4-17-2014

Segmenting Segmentation: A Taxonomy Bridging Theory and Practice of Strategic Consumer Segmentation

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SEGMENTING SEGMENTATION: A TAXONOMY BRIDGING THEORY AND PRACTICE OF STRATEGIC CONSUMER SEGMENTATION

by
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A Dissertation

Presented in Partial Fulfillment of Requirements for the
Degree of
Doctor of Business Administration
In the
Coles College of Business
Kennesaw State University

Kennesaw, GA
2014

Kennesaw State University

Coles College of Business
Doctor of Business Administration

Dissertation Defense: April 17, 2014

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DEDICATION

To my dearest Maggie, with all my Love.

I am here because of you.

ACKNOWLEDGEMENTS

As those who have travelled the path of attempting a dissertation know, at the outset the trail is steep and foggy. Experienced guides are necessary to help the novice doctoral candidate find the way without stumbling over an edge or hiking long trails to dead ends. In the best of worlds, the guides are knowledgeable, supportive and encourage progress though advice borne from a genuine interest in scientific research and empathy for the soul who is just starting to walk the trail. I have been fortunate to find these guides.

Dr. Stacy Campbell chaired my committee and was a constant source of encouragement. At the many junctures where concepts and outcomes didn't fit, her advice to trust my instincts and to first write in my own words always seemed to be an elixir clearing the confusion and setting me on the right path.

Dr. Greg Marshall provided equal parts of expertise, sage advice, and encouragement all at just the right moment. His experience in marketing and methods provided me with great advantages when dealing with prickly conceptual topics and letting me learn in ways that only practical experience can before jumping in to save me from mistakes I was about to make.

Dr. Joe Hair gave support from the beginning; providing thoughts and guidance on topics and introducing me to many people that helped solidify a direction that was both meaningful to the literature and to me personally.

Dr. Torsten Pieper stuck by my side through several changes in topics and methodological approach and provided concrete and detailed feedback at the most crucial

juncture of my research planning. His breadth of experience in both qualitative and quantitative research helped focus this dissertation to a research topic that minimized the disadvantages and maximized the outcome.

Aside from all the advice, in the end I had to crest the summit under my own power. Any missteps along the way are mine alone. I leave this experience knowing each future research project will only get better, having built a strong base camp.

ABSTRACT

SEGMENTING SEGMENTATION: A TAXONOMY BRIDGING THEORY AND PRACTICE OF STRATEGIC CONSUMER SEGMENTATION
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Beginning with Chamberlin's explanations of market variation in 1933, segmentation has been formally studied for eighty years. While more than 2,700 studies have been published (most as studies on statistical methods of segmentation), scant evidence has been gathered on the role market segmentation plays in strategy formulation and what has been presented has not been adequately classified to provide a basis for further comparative study. Based on Resource-Advantage theory, this dissertation defines a taxonomy of strategic segmentation that depicts how a firm's view of a market relates to its assumed heterogeneity of the market and how a firm approaches a market based on availability of imperfectly mobile resources. Then, through experimental analysis, this dissertation assesses the level of support for the taxonomy against decisions made by marketing managers when presented with various scenarios on available resources.

As predicted, the results showed that marketing managers are aware of resource limitations for designing and creating a market segmentation scheme, so they "view" the effective heterogeneity of the market based on resources available to segment the market (H1). However, the remaining six hypotheses did not support that marketing managers consistently judge relationships between resource limitations outside their job role and their marketing actions. Given the results, overall support for the proposed taxonomy was

not established. Additional research is recommended to determine if managers are conceiving resources differently from what RA theory suggests. Managers should, however, take actions to compensate for the probable lack of understanding between resources and marketing segmentation choices.

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CHAPTER 1 – INTRODUCTION

1.1 The Importance of Understanding How Firms Approach and Execute Market Segmentation

Segmentation—the dividing of a market into smaller, more homogeneous groups—has been one of the most prominent marketing strategies for decades (Danneels, 1996; Kalafatis & Cheston, 1997; Wind, 1978) and continues to grow in its sophistication (Viswanathan, Kuruzovich, Gosain, & Agarwal, 2007). Numerous scholars have identified that markets are heterogeneous (Allenby, Arora, & Ginter, 1998; Chamberlin, 1933; Franke, Keinz, & Steger, 2009; Hunt & Morgan, 1996; Sheth, 2011) and that segmentation is an effective way of identifying portions of the market that may demand different product attributes or, through 'product differentiation,' may accept an existing product if promoted differently (Dickson & Ginter, 1987; Hunt, 2011; Smith, 1956, 1995). The underlying goal of segmentation is to improve financial performance of the firm through price discrimination by understanding price elasticities of the segments (Chamberlin, 1933; Hunt, 2011). Given the advantages of segmentation, one would expect that most companies would create and execute their marketing strategy using segmentation, but this is not the case.

Recent industry surveys seem to indicate firms are ambivalent to the advantages segmentation brings to both understanding the market and improving marketing execution. For example, McKinsey & Company found 51 percent of firms surveyed were not focusing on customer insights, segmentation, or targeting (Brown & Sikes, 2012). On the implementation side, Bain & Company found only half of management teams change products to meet demand of customers (Allen, Reichheld, Hamilton, & Markey, 2005). Academic research also indicates firms do not approach segmentation and its implementation in ways consistent with extant segmentation theory (Day, 2011).

1.2 Research Gap

Despite significant research into the broad topic of segmentation, a vast majority of the articles published have been within the area of segmentation *methodology* with articles ranging from how to use logit, conjoint, Bayesian, and neural network models to the various means of selecting variables to use in the models (Bigné, Aldas-Manzano, Küster, & Vila, 2010; Kim & Lee, 2011; Van Hattum & Hoijtink, 2009; Wen, Huang, Fu, & Chou, 2012); few have focused on segmentation as a core topic. As Quinn and Dibb (2010, p. 1241) describe, "while marketing managers have prioritized how segmentation outputs can be implemented in practice, academic researchers have been preoccupied with the choice of variables and multivariate techniques available for the analysis and validation of that output." Numerous scholars have identified a need for more research including the study of segmentation strategy (Day, 2011; Wedel & Kamakura, 2002), the alignment of segmentation planning to execution (Day, 2011), and a broad need to better understand the existing gap between theory and practice (Dibb & Simkin, 2009; Dickson & Ginter, 1987; Goller, Hogg, & Kalafatis, 2002; Quinn & Dibb, 2010). A key contribution of this dissertation was to attempt to bridge the gap between theory and practice by creating and testing a theory-based taxonomy of strategic segmentation.

