degree project would be anonymous as well as their organizations. All participants did not emphasize that they wanted anonymity however since this document will become public, the decision were made to better ensure the confidentiality of the participants. To ensure that the participants were not deceived or not giving their consent to the study we asked before each interview if we were allowed to record the conversation, and in every case we got permission to do so. We did not however inform the respondent that they were free to choose not to answer a question if they felt the need to do so. In our defence we asked questions related to the topic that was explained beforehand as well as trying to avoid any invasion of privacy by not asking questions related to personal subjects.
5 Empirical review

In this chapter we will present the empirical data generated from our qualitative interviews. The companies interviewed will be listed from A-E, with information regarding the company and the respondent prior to the data found. The data presented in this chapter are what we believe to be most relevant to our research objectives, therefore some information from the interviews are left out. All the information stated in the empirical review is collected from the interviews.

5.1 Company A

5.1.1 The Company

Company A is an actor in the hotel business located in the northern part of Sweden. The hotel is newly opened after being renovated. The renovation has led to a number of changes for the hotel. Previously the hotel was part of a larger chain of hotels but is now acting on its own. This came with both advantages and disadvantages, the hotel has lost some larger clients that were assigned to them from the headquarters of the hotel chain, but on the other hand the hotel can now make deals on their own with other clients. The purpose of the renovation was to “do something different”. So the hotel has tried to go back to the roots and look at the history of the hotel. According to the company respondent that we spoke to they wanted to “achieve something extraordinary”, but they did not try to satisfy the needs of a particular group of customers when they restored the hotel.

5.1.2 The Respondent

Our respondent is the market manager at company A. The respondent is today responsible for managing the sales at the company, and he believes himself that his “main responsibility is to maximize the profit of the company in all areas”. According to himself, he is the person in company A that is responsible for the segmentation, but he is exchanging thoughts frequently with the CEO, but during these meetings they only refer to important clients. He has a background from the IT business where he has been working for a large actor who also is active in the northern parts of Sweden.

5.1.3 Findings

Starting off our interview we asked the first question about how the term segmentation is interpreted, the respondent from company A said that according to him “segmentation is when you rate different customers” in terms of how much they are worth. The respondent admitted that they did not “work so active with segmentation as one should”, and that they rather pinpointed important customers. The pin pointing of important customers was based on what value they could provide company A with. In general company A had the same approach towards potential customers, no matter the value they provide, what could differ however, was the amount of time spent and the strive/determination to foster the relationship more carefully.
The respondent from company A answered the question regarding how he define the companies market in the following way: “First we have the large companies, the really big companies with their main office in Stockholm, but who is still booking customers in [local city], then we have big companies in [local city] who is taking care of incoming customers and who are booking hotels in [local city], traveling agencies which also is some kind of intermediary and our partners the airline companies”. As we tried to dig a bit deeper in how company A pinpointed important clients we asked if they used any segmentation variables to narrow the number of companies down. The respondent said that it was based on how much business they could provide company A with. He also said that they are looking at the growth of the company, he states: ”so even if we are focusing on today we are trying to focus on the future as well when we are segmenting or classifying companies.” However what company A is mostly focusing on is statistics, how often the companies has representatives in their local town, how many conferences they arrange each year and so on. The statistics that they are using are both gathered from a central system but are also based on old statistics, which they had saved from before the renovation.

When it comes to evaluation of segments, company A is rather evaluating the individual companies, especially focusing on the larger companies that are evaluated every quartile. The evaluation is based on “how the business looks, is it according to the prognosis? Or is it not looking as prognosis? Have they contributed more than we first thought or less?” The reasons why they are evaluating based upon these criteria are “because it fluctuates a lot in the industry where one travels a lot.” During the interview we also discussed if company A was continuously looking for new segments or in their case companies, which they were. When asked about how they approached new customers the respondent answered “Usually we somehow receive a lead, on fairs and so on, clients who works with other clients and so on. This city is not so big so therefore one has some insights into the bigger companies who operates in this town, what is happening, what is going on and how it all develops. Again, if one is having twenty nights in [local town] one are as welcome to have cooperation with us as if one is having 2000 nights per year. So segmentation for us would be whom you start to process. But there is a continuous struggle to keep your clients, so it is about being the best, it is not about closing a deal and then everything is good, it is about to deliver every day for it to go well.”

We also asked the respondent if company A had a CRM system that they worked with. The respondent replied that they did not have one at the moment, but had plans on finding technical system support to do better analysis. The respondent also told us that there is an incredible amount of data to buy, where one can benchmark everything towards everyone. “Like what does the bigger clients have in common? Okay they have these criteria, what companies has the same? We have discussed it, but if we are talking in a future of two or three years time then yes we would probably have one, but today no. But it is something that we are looking at.”

At the end of our interview we discussed how strategic decisions as segmentation gets converted into the operative business, and our respondent provided us with some valuable insights from his previous job. “Before I worked in the IT-business in a big firm, who had clients like big companies, regions and municipalities to mention some. In this case there is another type of segmentation, the company has segments like a,b,c,d clients, the company is looking at the number of employees, the turnovers, profit, what
It-budget they have got, but again even if the company wants to work only with the bigger companies, I can tell you that it was only extremely small firms that we did not work with. I believe that when you are running a company that includes sales and customer relations that it is very rare that a company says thank you, but no thank you we do not want to make business with you guys. Even if the company says so in the board room and the company is planning a strategy that we should not do business with clients that have 50-100 employees, well I believe that the company has to do extremely well to say no to a deal. That is my opinion. So it might mismatch some, but I believe that it might do so in a good way.”

The interview was ended with our respondents giving some final thoughts on the difficulties taking the strategic decision into the operative business. “The difficulties are that we are dealing with people, that even though we are having an idea and a great plan where we want to go, if one is faced with difficulties then one has to reevaluate the situation. Then one can always try to stick to the plan and the strategy. But the challenge I would say is to be flexible, when one is setting a plan a strategy how to segment one has also to take into consideration how one should treat the different segments.”

5.2 Company B

5.2.1 The Company

Company B is a large accounting firm originating from the U.S. The firm has about 70 offices all over Sweden. In Sweden the company operates in two ways, “big cities” and “local regions”. The offices that belong to the “big cities” are offices in Stockholm and Gothenburg. The “local regions” are divided up into 5 regions in Sweden. There are no directions coming from the U.S. but there are directions coming from the headquarters of company B in Stockholm to the offices around Sweden. The accounting business was not allowed to market themselves until about 20 years ago in Sweden. This is something that according to our respondent has affected the entire accounting business.

5.2.2 The Respondent

The respondent is the market manager of the northern region of Sweden. He has previously been working in Stockholm but got assigned the northern region about 8 months ago. Previous to him the northern region did not have a market manager. The market manager is working with business intelligence and is responsible for the sales of the region. That the northern region did not have a market manager does not mean according to the respondent that the northern region was not working with market questions, but there was no dedicated resource for market questions and what to do about them.

5.2.3 Findings

Our respondent started the interview by explaining to us what he believed that segmentation was about, according to our respondent he believed that segmentation was about categorising customers into a number of different categories. He continued by explaining the challenges when it came to the subject of segmentation for company B, “I believe that the challenges for us in this perspective is that our organisation is so big
that we are assumed to be able to help the small businesses to the giant firms and these are obviously different segments”.

When asked if company B spoke about segments in their everyday work, in meetings etc. The respondent explained that “one is actually not talking about segments as segment 1-10, as we could do, but we rather talk about small businesses, we talk about owner-managed businesses, we talk about the segment medium businesses and we talk about public businesses.” We talked with the respondent about who is responsible for the segmentation at company B, he then explained it to be like a matrix. The matrix goes both horizontal and vertically. Every segment such as small businesses has a person that is responsible for that segment at the company and then company B also has a representative for every industry, which according to our respondent are about 20-30 different industries. The people that is responsible for either segment or industry has a responsibility to see to it that the market is met with quality, but according to the respondent no one has any responsibilities to see to it that we meet the market in the right way. The respondent is also raising a finger of warning towards how his own company works, he believes that: "We live in the belief, which I personally believe to be quite dangerous, that we shall be able through knowing how we shall deliver, then we per se know what the market wants, and that is not always the case.” The respondent also point out that this is a big challenge for many of the large accounting firms since these are “extremely underdeveloped” when it comes to these questions.

We continued on the interview by talking about if the respondent thought that it was more difficult to segment since they are selling a service and not a product. The respondent believed it to be more difficult and he believed this to be the reason why their company has tried to productify their service. His own opinion on this matter was that it was “life-threatening” for the company to do this. Since a productification makes it easier for employees to sell the service, but “the fact still remains that it is a complex service that [company B] is selling”. The respondent emphasises that this is what the client is charged for. “The more we productify the more difficult it becomes for us to charge the customers”.

When we asked the respondent to define the market that company B is acting in he declared that they are active in the northern part of Sweden with small/medium size companies, owner-managed companies, large companies and public companies. We continued to ask if they used any segmentation variables, the reply was “No we don’t, if we had, life would have been so much simpler”. The respondent explains to us the problems that occur when the headquarters at Stockholm does not understand that business is done different up here in the northern part of Sweden, that the relationship with the client is even more important up here. We went on and talked about if company B were using any segmentation criteria. The respondent told us that turnover and number of employees are important numbers, and that these numbers were used to categorise companies with similar needs and similar challenges.

Our respondent emphasise during the interview that he believe that companies in the accounting business are avoiding to take long term strategic decisions and explains it as: “We do not take decisions, and I believe that to be due to that we are not more long term thinking than any other public company, because at the end of the year what it all comes down to is what our partners get in their wallets”. When we asked about how to connect the strategic decision of segmentation to the operative business the respondent
told us that: “The thing that is interesting is that we are talking about these segments and we are doing that pretty much in our operative business, but I wonder how many of the people who work in our business that actually understand that these are customer segments that we are talking about.” Our respondent also stated that he believe that the accounting firm is moving towards connecting the strategic segmentation to the operative business more and more, because the profession is getting more and more specialised. He also commented that there were a risk in this, and that was that the structure of the company would become more hierarchic and that the feeling of a 1st team and a 2nd team would crystallize.

The last question we asked was regarding a CRM system. The respondent almost started laughing at the question. Turns out that they had a CRM system that was well working, but it was ill implemented so no one used it. The reason for the laugh was that the respondent himself had recently discovered the system.

5.3 Company C

5.3.1 The Company

Company C is a company that is active within the banking industry, mostly engaged within markets in northern Europe but are present all over the world. With the origin of the company founded in Sweden it has offices all around the country, with a main office located in Stockholm, and is one of the largest banks within Sweden. The company reaches their customers by providing great coverage both by local offices but also through telephone services, a global webpage and an application for smart phones.

5.3.2 The respondent

The respondent that we interviewed for this degree project was one of the managers of a local office located in the northern part of Sweden. Because each office in the bank concern is autonomous this implies that the manager is fully responsible for the management and decision procedures at this office. He has been active in the banking business for over 28 years and 18 years within this company, he has experience both with the way company C is doing business and the ways of other banks.

5.3.3 Findings

During the interview we asked the respondent what he affiliated with the term segmentation, he gave the explanation that “it sounds like you are dividing your market into different parts, into segments”.

The respondent explained to us that at company C they did not segment their business customer and that their target group when it comes to companies are entrepreneurs that are good at what they do, have a solid flow of income and growth. He further mentions that these people and companies exists in every industry and that they do not divide the market into segments but rather, expects the individual to make his or hers company
great and then the bank will pursue that individual both to get the company as a customer and the private person as well.

When it comes to market definition, company C’s market was defined as the local area around the local city, in which they have several offices, to better reach their customers, and respondent clarified that it is in this area that they are looking for good companies to join the bank. Further the respondent explained how they at company C evaluate the companies that they want to work with and that they are only looking on basic financial data such as income statements and balance sheet, then you can quite easily conduct if the company is interesting or not.

We described the terminology of CRM systems and asked the respondent if company C had anything like this, the respondent said that they do have a system but not in the way CRM systems usually work, they do log the customers business with the bank, but mostly just to know what the customer is doing within the bank and which business that are done at the time. The reasoning behind this is because they often meet their customers annually, which makes it necessary to document what happened and when they should contact the customer to book another time.

The respondent explains that if you open an account with the bank you also get a personal banker, which according to the respondent is something that strengthens the customer’s relationship to the bank.

5.4 Company D

5.4.1 The Company

Company D describes themselves as a communications bureau, however they do also consider themselves as a combined, commercial, strategic, design, digital and PR actor. They help their customers establish a good communication with their target audiences to better and easier reach their goals for sales or communication. They have been an established communications firm since 1994, and originated in Stockholm, but have since then moved with their relationships to clients up towards the area in the northern part of Sweden where they now have stationed their business.

5.4.2 The Respondent

The Respondent is the CEO of the company and has a decisive role when it comes to strategic decision-making and target assessment, the respondent and a team of 3 other employees are the ones that make the prospect list and decide which companies that is interesting and whom they should aim for.

5.4.3 Findings

Respondent D, defines the term segmentation as dividing targets-audiences and creating specific deals to approach these. When asked if they used segmentation strategies within their company, the respondent said that they were bad at it. Instead of using proper
segmentation Company D are working with a prospect list, in which they look at different industries and such, respondent D said that in that manner they do use segmentation somewhat. The respondent stated that there have been times that they have neglected a customer due to difference in ethics and morals. Company D have a system where the respondent and 3 employees go through the prospects list and whom to pursue. Per average Company D have about 2-3 new customers per year so the respondent believes it to be hard to segment when your customer base is so small. However they have been starting to get better knowledge in certain industries like the culture industry, energy industry and the public sector.

Respondent D described their market in the following way: “we are working towards information departments, communication departments and marketing departments mostly in [local town].” The respondent told us that they do have clients in other cities as well but that they are focusing on their local town. “We want to work with those that have the willpower and time to develop within the communication element. If you look closer at that, then you see that there is a certain size and flow, that is more our target, but we do make some fast decisions as well.

The geographical location has developed over time, they started with clients in Stockholm, but then business relationships moved the company further north. When it comes down to the question of evaluating their segments and looking for new ones, company D said that they are trying to move away from the public sector due to the risks involved, and looking towards their own strengths when it comes to finding companies that they can provide value to which have the willpower and time to work with them. They do not use a CRM system and said that it is bad that they do not use it, but rather they learn from experiences with previous customers and adapt that into new business, to be able to help companies better.

5.5 Company E

5.5.1 The Company

Company E is one of the largest firms within the human resources market. The company is active in 60 countries spread all over the world. They provide services in areas such as temporary staffing, permanent placement, career transition and talent development, as well as outsourcing and consulting. In Sweden they have over 50 offices, with headquarters in Stockholm.