In studying the segmentation process, there are several steps including planning and design, statistical analysis, and implementation that should be addressed (Wind, 1978). The focus of this dissertation tied together the planning and design step with the implementation step. The planning and design step assessed how corporate managers make segmentation decisions (segmentation strategy) in an environment that is related to corporate mission (strategic segmentation). For the implementation step, this dissertation assessed how marketing managers made implementation decisions related to available resources and market conditions.

Beyond the method-focused articles above, there have been a few published schemata for segmentation but they are basically atheoretical descriptive pieces (Boejgaard & Ellegaard, 2010; Cross, Belich, & Rudelius, 1990; Jenkins & McDonald, 1997; Piercy & Morgan, 1993; Sausen, Tomczak, & Herrmann, 2005; Wind, 1978). Having multiple schemata (especially without strong theory) creates, at least, inefficiencies in aggregating research results and is supported by the idea of having multiple “schemata for the same phenomenon is dysfunctional” (Hunt, 2010, p. 200). Specifically, none of these articles encompass 1) defining a theoretical basis for how marketing managers choose the number of segments, 2) identifying the relationship between the number of segments and execution, and 3) empirically testing a theoretically defined basis for segmentation decision making. Based on the above, the purpose of this dissertation was to propose and test a unifying, theory based taxonomy to help explain how marketing managers view their markets and execute on segmentation by linking key firm resources to segmentation decisions of marketing managers and providing a demonstrable link between theory and practice.

1.3 Theoretical Approach and Methodology

When looking at the factors that may influence managers with both planning and executing their segmentation, resource gaps are an important limitation in a marketing manager's ability to adapt to fast changing market conditions (Day, 2011). Resource-Advantage Theory (Hunt, 1995: Hunt & Morgan, 1996) provides a basis for understanding management's role in creating strategies and it recognizes multiple types of resources (human, informational, and organizational resources) that relate to a marketing manager's decision-making process and capabilities (Day, 2011; Hunt, 1995).

Day (2011) also notes many organizations are faltering when attempting to keep pace with the market due to the significant growth in the amount of data and the lack of the organization's ability to understand the information contained within the data. He suggests a significant and growing resource shortage exists leading to a deficit in the marketing manager's ability to understand the market's complex nature. Further, Day proposes 'adaptive marketing capabilities' leads to highly dynamic ability to align implementation to a market-oriented strategy and suggests firms without these adaptive capabilities may falter in implementation.

Therefore, in this dissertation two dimensions, along with their related and required resources, must be accounted for to better understand the implications Day (2011) suggests. These two dimensions were selected because they represent the beginning and the end of the strategic segmentation process (i.e. where marketing managers should be most involved) and these dimensions currently lack sufficient theoretical support and empirical testing. The first dimension, labeled the 'strategic market view,' describes the relationship between certain resources associated with market segmentation and how marketing managers view market heterogeneity. This dimension covers resources available to segment the market, which include data availability, skills available to synthesize the data into meaningful insights, and resources available to execute the segmentation plan. A shortage of such resources could explain why marketing managers may ignore heterogeneity and eschew segmentation.

The second dimension, labeled 'strategic market approach,' describes the relationship between certain resources associated with implementing a segmentation and how marketing managers decide if they should be meeting the target segment's demand (delivering market-oriented value) or ignoring the target segment's needs by substituting product differentiation ("bending demand to the will of supply") in the short run (Day, 2011; Hunt, 2011; Smith, 1956, p. 5). Resources in this dimension include products on hand that meet the target segment's need and financial resources available to create such products as to meet demand.

Using these two dimensions, the strategic market view and the strategic market approach, this dissertation proposed a theory-based taxonomy of strategic segmentation and hypothesized that the availability of various resources will affect marketing managers' decisions on their 'view' of the market's heterogeneity and their use of segmentation results to address market demand. To seek support for the taxonomy, hypotheses were empirically tested with marketing managers from the consumer packaged goods industry who were presented with strategic decision-making scenarios.

1.4 Summary

The proposed taxonomy covering marketing managers' strategic market view and strategic market approach, linked to a firm's resource availability related to these dimensions, was expected to provide insights into a substantive, theory-based area of segmentation that is under-researched (an important contribution to marketing theory) and also take a first step toward better explaining why many firms do not exploit the advantages offered by segmentation (an important contribution to marketing management practice). The remaining sections of this dissertation are organized as follows. Chapter 2 provides an overview of three key areas of literature briefly describing the range of segmentation and, within that, strategic segmentation; the principals of classification systems; and Resource-Advantage theory, which were used to define a taxonomy of strategic segmentation. Next, Chapter 3 describes the experimental methods used to gather field support for the taxonomy. Then, Chapter 4 describes the data analysis and findings. And finally, Chapter 5 discusses the conclusions and limitations of this dissertation and offers recommendations for future research.

CHAPTER 2 – LITERATURE REVIEW

This chapter first provides, for context, a brief background on segmentation in marketing. Then, a brief overview of segmentation is presented to clarify the context of segmentation related to this dissertation, particularly covering literature on the levels of heterogeneity of the marketplace, which is a key dimension in the proposed taxonomy.

2.1 The Role of Segmentation in Marketing

Segmentation is one of the most important and widely practiced marketing approaches to understanding consumers' needs in a diverse market (Dibb & Simkin, 2001). As such, firms all sizes and with different target consumers use segmentation. Segmentation descriptions and methods can be found in nearly every introduction to marketing textbook (Drummond & Ensor, 2005; Kerin, Hartley, & Rudelius, 2010; Kotler & Armstrong, 2011; Lamb, Hair, & McDaniel, 2012; Marshall & Johnston, 2011; Palmer, 2009; Solomon, Marshall, & Stuart, 2011). Furthermore, segmentation is the basis of the segmentation-targeting-positioning (S-T-P) strategy taught to most undergraduate marketing majors (e.g., Marshall & Johnston, 2011). For nearly 80 years, researchers and practitioners have been theorizing and investigating the strategy, methods and implementation underlying this important marketing practice (Chamberlin, 1933; Frederick, 1934; Hunt, 2011; Smith, 1956, 1995).