5.5.2 The Respondent

Respondent E, which we spoke to, is a branch manager working from an office in the local city, the respondent is in charge of overlooking the business that the office is conducting as well as the implementation of strategic decisions such as segmentation.
Respondent E replies to the first question in relation to her own business, and explains the term segmentation as follows “Segmentation for me is how we would classify the different companies …” then the respondent moves into the subject of how they are using it at the moment and continues “… we prospect before making prospect lists and before we for example select new customers that we don’t have.” Then the respondent mentions that it is from the knowledge about the companies that one could classify them in ways of how big potential they consider the customer to have, and then the respondent explains that there is segmentation within that segmentation as well.

The respondent explain that segmentation is often discussed between the respondent and other managers but also emphasizes that it is important that the co-workers are on the same page, to find the most profitable business.

We dwelled further into the subject and talked about for an example how that process might look, and the respondent explained that they establish the prospect lists in two different ways. One way is when they don't know what they are looking for, then they take out lists in a broad sense and see what they run into. The other way, is when they establish that they are lacking customers in one industry then the aim is to capture the most profitable businesses within that industry.

We asked if any guidelines were passed down to the local offices from the headquarters regarding segmentation. The respondent explained “Well yes, not in this city specifically but more on a national level, in which they see that company E is weakest within small to medium sized companies, then they segment saying that 1-1000 employees are within that segmentation, then if you look at medium sized companies we only have about 1-4 companies that have over 1000 employees up here [around local city] so it is almost every company for us. However if you look at company E as a whole all over the country, you would see that we are strong when it comes to big companies like Volvo, ABB and Eriksson, but weaker within the smaller companies”. The respondent then explained that there is one responsible group for the overall strategic segmentation in Sweden, who is working with business intelligence and that is their only responsibility.

The respondent describes the importance of segmentation as: “if you know where the goal is the journey towards that goal is easier, rather than firing a shotgun and see if it hits something”. When asked the question what they consider their market, we asked from a perspective of the whole of Company E, which respondent E, stated that the world, given the understanding that the question was asked in that way. The respondent had earlier said that the companies around the local city was their responsibility thus giving the impression that what the respondent considered their market was the area around the local area.

Respondent E said that the first major variable they look at if the company is geographically available, but then also which potential that they are showing, what kind of financial situation that they are in at the moment, are they currently in an expanding phase or a declining phase and how long they have operated. Then it comes down to the number of services that company E can provide to them, if the customer only want one
recruit every third year in comparison to a company that they could sell all of their services to, the latter gets a higher rating than the first but however the first one is still interesting. Respondent E also states that from a strategic level some companies give more of a ‘feather in the hat’ effect than others, which from a company perspective might be beneficial in other affairs. We asked how they worked these segments and variables out, respondent E answered: “Well, geographical area is easy to establish and financial data is also quite easy to get a hold of, but then we often go of information gathered through networks that we have which companies that have high status in the area around [the city], a lot of dialogue concerning which are upcoming and so on. But then how to aim and which companies to pursuit is a lot of active work put into, then sometimes you can really just read the newspaper, but often when you do so, it is too late, you want to get to them before they show in the papers”.

The company also rate their potential customers within a prospect list in terms of A-ranking, B-ranking etc., in which they continuously evaluate the ‘prospects’ in their value to Company E as well as where the company is going in a professional sense. Company E are also continuously looking for new segment by both looking at upcoming companies and industries, both for collaborators and partnerships as well as companies that does not have a good human resources function to rely upon.

When asked the question whether or not they used a CRM system, we got the information that the ones that are working with the business intelligence is using a system, but it is not user friendly.

Company E is twice per year arranging what they call strategic days, to ease the overcoming of barrier between the strategic decisions and the operative business. Daily however most is established already, they know which companies to pursuit and from their work out the relations with that customer.

Respondent E said that the toughest part of segmentation is the risk that you are missing something, that you have closed a door that should be open, that following your ‘line’ is not the right thing to do and not take something on the side of your segmentation, that is why they made a point that you have to work on your segmentation, tweak it and adapt and evaluate it to the market.

5.6 Company F
5.6.1 The Company

Company F is a large credit agency. The credit agency had previously a multi branding strategy, which means that all the companies that were inside the concern of company F had their own brands. This created a number of businesses that competed with each other. When the company decided to go public they also decided to collect all the different brands under one banner. So lately there has been an immense job to restructure the company and also establishing a new brand on the market. The company is today divided up into three legal entities: market, credit and information.
5.6.2 The Respondent

The Respondent is the market manager of the local credit entity and is well experienced within the profession of selling. He is today operating with a large sales force, but has also a responsibility to structure and work with strategic decision-making.

5.6.3 Findings

When the respondent was asked to describe how he interpret the term segmentation he decided to put it like this: “There are two aspects of segmentation, in one hand there is current or rather management of the existing customer base, on the other hand there is business strategic, like prospects, looking on how we can gain market share and how to work. Many times rather deselect then select.” The question led the respondent into explaining how company F are working today, he explained a function in the company that they have created called business-processing management (BPM). BPM is a supporting function when it comes to segmentation, distribution of clients, management of customer flows between different sales groupings and also look at the company’s prospect handling. In the company they are discussing segmentation a lot and this is according to our respondent because the sale teams are so experienced when it comes to sales so that they know the importance of finding the right clients. “The more sophisticated you can be in your selection process when segmenting the more time you can save but you can also pinpoint things in a different manner.” A term that the respondent keep referring back to during the entire interview is that they are looking for the twins to the salesmen’s best clients, meaning companies that are very similar to the salesman's best client.

When the respondent is asked about their market he replies that: “this is the crux for us, every company that is sending an invoice or paying an invoice is giving some kind of credit and through that exposes themselves to some kind of risk and we are working with risk delimitation… So our market is as large as every single company in Sweden”. We then went on to talk about segmentation variables and how company F was using these. Company F had specific guidelines when it comes to credit worthiness, they do not do business with companies with a bad rating. The respondent tells us that company F are also looking at industries, turnovers and number of employees. Growth is another parameter that Company F is segmenting clients on, they have four categories: high historical growth and high futuristic, high historic growth but low futuristic growth, low historic growth and low futuristic growth and the last one is low historic growth but high futuristic growth. All these variables are founded on careful customer portfolio analysis and then they have “clustrified” the common denominators.

We went further into the evaluation process after discussing the portfolio analysis. The BPM’s are the ones that are responsible for evaluating the outcomes of different prospects, how much that are profitable and what kind of hit-rate the company has. This is supposed to be done in an on going selection process. This process exists to continuously refine the segmentation process. The respondent continued to explain how the strategic analysis is taken from the BPM group to the operative sale teams. Both representatives of the BPM and the sale teams are represented in the leading group. Between the BPM and the sale teams there are also sales controllers that are working to ensure that the strategic decisions taken by the leading group is followed through. The respondent emphasises that it needs to be a strategic group or person working with the
segmentation, since if the people working in the operative business has responsibilities to make strategic decisions these are very likely to become ad hoc.