As one could expect from a topic as broadly practiced, researched, and taught as segmentation, academic researchers have produced ample literature. By the beginning of the year 2000, more than 1,600 studies involving segmentation had been published demonstrating “persistent academic interest” in the topic (Wedel & Kamakura, 2000, p. 6). A search for “market segmentation” within article abstracts ("ProQuest," 2012) resulted in more than 1,100 articles published since January 1, 2000, indicating that interest in the topic has continued to grow.

Given the breadth of segmentation research and the occasional ambiguities in terms and constructs, a review of the literature will help inform and focus the reader on the path of this dissertation. The following sections will first cover segmentation and the heterogeneity premise on which segmentation is based. Previous research that is related to the use of classification systems to better understand segmentation will then be summarized. Finally, the Resource-Advantage theory is reviewed illustrating the theoretical underpinnings it offers for a taxonomy of strategic segmentation.

2.2 What Is Segmentation?

Market segmentation is defined as “the process of dividing the total market into a number of smaller, more homogeneous submarkets, termed market segments” (Danneels, 1996, p. 36). In its simplest form, segmentation has been practiced for hundreds of years. Any baker or candlestick maker who offered one product for the rich and one for the less affluent could be viewed as practicing basic market segmentation. In modern marketing, however, segmentation has assumed a prominent role as the first stage in the S-T-P (segmentation-targeting-positioning) marketing approach that is widely taught in business schools and is “among the articles of faith” in business and marketing (Sinha & Rosenthal, 2009, p. 243). Segmentation is used to identify and define segments in the market in which a firm competes and is used to better understand both consumer (Lawson, 2002) and business markets (Barry & Weinstein, 2009b).

According to Piercy and Morgan (1993), segmentation can be performed for strategic, managerial or operational purposes. Strategic segmentation (the focus of this dissertation) is used to help define corporate mission, vision and strategic intent, while managerial segmentation's purpose is to guide resource allocation and marketing planning, while operational segmentation informs sales and marketing operational planning (Piercy & Morgan, 1993).

Since the purpose of segmentation is to identify smaller, mutually exclusive, homogeneous groups within a presumed larger heterogeneous market, it is important to understand the measure of heterogeneity and, by extension, homogeneity (Hunt & Arnett, 2004). The meaning of heterogeneity is relative and varies depending on the context in which the term is applied. A brief conceptualization illustrates the importance of clarity regarding a market's relative homogeneity vis-à-vis the marketing objective.

2.2.1 Heterogeneity vs. Homogeneity

In a market of many individuals, the heterogeneity assumption suggests individuals will vary from each other along certain needs, behaviors or attitudes for a given marketing objective, that is, by presuming heterogeneity we say, "people are different" (Hunt & Arnett, 2004). To increase homogeneity within each segment, firms can define a greater number of segments (and offer a greater variety of products), while reducing the number of segments (and number of products) would increase heterogeneity of each segment, all else equal (Hunt & Arnett, 2004). Since the firm could theoretically reach a "segment of one" and have 7 billion segments, one must ask, when would defining more segments not be valuable to a firm? Ultimately, the economic concept that various groups have different price elasticities and can, therefore, be discriminately priced to increase profit (Chamberlin, 1933; Frederick, 1934) offers an appropriate and generalized test, regardless of the underlying segmentation method, for determining what number of segments create sufficient homogeneity with respect to a marketing objective.

Within a market, some consumers may have higher price elasticity than others for a given offer and, if these consumers can be identified as a segment, a firm can maximize profits on the same product by raising prices to those segment(s) that would pay more and maintaining prices for those with lower elasticity (Chamberlin, 1933; Smith, 1956). At its essence, this is the purpose of market segmentation; to produce superior financial performance (Hunt & Arnett, 2004).

In seeking superior financial performance a firm may choose to alter one or more elements of the marketing mix to each segment (Hunt & Arnett, 2004). However, adaptations for each new segment incur additional costs and require resources that are both heterogeneous themselves and not perfectly mobile (Hunt, 1995). For example, if segments are added that require different promotion and distribution, the firm incurs costs by creating and maintaining multiple promotional messages, making multiple media buys, and managing multiple distribution channels and, therefore, may not have the available financial resources or promotional expertise to manage the promotional execution. Likewise, if segments are offered different products, the firm incurs additional costs for design and production, inventory tracking, *and* additional promotion and distribution costs. Given the firm's objective of improving financial performance, the firm must weigh the costs of addressing additional segments against any increase of profits due to higher price elasticity of the added segments. While analytical methods can show that increasing the number of segments will produce more *theoretically* homogeneous groups, when the additional segments do not lead to superior financial performance *practical* homogeneity has been reached (Hunt & Arnett, 2004). Segmentation, then, is the *practical* division of a market into smaller, more homogeneous groups, a choice where marketing managers must weigh the costs of resources against the potential revenue more discreet segmentation may bring.

2.2.2 Product Differentiation and Market Segmentation

The academic history of segmentation, and much of marketing theory, can be traced to Chamberlin's 1933 economic theory of monopolistic competition (Hunt, 2011). Chamberlin suggested that, unlike markets of pure monopoly or pure competition, the market of buyers and sellers was not homogeneous and "when products are differentiated, buyers are given a basis for preference" (Chamberlin, 1933, p. 69). Chamberlin's view was that many firms compete in a common market and to maximize profit firms needed to practice product differentiation by positioning their product as different from that of each competitor, attempting to create a monopoly over a small portion of the market.

Over several decades, the literature has presented market segmentation as intertwined with product differentiation. Some researchers suggest these are alternative marketing strategies (Smith, 1956), while others suggest they are complementary (Dickson & Ginter, 1987). More recently, Hunt (2011) concluded Smith's use of the term 'product differentiation' does not contradict the premise of a firm assuming a heterogeneous market and therefore the firm could also be engaged in market segmentation. A brief review of economic theory, in particular Chamberlin's (1933) work, is helpful to clarify how these terms evolved and are used today.

Chamberlin's theory of monopolistic competition is grounded in product differentiation where the unit of analysis was the firm, each firm having *one product* and competing in a heterogeneous market. One of Chamberlin's advances over pure competition theory was to use *groups of competitors* rather than a single firm. But, for simplicity of analysis, Chamberlin continued using only a single product per firm. Chamberlin defined the market of competitors where the firms' collective single products are "close substitutes" of the others' offerings (Chamberlin, 1933, p. 81).

It is, therefore, a subtle but important distinction that when Chamberlin was discussing 'groups,' he was referencing groups of competitors, each with a single product. Chamberlin states, for example, "…individual products possess distinctive features…[that result in] a variety of curves of cost of production *within* the group…[where the increase in] sales may be drawn unevenly from the markets of other members of the group…" (Chamberlin, 1933, p. 149, italics added). Chamberlin also states, "each 'product' has distinctive features and is adapted to the tastes and needs of those who buy it" (Chamberlin, 1933, p. 81). He was not referencing groups of competitors each with multiple products; he was referencing groups of competitors whose single products were close substitutes for each other.

We know from observation that firms offer multiple products aimed at different segments. General Mills, for example, markets multiple types of cereals, from Fiber One for health-conscious adults to Lucky Charms for kids seeking magically delicious breakfasts. Proctor and Gamble markets multiple types of soap products and Apple produces various types of Macintosh computers (both portables and desktops for both consumer and business users). Toyota segmented the market to the extent of creating a new brand (Lexus) to differentiate a level of quality and features above the previously top-of-the-line Camry.

As described earlier, there are practical limits to defining evermore-homogeneous segments and, likewise, there are practical limits to altering production to meet various demands. Smith notes there are times the "marketer should accept *divergent* demand as a market characteristic…and adjust marketing strategy accordingly" (Smith, 1956, p. 4, italics in original). In such an environment, the marketer can attempt to produce a single product covering as many needs of the heterogeneous market as possible and use promotion to converge marginal demand upon supply (Smith, 1956). That is, the firm would ignore heterogeneity and attempt to find the "center" of the market's needs. Aiming promotion and distribution to this center point would maximize value exchange for the firm and consumers whose needs were at the center point and extend to consumers whose needs were close enough to those being addressed. This view supports and explains the actions of mass marketers approaching a heterogeneous market as if it were a single homogenous market (Hunt & Arnett, 2004).

Based, then, on the work of Chamberlin (1933) and Hunt (2011), and adapting these to Danneel's (1996) definition, this dissertation defines market segmentation as the dividing of a market into smaller more homogeneous sub-markets for the purpose of better understanding the needs of each sub-market and ultimately offering physically different products to seeking superior financial performance. Likewise, based on Chamberlin (1933), Smith (1956) and Hunt (2011), this dissertation defines product differentiation as offering substantially the same product to multiple segments but attempting to meet the segments' needs not through physically different products but via variations in distribution and promotion.

Figure 1, adapted from Smith (1956), illustrates these two definitions. Product segmentation is supply driven and tries is "bending of demand to the will of supply," whereas market segmentation is demand driven and is an "adjustment of product and marketing effort to consumer or user requirements" (Smith, 1956, p. 5)

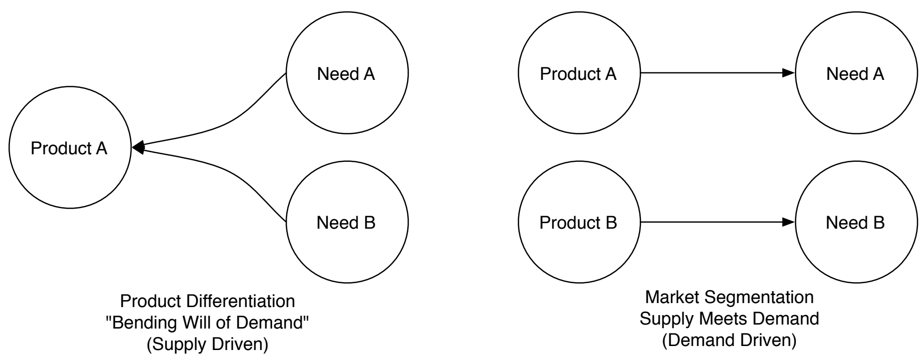

Figure 1. Supply- and Demand-driven Market Approaches

2.3 The Significance of Classification Systems for Research

The importance of classification systems is fundamental to scientific investigation as they are "the primary means for organizing phenomena into classes or groups that are amendable to systematic investigation and theory development" (Hunt, 1991, p. 177). The practicality of classification can be illustrated by imagining an evolutionary biologist visiting the Smithsonian to evaluate morphology of bird feathers. The scientist is shown to the collection room and upon opening the first drawer finds a random assortment of fossils, minerals, civil war buttons, baseball cards, computer disks, and two feathers.

Little progress can be made on her scientific research until all the birds' feathers are collected together in an orderly manner. Having no classification system or "having a variety of nonstandard classification schemata for the same phenomenon is dysfunctional" (Hunt, 1991, p. 177).

A distinguishing feature of a taxonomy is its empirical basis of classification of actual objects' characteristic(s) (Hair, Black, Babin, & Anderson, 2010). A classification system can be defined using a single dimension, for example objects with (and without) legs. But most useful classification systems are defined by at least two dimensions (Bailey, 1994), for example objects with legs that are either animate or inanimate separates animals from tables and chairs.

Researchers use taxonomies to better understand and compare phenomena to be studied and multiple scientific philosophers have noted the importance of classification including Hempel (1966) and Hunt (1983). Taxonomical views are important to understand dimensions of the phenomenon as demonstrated by observations and are particularly useful when documenting normative patterns of a phenomenon (McKelvey, 1975). Without the ability to classify a phenomenon, such as segmentation, it is difficult for researchers to perform consistent and comparable research (Hunt, 1983).

As described in the next section, much of the literature on segmentation taxonomy cites Wind's (1978) article, which has the advantage of being normative (i.e. based on common practice), but the disadvantage of being atheoretical, making hypothesis-based testing difficult. The next section reviews each of the articles related to segmentation schemata found in literature and discusses the advances and limitations of each.

2.3.1 Related Studies: Strategic Segmentation and Classification

In reviewing the literature of segmentation classification, to date, there have been several research articles focusing on conceptual segmentation categorization but without empirical testing (Boejgaard & Ellegaard, 2010; Jenkins & McDonald, 1997; Piercy & Morgan, 1993; Wind, 1978). Cross et al. (1990) created and tested a classification based on segmentation execution and, finally, Sausen et al. (2005) used Jenkins and McDonald's two-by-two matrix as a basis for empirical testing of strategic segmentation. However, scant evidence has been gathered to date seeking support of a theoretically-derived taxonomy. This section reviews the six articles published in marketing journals with some form of classification of segmentation. These articles are shown in Table 1 and then followed by a brief overview.