As a last subject we asked the company to talk about if they had a CRM system and if so how it was used. The respondent started explaining that they had a CRM system, that especially the key account managers used since this provided them with data about the customers. There was also an integrated part of the CRM system that focuses on database marketing also called DBM. This gives the clients information about market activities and also newsletters from the company. According to the respondent there is a plan how to use this, but he think that the effect has not reached it full potential yet. When asked how the company are keeping track of their clients, the respondent tells us that they are not very good at this. “We believe that we are having a good relation with our customers, but I believe that out of the clients that we believe us to have a good relationship with about 80% is not a good relationship, we deliver something to them that is it.”
6 ANALYSIS

I In this chapter we will do an analysis of the empirical data that we have found. This data of how segmentation is practically applied will be analyzed against our established theoretical framework and an analysis will follow. This will be done by a template analysis, where we grade the companies from a scale 1-5 on how they were describing and conducting different aspects of the segmentation process in relation to the theoretical framework. The reasoning behind each template analysis will be presented as we start to analyze company by company, we will here present why we believe the practice of that specific company to differ or confirm the theories that we have presented. After we have analyzed company by company we will then do a general analysis explaining our beliefs why the practiced methods are similar or different from the presented theories. We would like to emphasize yet again that we do not ‘judge’ how well the companies are conducting their business but we grade them rather on how accurate they are in relation to the theories presented. In the end of this chapter we will provide a summary of key points observed as well as a summary of all templates to conclude the analysis.

6.1 Market definition

<table>
<thead>
<tr>
<th>Market Definition</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating 1-5</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3</td>
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<td>2</td>
</tr>
<tr>
<td>What they do</td>
<td>Large companies traveling to [local town]</td>
<td>Northern part of Sweden</td>
<td>Area located around [local town]</td>
<td>Information, communication, and marketing departments mainly in [local town]</td>
<td>Companies around [local town]</td>
<td>Every company in Sweden</td>
</tr>
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</table>

According to Weinstein (2006, p.116) the market definitions that are done by companies are too simplistic, the definitions are based upon geographic areas, the product/service or the industry they are active in etc. In our interviews we asked the respondents to define their market. The answers that we received from the companies were similar, most of the companies based their defined market on their geographical areas and industry etc. This is a market definition indeed, but according to Dunbar & Mcdonald (2004, p.84) a proper market definition should also focus on the company’s mission and objectives as well as their competitors.

Company A’s market was according to themselves large companies traveling to the town they were operating in. They focused on two main geographical areas that were Stockholm and the local town which they operated from. The reasoning behind this strategic decision was that many companies from Stockholm travelled to the town where positioned to make business. To capture other companies traveling to make business in the local town the hotel decided to focus on the companies in the local town. This is a strategy that they do so that the local businesses will book in the other
companies at the hotel. The hotel displays by this an understanding of the complexity to attract customers from many different geographic regions, therefore we believe that the company has taken the geographical aspect in recognition when deciding what market to operate in. The strategic market decision of company A in terms of their market definition is based upon two parameters, the size of the companies that they are doing business with and also the geographical aspect, but they lack the mission and objective which Dunbar and Mcdonald proposes. We have therefore decided to grade them with a 3/5.

Next company, company B, has a fairly broad market definition. The definition is close to every company in the northern part in Sweden: The representative for company B told us that: “I would say that in this region our market is small/medium sized companies, owner managed companies and also big and noted businesses” (Company B, personal communication, 07-04-2014). Company B is an accounting firm and are therefore demanded in most industries so therefore the industry is not taken in consideration, though the size of the companies are. Yet again no consideration is taken towards the competitors or the market size. Therefore company B is given the grade 3/5.

Company C clearly states early on in the interview that they do not use segmentation at all. Their market is every company in the local area, this is an unspecific market definition that lacks many of the theoretical steps therefore we grade it 2/5.

This is how company D describes their market: “We are working towards information departments, communication departments and marketing departments mostly in [local town].” This market definition includes both a geographical parameter as well as a definition towards what kind of department a company that company D could work towards should have. This precludes smaller businesses, since these usually don’t have these kinds of departments. We have rated them 3/5 since they neither includes competitors or their mission.

The following company, company E has only taken in consideration the geographical aspect. This might due to the fact that any industry can be in need of assistance when they recruit. Comparing this to theory, more parameters could be used, therefore we have given company Es practice 2/5.

Last company, company F has also a broad market definition. When asked about the market they replied that every company in Sweden is their market. Sweden is geographical parameter, this is the only parameter that the company is using therefore we gave company 2/5.

This behaviour can be connected to the strategy as practice approach where there is a gap between what theories explains that organizations should be doing and what the organizations really are practicing. In this case we believe that most of the companies has utilized a more simplistic version of a market definition compared to theories. With this in mind there is not a 100% chance that if the organizations performed a more theoretical market definition that the organizations would perform better overall, since the market definition they provide seem to their measures to be satisfying.

But why is this? Why do not the companies that we have interviewed define their market better? The majority of our respondents had an academic background and all did have knowledge about the theories of segmentation. One of our respondents shed some
light upon this question when he stated: “You will never put down the time that segmentation requires when you have everyday work that you cannot get away from” (Respondent F, personal communication, 25-04-2014). All of our respondents except one had some responsibilities for the segmentation process in their companies, but they did also have other obligations to their company. So one of the reasons why the market definition presented might not be as accurate as Dunbar & Mcdonald proposes might be because of the lack of time to actually be able to conduct a strategic market definition.

Company F had a way to get around this problem, they had an strategic unit that were responsible for analysing and to continuously work with these strategic questions, the BPM. The respondent from company F said that the BPM had acquired the responsibility for the segmentation “because it is so extremely important” (Respondent F, personal communication, 25-04-2014). We cannot say that we saw a different market definition presented by company F compared to the other companies, but we cannot exclude the scenario completely that company F might have a better market definition since we only had the opportunity to interview the sales manager at the company, and not the people responsible for the BPM.

In company B whose market definition you can read above, the case is different. This company do have representatives for every industry, and also for their segments, which are small business, medium business, large business and public business. These representatives are in charge of making sure that the market is from the company’s perspective met with quality, but they are not in charge of any segmentation. Our respondent told us “To be a bit harsh, they [the headquarters] do not give a damn if we do it [deliver the monthly revenues] by forest entrepreneurs, by innovative spin offs from the university or by noted businesses that is in the region as long as we deliver the numbers that we are expected to deliver” (respondent B, personal communication, 2014-04-07). What we can deduce from this example is that here the market manager is solely responsible for the segmentation process, but he is also responsible for all the sales of the region. This might be an explanation why respondent B defines company B’s market as broadly as he did.

There might also be another reason why the market definitions are so broad, that it almost in every case contains every company within the geographical area, and this is explained by respondent E: “One thing that I can feel from time to time is that I am afraid to miss something within the segmentation and then I will have to admit that I might miss the opportunity to do business with some [companies].” (respondent E, personal communication, 2014-04-28) The fear of closing certain doors that might lead to new clients is another reason why companies may define their market as widely as they do.
In the theory chapter we decided to use the nested segmentation approach by Shapiro & Bonoma that focuses on segmentation variables for Business to business. The theory itself is based upon demographic variables, operating variables, purchasing approaches and buyers personal characteristics. (Shapiro & Bonoma, 1984, p.106-108)

Company A are using numbers of nights a company spends in the local town to find what companies to focus more on. They also admit that some of the companies they are focusing on are more prestigious and are therefore interesting. These segmentation variables are not discussed as theoretical segmentation variables and therefore we have given the rating of 1/5. We can see reasons why number of nights is a valuable variable to use, number of nights is closely linked to profit which is therefore an important variable for an hotel chain. The other variable, prestige, can be used as a marketing tool and is therefore also related to profit.

Company B focuses on turnover and number of employees as segmentation variables. These are variables that the company uses to identify companies with similar needs and challenges so that they know how to adopt their services to the client. These are what we call demographic variables.

The third company, company C, are using key numbers which can be associated to segmentation variables. This key numbers are numbers from whom the company judges whether to do business or not. The key numbers are individual for every company, what they should ad up to is potential future profit for company C. Even tough the key numbers can be associated with demographic variables, this should be considered different since they are judge individually depending on company.