Wind's (1978) article on segmentation practices sets out to define the steps taken in normative segmentation that are common to consumer and industrial segmentation. He categorizes segmentation activities into five phases defining each and discussing typical issues encountered during planning and execution. The phases defined are apparently primarily based on Wind's experience but citations for each phase are provided to help the reader understand current research within each phase.

In an exploratory study, Cross et al. (1990) reviewed the relationship between strategy and segmentation then classified segmentation activities into groupings of high-level steps. However, no formal taxonomy was produced. The authors found wide variation in the activities performed by firms and suggested, therefore, that managers were faced with a large set of tradeoffs that formed how they approached segmentation.

Table 1

Studies on Strategic Segmentation or Segmentation Classification

Author(s)	Research Question	Relevance	Limitations
Wind (1978)	What are the problems and perspectives of segmentation in consumer and industrial marketing?	The first article proposing a structure to the full segmentation process, defining steps and activities within each step.	Summary of observations on segmentation, not qualitatively developed, and atheoretical.
Cross, Belich, and Rudelius (1990)	How do marketing managers make segmentation implementation decisions and what are those decisions?	This exploratory study is the first to approach understanding segmentation by categorizing activities but is largely based on Wind (1978).	Implementation only, limited scope, based on atheoretical work.
Piercy and Morgan (1993)	What is the strategic view of segmentation?	A literature review and theoretical article that argues segmentation can be performed at different levels, strategic, managerial and operational. Suggests strategic segmentation is aligned with mission, vision, and strategic intent.	Defines only one-dimensional schema and does not empirically test.
Jenkins and McDonald (1997)	What are the explicit and implicit views of segmentation?	Using four “illustrative” case studies, the authors describe how segmentation varies within organizations and defines the strategic level as having high customer focus and high corporate integration.	Creates schema based on a small number of case studies, does not follow grounded theory approach and, therefore, produces atheoretical schema.
Sausen, Tomczak, & Herrmann, (2005)	What is the taxonomy of strategic segmentation that addresses the firms’ need for resolving a marketing objective and using the correct unit of analysis?	Defines strategic segmentation based on Jenkins and McDonald and performs an empirical study producing a 2 x 2 taxonomy showing four segmentation approaches.	Testing based on atheoretical schema.
Boejgaard & Ellegaard (2010)	What does the literature tell us about industrial market segmentation?	Based on literature review, proposes a taxonomy of three groupings of activities firms should undertake for successful industrial segmentation implementation.	Focus on industrial (vs. consumer) segmentation, and on activities instead of dependent variables. Does not empirically test the developed schema.

Following this study, Piercy and Morgan (1993) provided a larger context for segmentation and defined three levels at which segmentation could be performed: strategic, managerial, and operational. Strategic segmentation aligns closely with the definition of strategy formulation presented above covering segmentation's role in answering mission, vision and strategic intent. Managerial segmentation is aligned to market planning and resource allocation—but, notably, not resource selection, and operational segmentation aligns with operational marketing and sales management. The authors suggest the three types of segmentation should be linked within a firm so direction set through strategic segmentation is viable when operational segmentation is executed. Pointing to the importance of strategic segmentation research, the authors note, "…there have been few serious attempts in the available literature to formalize the underlying theoretical base implicit in most segmentation models, or to attempt to find empirical support." (Piercy & Morgan, 1993, p. 138).

Using four case studies, Jenkins and McDonald (1997) define a two-by-two matrix with one axis being how "customer driven" the firm's segmentation process is and the second axis describing the level of "organizational integration" the segmentation results are used. Strategic segmentation is defined as highly customer driven with high organizational integration, meaning the firm is using segmentation to look from the customers' view, as opposed to a product or organizational focus, and the results are then consistently disseminated and used throughout the firm.

Sausen, Tomczak and Herrmann (2005) define strategic segmentation as that which is both customer driven and highly integrated into the organization's strategy. This view was based on Jenkins and McDonald but also in contrast to Piercy and Morgan

(1993). Using surveys of 69 Swiss marketing managers, Sausen et al. (2005) produce a two-by-two empirical taxonomy that defines market-induced segmentation as one axis and customer-induced segmentation as the other. Market-induced segmentation approaches “seem to start with the whole market, which becomes broken down into smaller segments in a top-down approach. Therefore, it appears that they are induced by the search for market opportunities” (Sausen et al., 2005, p. 166). Customer-induced segmentation includes objectives such as customer acquisition and retention. The former would fall more closely within the category or strategy formulation while the latter is more aligned with strategy implementation or “managerial” segmentation, as defined by Piercy and Morgan (1993).

Finally, Beojgaard and Ellegaard (2010) produced a non-empirical taxonomy of segmentation activities for industrial segmentation based on an expansive literature review. The paper significantly clarifies a large base of literature on segmentation for researchers and industrial managers. However, its focus is conceptual and on segmentation implementation where the authors ironically note their article as being “one more in a series of non-empirical articles, …adding to the described imbalance between theoretical and empirical research” (Boejgaard & Ellegaard, 2010, p. 1298).

While these articles contribute to the topic of classification of strategic segmentation, they do not provide the following key insights: 1) a taxonomy of strategic segmentation, 2) a recent, empirically tested view of strategic segmentation practices, 3) an investigation of segmentation at the strategy formulation level and its relationship to resources, and 4) information to help understand the theory-practice gap in segmentation. For these reasons, as noted in the introduction, an empirically tested taxonomy is sought to provide better unification of the existing frameworks and seek support for a taxonomy that may explain why marketing managers so often eschew segmentation.

2.4 Resource-Advantage Theory and Proposed Research

This section first outlines Resource-Advantage theory (RA theory), which explains how a marketing manager's resources may limit their ability to build or execute a strategic segmentation. Next an outline of the taxonomy under which firms would have different *views* of the market's relative heterogeneity and why firms may have different *approaches* for their market strategy based on resource availability. Following the general outline, a more detailed description is tied specifically to RA theory to define the proposed taxonomy.

2.4.1 Overview of Resource-Advantage Theory

RA theory (Hunt, 1995; Hunt & Morgan, 1996) is a theory of business based on firms' varying capacity to obtain needed resources to compete. RA theory's tenets are a) markets are heterogeneous across and within industries; b) the firm's resources include human, informational, and organizational resources; c) resources vary in cost and are imperfectly distributed; d) consumer information is imperfect and costly; and e) the role of management includes creating strategies (Hunt, 1995). Given these precepts of RA theory, when strategic segmentation is used, managers must rely on imperfectly available and costly resources to segment a heterogeneous market, and the availability of the required resources will have an effect on the value produced. Likewise, once the market is segmented, managers would be expected to take action on the segmentation results where, again, resource availability may hinder the manager's desired actions.

On the whole, RA theory provides a foundation for how firms behave along a continuum of no segmentation (ignoring heterogeneity or choosing to view the market as homogeneous) to segment-of-one segmentation. Variation within this range of how managers view segmentation can be explained by the firms' access to resources to both perform and act on segmentation.

2.4.2 Overview of Strategic Market View and Strategic Market Approach

In the high-level taxonomy of strategic segmentation proposed in this dissertation, there are two dimensions: 1) the strategic market view and 2) the strategic market approach. These two dimensions are inter-related and describe the alternatives firms have where resource availability relates to 1) the firm's view of the relative heterogeneity of the market and 2) to the firm's market approach.

As described earlier, how firms choose their strategic market view—i.e., how they perceive and act on the relative heterogeneity of a market—may not be only a matter of the reality of the market's heterogeneity, but may be influenced by the resources available to *practically* segment the market. Various authors support this view by concluding segments must be reachable and actionable by the firm (e.g., Angell, Megicks, Memery, Heffernan, & Howell, 2012; Green & Krieger, 1991; Pires, Stanton, & Stanton, 2011). The firm may correctly conclude the market requires many segments to be *effectively* addressed. But, if the firm's resources do not allow these segments to be *efficiently* addressed so as to be profitable, the firm's 'view' of the market is based on practicality and is, therefore, less heterogeneous so the firm segments the market thusly. The firm then must make a tradeoff to either accept broader marketing on fewer strategic segments that are more heterogeneous or select differentiated marketing to more segments that are less heterogeneous.

Likewise, when a firm addresses a new segment's needs the firm may choose to either use the existing marketing mix, requiring fewer resources, or use a new marketing mix (e.g. a new product or distribution channel) designed for the targeted segment, thereby requiring more resources. If the firm chooses to use existing resources the firm is 'supply-driven' (after Smith, 1956) and is attempting to attract the segment with the only values the firm can currently offer. In such a case where the firm is resource constrained, the firm may approach the segment by only changing promotional messages or distribution in an attempt to 'bend demand.'

However, if the firm is able to expend resources, the firm may be willing to update its marketing mix beyond just promotion and development of a new product and distribution channel, as well as update promotion to convey the value of the new offering. Such a firm is demand-driven (Smith, 1956). Assuming the relationship between available resources and how a firm approaches the market exists, the supply-driven firm would seek information about the segments that would help the firm adapt its promotion (and possibly distribution) to maximize its understanding of how to communicate the values of its current offering in order to bend demand. Likewise, the demand-driven firm would seek information about the segments to help it maximize its understanding of how to create an offering that best meets the segment's needs.

Since managers' selection of their position on both axes is dependent on resources decisions—resources to efficiently address segments and resources to meet segment needs—RA theory (Hunt & Morgan, 1996) is used to explain the motivations and selections of managers when choosing their position in the strategic segmentation taxonomy. This high-level taxonomy, then, describes how firms view the relative heterogeneity of the market (strategic market view) and how firms approach the market based on resource availability (strategic market approach). It is proposed that any given firm can be placed within a two-dimensional context representing the firms' selected strategic market view (SMV) and strategic market approach (SMA) in their effort to gain superior financial performance. However, each dimension can be described more discreetly allowing firms to be more accurately placed in the taxonomy. The following sections describe this taxonomy of the SMV and the SMA in more detail and provide linkages to RA theory.

2.4.3 The Strategic Market View

The SMV dimension describes a continuum of market segmentation views based on a firm's assumptions of the market's relative heterogeneity. Firms that engage in segmentation can be placed into one of four categories: 1) mass marketers, 2) concentrated marketers, 3) differentiated marketers, and 4) segment-of-one marketers (Babin & Harris, 2012). These categories form the SMV dimension of the strategic segmentation taxonomy and are described in this section.

Each of these categories, shown in Figure 2 along the vertical axis, is represented in a continuum of a firm's SMV. At one end of the continuum, mass marketers, having few segmentation resources, may view the market as homogeneous. At the other end of the continuum, segment-of-one marketers, having significant segmentation resources may view the market as highly heterogeneous. On the horizontal axis, firms with fewer execution resources may act as supply-driven and approach the market with products at hand and, when the current marketing mix does not meet segments' needs, may choose to 'bend demand' or seek another market. Firms with ample execution resources may act as demand-driven and, when the current marketing mix does not meet segments' needs, may create new offers to specifically address the needs of the targeted segments.