The company who are using the most segmentation variables is company D. Company D is using both demographic variables and what Shapiro & Bonoma (1984, 108-109) calls buyers personal characteristics. The demographic variables used are geographical and size of the company. The buyer personal characteristics that also can be associated with what Kotler & Keller calls psychographic segmentation (2006, p. 252) are the moral and ethics that the companies have to share. The respondent from company D told us that if they would do business with a company they needed to share the same interest of communication. We believe that these variables have been created after lesser successful businesses.
Company E are using demographic segmentation variables as they are looking at the geographical location of the companies that they do business with. They have also included two more variables, potential and prestige. The potential variable is a variable where company E rates the potential of this client, the larger potential the more interesting is the company. The prestige variable can be related to company A who is using this as a marketing strategy and we believe that it fills the same purpose for company E.

Company F who is a credit agency are using demographic variables. Their way of using these variables can be compared to company B who also focuses on turnovers and number of employees. But company F has also a variable that is creditworthiness. The respondent told us that company F were very strict and didn’t do business with companies that had bad credit. Our analyse is that this variable is created to inflict trust, if a credit agency who advises other companies in credit issues would do business with companies that had a bad credit then their advices would not be as trustworthy anymore.

During our interviews when we talked to the companies we asked them what segmentation variables that they used. In almost every case we got two variables that were similar regardless of what industry the companies were operating in, the two variables where turnovers and number of employees. Respondent B replied to us regarding why these variables are so important: “Well, because we want to categorise companies with similar needs, where the segments has similar needs, even though they are in different industries… Number of employees and turnovers are important because it bundles together companies with similar challenges” (Respondent B, personal communication, 2014-04-07). These variables fit well into the variables that Shapiro & Bonoma describes as demographic variables (1984, p.106). We have previously discussed that many of the companies are defining their market in terms of geographic location, this variable is also a variable that fits in Shapiro & Bonomas definition of demographics (1984, p.106).

A variable that some of the respondents discussed were growth. Respondent F tells us about a function that the market department at company F has created, the market department look through a historic perspective how the company has been doing, then they also add a couple of variables to get a prognosis of the future growth of the company(Company F, personal communication, 25-04-2014). Another respondent, respondent E emphasises also the importance of growth as a segmentation variable. Company E has a more simplistic system to reckon which companies that are up and coming or down going, they make sure to talk to different people in the local business life in different networks and so on. What can be noted is that Company F has set their market as Sweden while company E is working locally in the region. To segment companies based on growth is not apart of the model presented by Shapiro & Bonoma, but as we can see out of 6 asked respondents 4 stated that they were doing this.

Some of the respondents also talked about prestigious customers that the companies want. One of the respondents stated that some customers could bring “a feather to the hat” that can affect business in a positive way. (respondant E, personal communication, 2014-04-28).
What we can see is that the companies do not use many of the segmentation variables that is presented in the nested approach. The companies are rather focusing on what at the first gaze seems to be a good customer. The companies do not look at any certain type of business profile, but instead they only look at the numbers.

The companies seem to be asking themselves who are our customers? But anyone seems to be able to be a customer and many of the companies seems to be afraid to make choices due to that they might close a door. Company B clearly states “The company does not take decision, and that is because we are just as short term thinking as any public company. Because at the end of the year the only thing that matters is what our partners gets in their wallets” (Company B, personal communication, 2014-04-07).

### 6.3 Segmentation method selection

<table>
<thead>
<tr>
<th>Segmentation method</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating 1-5</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>How they do it</td>
<td>None</td>
<td>Retroactive</td>
<td>None</td>
<td>Retroactive</td>
<td>Retroactive</td>
<td>Retroactive</td>
</tr>
</tbody>
</table>

In the research done upon the topic of segmentation method selection there are two methods that are primarily presented, the a-priori method and the post-hoc method (Green, 1977 p.64; Wind,1978 p.317; Wedel and, 2000, p.17; Foedermayr & Diamantopoulos, 2008, p.252). These methods are two methods that focus on how you actually shall determine the preferences of your segments.

During our interviews we have met businesses in different stages, the youngest has been conducting business for about 3 months and the oldest has been running their business for a very long time. What we have identified is that not a single company of the ones that we have interviewed has as far as our interviews could prove a segmentation method.

A segmentation method is something strategic that is supposed to be created proactively, what we have observed is quite the opposite. The companies that we have interviewed all seem to be working with segmentation reactively. We never asked a question straight out: “What segmentation method did you use?”; we rather asked around how they actually reached an understanding of what segmentation variables to use and so on. Respondent F gives us his opinion of the matter “If you ask a company why they chose to work with for example the real estate industry, I do believe that probably in 90% of the cases this was not a strategy that was staked out from the beginning. It was rather a sales force that was trying to sell and then a salesperson got someone on the hook and realises that these companies seems to like this and so the salesmen uses this and starts to build an area of knowledge. But it was never a staked out strategy from the beginning, instead they fired the big canon and saw that okay it was here we hit. So if you ask us today we tell you that we are very successful within these niches, but if you then continue on and ask us how did you chose it? Well then
nobody chose it, it just happened.” (Respondent F, personal communication, 2014-04-25)

The most obvious example of this is company A that has relatively newly gone through a restoration, we asked the respondent if they had taken in consideration what type of customers to satisfy, he replied that they did not take that into consideration that they just “wanted to achieve something extraordinary” (Respondents A, personal communication, 2014-04-01), he continued explaining “There are many hotels and many colleagues in the business that are doing a great job, but many are doing it the same way, here we wanted to do something different.” (Respondent A, personal communication, 2014-04-01). This confirms the theory which respondent F presents: that companies today are rather firing a shotgun and evaluates where they hit, than actually laying out strategies on how to reach appropriate customers.

6.4 Segmentation criteria

When forming segments Kotler & Keller (2006, p.262) provides in their theory of effective segmentation criteria’s five criteria’s to use so that the segment that has been selected will be useful. The criteria’s are that the segment shall be measurable, substantial, accessible, differentiable, and actionable.

Looking at our respondents not a single respondent did use the segmentation criteria’s and it seems to be a general misconception between segmentation variables and segmentation criteria’s.

The reason why we believe that the companies do not use any segmentation criteria’s is linked to what we have mentioned in the analysis of the segmentation method selection, that the companies are rather doing a reactive segmentation then a proactive. In some of the cases like company B, E and F that has more units responsible for the segmentation they might use segmentation criteria’s to fulfil their segmentation process, but this is not communicated to the local market managers.

That the companies lack segmentation criteria’s is also affecting the evaluations of the segments, since these two walks hand in hand. Kotler & Keller (2006, p.262) refers in their proposition of evaluating segments back to the theory of segmentation criteria’s so this will affect the relation between theory and practice in a negative way.
6.5 Segment Evaluation

<table>
<thead>
<tr>
<th>Segments evaluation</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating 1-5</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>What they measure</td>
<td>Measurers on the basis of number of nights</td>
<td>Measures profitability in company size and also in industry</td>
<td>Do not evaluate</td>
<td>Risk management</td>
<td>Rating companies based on potential</td>
<td>Profitability, measure hit rate</td>
</tr>
</tbody>
</table>

Evaluation of segments is an important part of a segmentation strategy. There are different ways of evaluating the segments that a company holds, increase in financial gains, intuition feedback or ability to meet customer needs (Craft, 2004; cited in Foedermayr & Diamantopoulos, 2008, p.258). The majority of companies did perform an evaluation of their segmentation strategy. However the way that this was done differed from theories and also between companies, but some similarities were found.

Looking at Company A they are measuring on the basis of what number of nights a client spends at the hotel. This is done once every quartile. The information that Company A gets out of this evaluation is an approximation of how close the clients are reaching the predetermined number of nights that has been negotiated in the beginning of the year. If a client seems to deviate from the number of nights that has been negotiated Company A takes action. Even though this is not a pure segment evaluation it displays that company A is evaluating expectations in returns of monetary means. This is a good way of tracking the behaviour of Company As clients. What could be added in the evaluation done by company A are the components suggested by Craft (2004; cited in Foedermayr & Diamantopoulos, 2008, p.258) long-term financial success, relationship building and market position. This would extend the futuristic view for Company A and give them a more precise perception of who their most important customers are.

Company B’s headquarters performed the evaluation of their segments, respondent B told us that the segment “owner managed companies” came up as a result of this (Respondent B, personal communication, 2014-04-07). The headquarters measured on the basis of profitability in company size and also in industry. This way of analysing is similar to Company A, the company focuses on the immediate financial returns. Company B has very wide segments and this might be a reason why they do not analyse their clients based on relationship building or market positioning. It is hard to determine whether Company B focuses on the long-term financial success in their evaluation but during the interview with respondent B he told us that the thinking of the company is as short term as any listed company. Therefore we can question whether there is an focus on long term financial success or if Company B only looks at immediate financial returns.
In Company C they are not evaluating clients at all. We believe this to be because the bank is doing an individual evaluation of every company that wants to do business with the bank. When you are in the bank you are kept as a customer there.

Respondent D told us that company D were in a process when they had evaluated their work with the public sector and decided to move on to the private sector. This is a sign on a strategic segment evaluation. The respondent didn’t want to go into detail regarding how they actually were doing their evaluation, but what we can conclude is that such a strategic change, to completely change segments, needs an evaluation focusing on more then immediate financial return. The respondent told us that they wanted to minimize the risks. What we know of the public sector is that there are in general long procurements. These procurements might be a reason why company D believes that there is a greater risk working with the public sector then the private.

Company E didn’t go into details either on their evaluation. What they did tell us was that they used to rank potential clients on a prospect list. What we can generate from this info is that the Company E has to somewhat evaluate their clients to be able to find similar companies and be able to rank these. Because if similarities can be spotted between a potential client and a existing client then Company E can decide how interesting that potential client can be and then decide where it belongs on the prospect list.

Respondent F told us about company F and that their evaluation was done continuously done to redefine their segments. The segmentation evaluation is based upon two variables, profitability and hit rates. Profitability is based on what short term profit the clients bring in to the company. Though it can also be that the clients will bring a long-term financial success. Hit rates is the number of sales per try that the salesmen does. Judging from this Company F can judge whether to abandon a certain segment or keep pushing. Adding these two variables together gives the company both a long-term and a short-term perspective.

The differences between theory and practice when it comes to evaluating segments are that the companies we interview are rather evaluating single customers instead of evaluating the segment as a whole. The only company that we could find that differed from the analysis was company F that actively worked to evaluate their segments (Company F, personal communication, 2014-04-25). The reason why we believe that the companies rather evaluate individual companies is because their segments are in general so broad that it is difficult to find a common ground to evaluate.
6.6 CRM.

<table>
<thead>
<tr>
<th>CRM</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating 1-5</td>
<td>Currently not using a CRM system.</td>
<td>Do have a CRM system but not using it on a operational level.</td>
<td>Have logs regarding customer information.</td>
<td>Currently not using a CRM system.</td>
<td>Not using it in regional office, exists on higher level.</td>
<td>Key account managers using it.</td>
</tr>
</tbody>
</table>

There are potential benefits by using a CRM system to enhance your business. As mentioned by Chen and Popovich (2003, 673), proper usage of a good CRM system in an organization can lower the operational costs of their business as well as an increase in revenues. The characteristics for a good CRM system is explained by Zeng et al (2003, p.39) where there are four different parameters are mentioned; Relationship management, sales force automation, use of technology and opportunity management.

The majority of companies interviewed knew what CRM was and what it entails, some were using a system and others had plans of establishing one, others had a system but did not use it. One example is the one provided by company B, in which the respondent laughed at the question asked, and then gave the explanation that the CRM system that they had installed were based on a international implementation (Respondent B, personal communication, 2014-04-07). However the implementation was so poorly preformed that basically no one used it.

Sales force automation is something that Zeng et al, 2003, p.39-40) talks about, explaining that it is used for tracing customer history and information so the company can use it for sales in the future. Company C had their way of using this in which they logged the information of their customers for use later in the future, however they did not mainly use it for increasing the sales, but rather to establish a good relation with their customer and smoothen the deliverance of their service (Respondent C, Personal communication, 2014-04-01). Respondent F (personal communication, 2014-04-25), explained that the usage of their CRM system is mainly used by Key Account managers, which used the data mainly in sales purposes. The company also uses a part of a CRM system called DBM in their word “Database Marketing” which utilizes the flow of information giving the customers information about market activities and newsletters from the company (personal communication, 2014-04-25).

The technological part of a CRM system is important to be able to deliver value to the customer, however, Zeng et al (2003, p.39-40) emphasizes the importance of educating the employees within this technology. This is what we have observed as the problem with the CRM systems that the respondents within this research have used. ‘Badly implemented’ is a recurring theme during the interviews when asked about CRM. On the other hand, there was also a genuine interest regarding CRM and especially from companies that did not have it implemented yet. Company A (Personal communication, 2014-04-01) stated that they have looking into investing in a CRM system where they
can look at for example “What the bigger clients have in common?” and then establishing criteria’s to search for those.

What we have observed regarding CRM is that the authors of the theories are quite accurate at least in terms of the importance of implementation, since the companies that had a CRM system did not utilize it to its full potential.

6.7 Key Insights drawn from the analysis

During this analysis we have put the findings from the companies against the theory presented in our theoretical framework. We have gathered all the template-models into one large template on the next page (see template 9). We have calculated the average rating that the companies have received and as can be seen in the model below, not a single company has an average rating of three or higher. We believes that this displays that there is a gap between the theory and the practice of the companies that we have analyzed. There are a number of reasons why we believe that this is the case.

We have observed that overall marketing managers seem to lack the time to apply segmentation in the way desired. We have also seen that companies rather then applying segmentation as a proactive strategy are reactively creating segments along the way. Segments are formed rather on the basis of chance then of long term strategic decisions. First after the segments are formed the company creates a strategy around these.

The respondents also provided us with indications that there is a general unwillingness to segment and create segmentation strategies because of the risk of excluding potential customers. We have also observed the vast use of the variables turnovers and number of employees, this variables were recurring in many of the companies, especially the larger ones.

There are similarities both regarding how the companies define their market and what segmentation variables they use even though their practice of segmentation is not very similar to the theories that we have presented. These similarities are interesting because of the differences comparing to theory, we will elaborate further on this in the conclusion. There is also a similarity in the persons responsible for the segmentation at the companies. These similarities are interesting because of the differences comparing to theory.