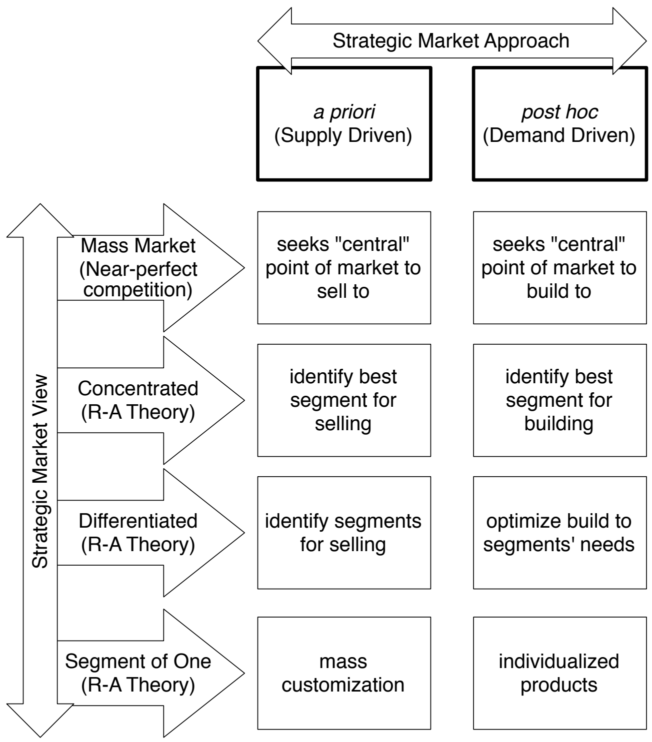

Figure 2. Taxonomic Framework

Firms have a choice as to how they approach segmentation, or even if they use segmentation. Marketing managers may *choose* not to use segmentation, effectively concluding there is only one general group in the market with relatively clear needs and would be described as "ignoring heterogeneity" (after Hunt, 2011). This approach would more "properly be considered an *alternative* to market segmentation" (Hunt, 2011, p. 81 italics in original). Marketing managers may also only choose a few focused segments and be termed 'concentrated marketers' or choose to address many segments and be termed 'differentiated marketers.' Finally, firms may have the operational abilities and skills to understand and address the needs of individual customers, or to promote and distribute the products based on individual consumer's preferences. Firms in this category are labeled 'segment-of-one' marketers and are "willing and able to change…behavior toward an individual customer based on what the customer tells [the firm] and what else [the firm] knows about that customer" (Peppers, Rogers, & Dorf, 1999, p. 151).

Firms will vary their segmentation discreteness depending on their *ability to gather and use* the information required to perform a given level of segmentation (Snellman, 2000). This argues that as advances in segmentation methodologies provide better segment information at increasing rates of efficiency, firms that currently ignore heterogeneity may choose to segment at a later time. That is, firms in the mass marketer category are not philosophically rejecting segmentation but practically rejecting it. As resources become available, they may choose to 'move up' the SMV continuum. Therefore, as shown in Figure 2, firms whose segmentation activity is essentially "no activity" appear on one end of the SMV continuum.

Much like RA theory, the SMV dimension reflects the range of approaches to segmentation (including the choice of not segmenting) and, therefore, includes the extremes from perfect competition to segment of one, which Hunt calls "the ultimate segment" (Hunt, 2000, p. 11).

2.4.4 The Strategic Market Approach

The SMA dimension describes a firm's motivations for approaching the market for strategic segmentation and can be described by two categories, 1) *a priori* and 2) *post* *hoc*. Green (1977) and Wind (1978) defined these categories to encompass firms that approach the market with either a product "in hand" or firms seeking to understand customer needs and then develop a product to meet those needs.

2.4.4.1 A priori *firms.* If a firm does not already have a product that closely meets a target segment's needs, the firm has an option to either acquire resources to create the product to meet consumer needs or attempt to persuade the customers their needs can be met with the existing offer (Yankelovich & Meer, 2006). Firms in the latter category can be termed *a priori* firms as they have decided before the fact to use the resources at hand to improve their financial performance (Wind, 1978). These firms do not seek to alter the supply but take a product differentiation approach to strategic segmentation in order to understand how to 'bend demand' to the available supply (Smith, 1956).

2.4.4.2 Post hoc *firms.* Alternatively, firms in the *post hoc* column in Figure 2 are approaching the market without a bias toward existing products or resources. These firms would believe that, if they can discover unmet needs, they might acquire the resources needed to create products for given segments (Wind, 1978). Therefore, all required resources might not be accessible to these firms prior to performing segmentation and the appropriate resources are sought *post hoc* of segmentation (Green, 1977; Yankelovich & Meer, 2006). *Post hoc* firms are executing a long-run strategy and are 'demand driven' in that resources to meet the segments needs may need to be acquired and assembled into a functioning offer prior to engaging the segment (Smith, 1956; Wind, 1978).

2.4.4.3 Implications of a priori *or* post hoc *choice.* Regardless of being *a priori* or *post hoc*, both approaches involve risk. For *a priori* firms, the firm is taking advantage of the resources at hand but may suffer from long-run competitive pressures as *post hoc* firms begin to better address consumer needs. However, *post hoc* firms may face market shifts that occur faster than their ability to acquire and deploy the necessary resources and take less advantage of market share in the short-run.

Both firm types may perform strategic segmentation and both firm types can use data about the segments (gathered in the implementation step) for targeting, positioning, and to guide strategic distribution and promotion choices. Additionally, both firm types may have multiple products that are differentiated both intra-firm and intra-market. *A priori* firms may differentiate from other firms due to imperfect access to resources, essentially by default; whereas *post hoc* firms may differentiate systematically in an attempt to better meet segments needs and enter a competitive market.

2.5 Hypotheses and Theoretical Basis

As described above, firms may view the market as having varying levels of heterogeneity (Strategic Market View) and firms may also choose to approach the market with a bias toward using existing supply or meeting existing demand (Strategic Market Approach). The following section describes how resource availability may influence a firm's 'view' on levels of heterogeneity of the market when performing strategic segmentation. Following that, and building on the previous descriptions (section 2.2.4 and 2.2.5), is a description of how supply-side and demand-side resource variation may cause firms to make choices as to how they approach the market with current or existing products and how resources influence these choices. Because Resource-Advantage theory (Hunt, 1995) deals with the effect of resources on the theory of the firm it is well suited to address how resources availability may affect managers' segmentation decisions.

2.5.1 Firm's Strategic Segmentation Decision Flow Chart

Figure 3 is a decision tree illustrating how resources are related to the decisions firms face when contemplating strategic segmentation. Each decision in the tree highlights a hypothesis related to resource availability. These hypotheses are covered in the next section.

2.5.2 Strategic Market View: RA Theory and the Heterogeneous Market

Managers choosing strategic segmentation as a method to improve financial performance would start at the beginning of the decision tree in Figure 3. The first decision facing managers at the firm is, "Are there sufficient resources (e.g. data, expertise) available to segment the market?" If a firm had insufficient resources to accomplish segmentation, the firm would not perform segmentation and, by default, approach the market as a mass marketer. If there were sufficient resources to perform segmentation, managers would then need to consider how many segments could be managed operationally. Because each segment may require some combination of different product, distribution channel, and promotional messaging, the resources available to the firm may limit the number of segments the firm can address. If such limits apply, managers may choose only to address a relatively small number of segments (perhaps even just one) and the firm is a concentrated marketer. If the firm has the resources to address many segments, the firm acts as a differentiated marketer or, assuming individualized offers, a segment-of-one marketer. The outcome of this resource consideration in the strategic market view is that an approach to segmentation is selected based on resource availability, segmentation is performed, and segments are selected.