As we have identified in this study CRM is seen as something positive but in general not very used mostly due to not sufficient implementations. We will further conclude our analysis in the upcoming chapter

Regarding the implementation of their segmentation strategies as seen in template 9 we have observed that the organizations are using a retroactive segmentation method if they are using one at all. The implementation problems that we mentioned before in the theory chapter are closely related to what we have found in some of the companies. Company E had somewhat worked against some of the implementation problems that could occur with their information days for employees, however there was also only one person conducting and planning the segmentation. Which can lead to some problems with the flow of internal information, as Palmer and Millier (2002, p.781) stated. Another problem with the implementation of segmentation that we observed were the
fact that not all companies had experience with segmentation beforehand, which can lead to a more simple segmentation process, in our case geographical and market lead (Dibb & Simkin, 2010, p.489).

<table>
<thead>
<tr>
<th>Summary</th>
<th>Company A</th>
<th>Company B</th>
<th>Company C</th>
<th>Company D</th>
<th>Company E</th>
<th>Company F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average rating</td>
<td>1.8</td>
<td>2.2</td>
<td>1.3</td>
<td>2.3</td>
<td>1.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Market definition</td>
<td>Large companies traveling to [local town]</td>
<td>Northern part of Sweden</td>
<td>Area located around [local town]</td>
<td>Information, communication, and marketing departments mainly in [local town]</td>
<td>Companies around [local town]</td>
<td>Every company in Sweden</td>
</tr>
<tr>
<td>Segmentation variables used</td>
<td>Number of nights spent in [local town], prestige</td>
<td>Turnover, number of employees</td>
<td>Key numbers</td>
<td>Geographical, size of company, ethics, interest in communication</td>
<td>Geographical, potential, prestige</td>
<td>Creditworthiness, turnovers, number of employees</td>
</tr>
<tr>
<td>Segmentation method</td>
<td>None</td>
<td>Retroactive</td>
<td>None</td>
<td>Retroactive</td>
<td>Retroactive</td>
<td>Retroactive</td>
</tr>
<tr>
<td>Segmentation criteria</td>
<td>None</td>
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<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Segmentation evaluation</td>
<td>Measurers on the basis of number of nights</td>
<td>Measures profitability in company size and also in industry</td>
<td>Do not evaluate</td>
<td>Financial analyse, risk analyse</td>
<td>Financial analyse</td>
<td>Profitability, measure hit rate</td>
</tr>
<tr>
<td>CRM</td>
<td>Currently not using a CRM system.</td>
<td>Do have a CRM system but not using it on a operational level.</td>
<td>Have logs regarding customer information.</td>
<td>Currently not using a CRM system.</td>
<td>Not using it in regional office, exists on higher level.</td>
<td>Key account managers using it.</td>
</tr>
</tbody>
</table>
7 Conclusion

In this chapter we will present our conclusions from the analysis done in the previous chapter. We have chosen to present these under the research sub-purposes to answer our research question.

7.1 Research question and conclusion

So since Wendell R Smith released “Product differentiation and marketing segmentation as alternative marketing strategies” what has actually happened? We can start off by concluding that a lot of research has been done upon this subject. We can also conclude as many has done before us that the segmentation that is practiced is not very similar to the one that is presented in the theories.

In this thesis we have chosen to utilize the view of strategy as practice, and with this in mind we have come to these conclusions after analysing the data from the interviews. Due to limitations mentioned before in the paper we could not make a longitudinal study of the subject within organizations to observe the strategic planning of segmentation from the creation of the strategy, and how different people within organization adapted the segmentation strategy. What we have been able to see however is as explained above, that the practice of segmentation strategies differs from the theoretical models showing how it should be practiced. So even though we have not been able to follow the entire course of the strategy, it is evident that the majority of the organizations in this thesis do not have a similar understanding of the subject and practice of segmentation, as the researchers.

The strategy as practice approach has given us a possibility to study the practice of segmentation as it is performed. We have by adopting this approach been able to see what the segmentation theories says that the companies should be doing, we have also been able to see what the companies say that they are doing and we have been analysing what the companies actually are doing. By analysing these three components we have found reasons why we believe the theories and the practices to differ. Adding these conclusions together we believe that our research contributes to the field of marketing and especially the field of segmentation.

The purpose of our degree project was to answer the following question and to investigate the objectives that follow:

*How are Swedish service companies practicing segmentation in their business?*

**Objectives**

- Observe how segmentation is practiced in Swedish service companies
- Investigate if the segmentation that the companies perform differ from theories
- Investigate whether there is a connection between how the service companies are practicing segmentation and how they are using a CRM technology
7.1.1 Objective 1: Observe how segmentation is practiced in Swedish service companies

What we have seen in our study is that in general there is a large knowledge regarding the term of segmentation, and the respondents could all agree on the importance of it. This goes against the reasoning of Grönroos (1978, p.391) who states that service companies should not use traditional marketing theories. We conclude that how segmentation was practiced in the different organisations differed, though there were some similarities, these were:

- Similar market definitions
- Similar variables are used
- The person responsible for the segmentation has similar positions
- Segmentation is practiced retroactively

The market definitions did in every definition include the geographic location of the companies it also in many cases included the different sizes of the companies that the interviewed companies were working towards. The interviewed companies did all use demographic segmentation variables, the companies looked at geographics, but the largest focus in the demographic segmentation where at the turnovers as well as number of employees that the companies had. The explanation behind why these numbers were important was that they often created a framework of companies with similar needs. Only one of the companies had deeper segmentation variables looking at values and ethics of the companies. Overall the segmentation variables described to us were rather simple but this is also highlighting an important finding in this paper that is no matter how different the organizations were structured. This is interesting considering that these similarities are not applied as the theories we have presented suggests. Since there is a similarity in the company use of these we can conclude that some variables like for example turnovers and number of employees are seen as important for the companies, but it is not regarded important in theory. This might be because a strive for companies to find tangible variables to make the segmentation simpler and more understandable.

Most of the respondents that we interviewed to and that were in charge of the segmentation where market managers. Four out of the six companies we analysed did send their market manager to speak to us regarding the subject of segmentation, the other two where a CEO and an office manager that both had strategic responsibilities at their working place. What we may conclude from this is that in general the market managers have some responsibilities regarding the segmentation process in the companies. Not a single respondent had segmentation as their only responsibility.

During our interviews we have understood that segmentation is done in most of the companies retroactively, meaning that the companies are not developing a strategic segment before they try to reach customers. Instead companies are better at evaluating and finding out reactively which companies that are interested into them. Segmentation is seen as an on-going process, but what many of the companies seems to be missing is the start where it does not seem like they segment at all.
7.1.2 Objective 2: Investigate if the segmentation that the companies perform differ from theories

During our research we strived to identify if there was a difference between what is practiced in companies and what is conceptualised by theories. Due to our as practice approach we have been able to focus on what actually is practiced in different companies, and so we have seen that there is a gap between what companies practices and the theories. This can be exemplified by referring back to our analysis where we displayed that not a single company that we interviewed used a theoretical segmentation method selection. When we analysed using the as practice method, we identified some reasons why we believe that the companies do not segment as the theories. The factors that we will present below will provide some explanation to why there is a gap between theory and practice. These factors are:

- Short term focus
- Lack of time
- Fear of missing customers

Segmentation is a strategic plan that needs a long-term focus. Many of the companies talked about the existence of short-term thinking within their organisations that made it more difficult to make long-term strategic decisions. To not be able to make long term strategic plans may hinder companies from using traditional segmentation theories. This is also something that Simkin & Dibb confirm in their study, where they state: “The findings of this survey reveal a focus by marketing practitioners on short-term financial measures of market attractiveness at the expense of longer-term issues and criteria’s relating to the external trading and marketing environment.” (1998, p.415)

As we stated above, not a single respondent had segmentation as their main task. They all had a number of other responsibilities for the companies where they worked. Yet out of the six respondents 5 of them were responsible for the segmentation at their office. Like we have stated earlier segmentation is an ongoing process and requires therefore a lot of time. So we believe that one reason why the companies are struggling with segmenting their markets is because they do not have the time to focus on this enough.

The last reason why we believe that companies today are not segmenting according to theories is a fear of excluding possible customers. We have had number of respondents stating that segmentation is about “deselecting, instead of selecting” (respondent F, personal communication, 2014-04-25), we also had companies talking about not making decisions for different reason, but we believe this to be due to a fear of missing out on customer that you are deselecting instead of seeing segmentation as to actually select your customers.

We can also see some connections with what previous literature has pointed out as implementation issues. Dibb (1995, p.191) has explained that one implementation issue is due to failure to understand the segmentation process, many of the companies grouped the customers together and called this a segment but similar to Simkin (2008, p.466) we found that the companies only based these customer groups on geographical location of customers. In chapter 8, recommendations, we will provide some recommendations how companies can overcome these barriers.
7.1.3 Objective 3: Investigate whether there is a connection between how the service companies are practicing segmentation and how they are using a CRM technology

In our study we have seen a large interest in CRM systems. 4 out of 6 companies had some sort of CRM system, and those that did not have one had plans of investing in one in the future. Because of the general interest of CRM we believe that the practice of segmentation and the usage of a CRM systems is not seen as something that contradicts each other. The differences of usage were rather depending on the size of the company.

We also have to take into consideration that many of the CRM systems were badly implemented. There is a possibility that well-established and implemented CRM systems might replace the needs for segmentation completely. But on the basis on this study we can conclude that in the companies that we investigated CRM where not seen as a replacement for segmentation.
8 Recommendations

In this chapter we will discuss two different types of recommendation, practical and theoretical. The practical recommendation will be recommendations directed towards both businesses and business schools, while the theoretical recommendations will provide recommendations for future research.

8.1 Practical recommendations

8.1.1 Practical recommendations for business

The respondents that we have interviewed did all agree on the importance of segmentation. However comparing the practice of segmentation in the companies we have interviewed with our theoretical framework we can conclude that there are a lot of differences.

The first practical recommendation for companies that we can give in this degree project is that companies need to segment their markets properly. Companies have to be decisive and not afraid of narrowing down the segments. Segmentation is a strategy that finds a homogenous group of customers so that these can be targeted appropriately. If companies do not segment appropriately, then the customer will not be met appropriately either, and a competitive advantage is lost.

Our second practical recommendation is that companies have to be able to spend time on the issue of segmentation to be able to improve it. If not enough time is spent on these questions the segments will not be properly identified and the homogeneity of the customers will neither be properly identified. Again difficulties will arise in meeting the customers appropriately and yet again a competitive advantage is lost. We believe that some of the steps that Simkin (2008, p.468-470) provides on how to overcome the difficulty of moving from grouping customers to proper segmentations can be useful for companies. Firstly the companies need to reflect upon the way they are performing their segmentation today. Secondly there is a need for companies to look over future profiles and find what Simkin calls ‘key customer values’ or what can be identified as segmentation criteria’s. After establishing these, the company should try to identify customers who share these criteria’s and add them together as segments. When the segments are formed the company should focus on these.

We also believe as our final recommendation that the short-term focus we have found is something that has to be looked beyond. Segmentation is a long-term strategy and has therefore to be treated that way to be effective. We understand that this is difficult in a society where short-term profit is desired. However we believe that companies especially in the service business need to have a long-term strategic focus to be able to build lasting relationships with their customers, and one of the ways that we believe service companies can create relationships with customers is through meeting customers in an appropriate way, and the key of finding this way is through a proper long-term segmentation strategy.
8.1.2 Practical recommendations for business schools

In business schools all over the world one of the grounding theories in the theoretical field of marketing is segmentation. As we have seen in this degree project segmentation is not practiced in the same way as suggested in theoretical segmentation. Companies use and interpret these theories in different ways. So how should business schools adapt to the fact that the business world does not apply segmentation as taught today?

We believe it is important that business schools keep teaching the theories of segmentation, these theories are not just important for marketing but also for product/service-development and sales theories. Considering that segmentation theories need to be applied in real life scenarios, we would emphasise that business schools provide the students with cases gathered from the business world where students has to apply segmentation theories. We believe such cases would expand the understanding of the use and the importance of applying segmentation theories not only to some extent but to use fully.

Business schools need to emphasise the importance of segmentation. If the business schools displays for the students how to identify homogenous characteristics in customers and also how to use these insights to satisfy these customers, then we believe that this will prove to the students that segmentation will create an competitive advantage. We hope that this way of displaying segmentation will take away the fear we have observed of losing customers and replace it with a sense that this rather will attract new customers.

To conclude we believe the reason why segmentation is not practiced the same way as the theories suggesting are not based upon the teachings of the business schools, rather it is a defect of graduating student often not receiving any responsibility over the segmentation process while having this theories fresh in mind. The segmentation is rather performed by experienced managers well schooled into the world of business where, as we have identified in this study, it exists a gap between the practice and what has been suggested in theories regarding marketing.

8.2 Theoretical recommendations

We have during this research project identified a number of fields of future research within the field of segmentation. We believe that there are still findings to be found with deeper research within the practice of segmentation, due to limited time and resources our thesis has not been able to reach the core of segmentation practice and we believe that qualitative research conducted on market managers, responsible for the market segmentation of entire large organizations, would contribute more to an understanding on the actual sophistication of the segmentation practice.

There are research conducted today in how to implement segmentation theories in to business like the one by Dibb’s named “Criteria guiding segmentation implementation: reviewing the evidence” (1999) or Sally’s “Market segmentation implementation barriers and how to overcome them” (2005). These are contributing to the implementation of segmentation theories, but we believe that there is a need for research that focuses on where in an organisation the segmentation responsibility should lie and how it should be converted from being a strategy to actual operative work. We
also believe that this type of study needs to be done taken in consideration different sizes of the organisation.

A third area where we believe that more research has to be conducted regards the time management aspect. How much time are companies supposed to set of for segmentation? This question has risen since many of our respondents have not had the time to perform segmentation in the way theory suggests.

We believe that future research also deeper should investigate the connection between how service companies segment their market and the use of CRM system. This since there is a natural connection between the general large interest for CRM system and the core of service marketing, creating lasting relationships. Is there a meaning for service companies to segment their market or should the more heavily rely on CRM systems?

Our last suggestion for an area of future research lies in the segmentation method selection. During our research we have identified that companies are instead of working proactively with segmentation they are working reactively. We believe that this area is of particular interest given that this might reshape the way the segmentation process is perceived.
Reference list


Appendix 1 – Interview questions

1. How does your company interpret the term segmentation?

2. How do you in the company use segmentation today?
   - Are you often discussing segmentation? In meetings etc.

3. How important is segmentation for your company?

4. Who is responsible for the segmentation?
   - Has this person any other responsibilities in the company besides the segmentation?

5. Do you experience from the companies perspective that you have difficulties to segment, since you are in the service industry?

6. How do you define your market?

7. Which segmentation variables are you using at the moment?
   - How did you decide upon these?

8. From what criteria’s are you forming your segmentation?

9. When you have established a segment, do you evaluate these?

10. Are you continuously looking for new segments?

11. Are you using a CRM-system?
    - what does it do?

12. Segmentation is viewed as a rather strategic decision how do you translate this in to the operative business?
    - Have you encountered any difficulties within this area?