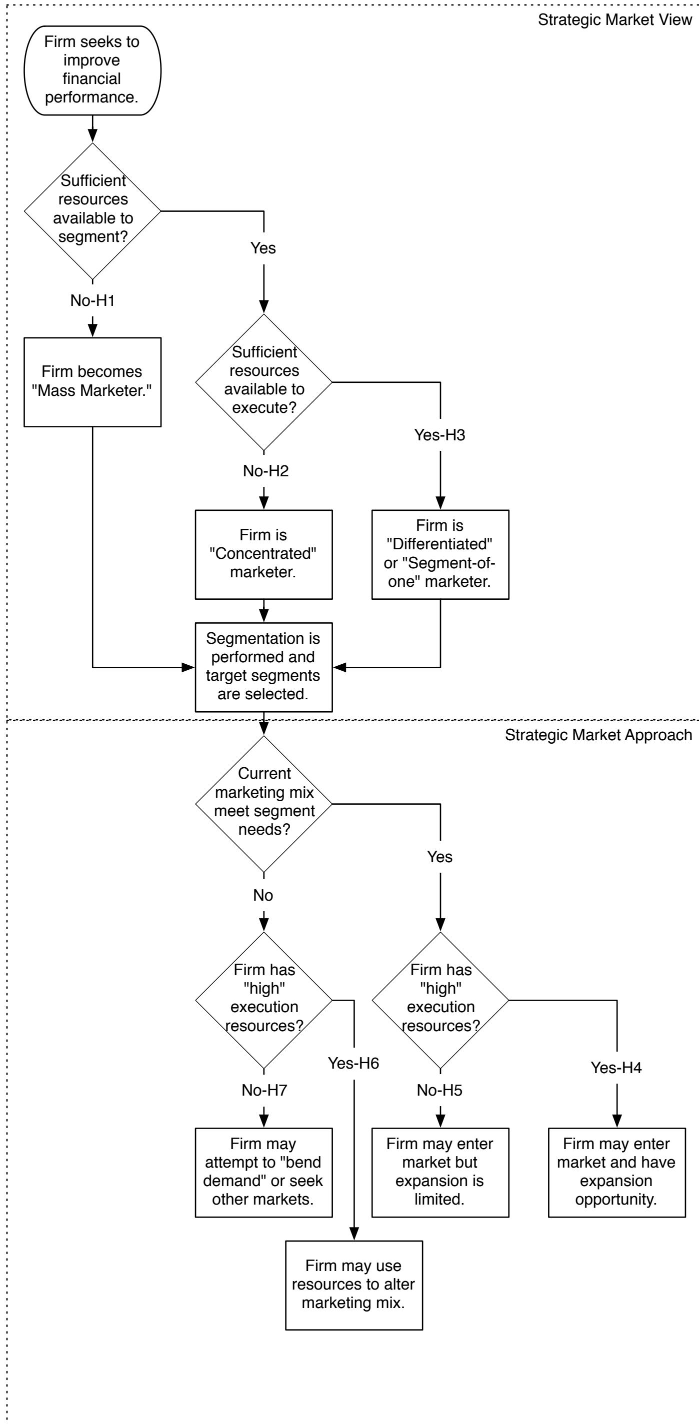

Figure 3. Firm’s Strategic Segmentation Decisions

In the first step of the decision tree, RA theory accounts for firms that choose to ignore heterogeneity and address the market as if it was a monolithic entity and does so by encompassing neo-classical perfect competition as “a special case” (Hunt, 2000, p. 105) within RA theory. Within neo-classical perfect competition, the market is perfectly competitive having no variation in price elasticity and therefore, no segments (Hunt, 2011). As such, firms that have no ability to gather data or no ability to produce a segmentation of the market from the data would adopt a homogeneous market view (Hunt, 1995). Therefore,

H1: *Managers who perceive they have insufficient resources to effectively segment the market will more likely adopt a view of their market being homogeneous than managers who perceive they have sufficient resources.*

Assuming the firm perceived sufficient resources were available to segment the market, the firm is faced with the question as to how effective an execution can be if the number of resulting segments is high. RA theory “stresses the importance of market segments, [and] a comparative advantage (disadvantage) in resources” (Hunt, 2000, p. 11). As noted, RA theory describes markets, both supply and demand, as heterogeneous (Hunt, 1995). Under RA theory, firms will have a comparative advantage “when a firm’s resource assortment enables it to produce a market offering that, relative to extant offerings by competitors, (a) is perceived by some market segment(s) to have superior value and/or (b) can be produced at lower costs” (Hunt, 1995, p. 323). To identify the value proposition sought by segments a firm must identify the segments as part of a marketing strategy (Tarasi, Bolton, Hutt, & Walker, 2011). However, even when a firm can identify many segments, if the firm lacks execution resources it may be unable to address them. Such a firm may focus on only one segment, which may need to be sufficiently large to generate adequate sales (Hunt & Arnett, 2004). Managers at these firms may see the effort to segment (and therefore view) the market as highly heterogeneous as time and effort spent to no advantage. That is, viewing the market as only moderately heterogeneous is aligned with the firm's ability to execute. Therefore,

H2: *Managers who perceive they have sufficient resources to effectively segment the market but insufficient resources to operationalize the resulting segmentation will more likely view their market as moderately heterogeneous when compared to managers that have few resources.*

Some managers may be directing firms with more available resources to create segmentation and to execute on the segmentation. These managers, flush with resources, may focus on not just creating more segments but then executing on the segments in an *a priori* manner (Hunt & Arnett, 2004; Wind, 1978). With greater resources to both segment the market and execute on the segmentation, managers could gain advantage of maximizing price elasticity across segments and leveraging available resources (Hunt, 2011; Hunt & Arnett, 2004) and should adopt a view of the market as more heterogeneous. Therefore,

H3: *Managers who perceive they have sufficient resources to effectively segment the market and have sufficient resources to operationalize the resulting* *segmentation will more likely view the market as highly heterogeneous when compared to managers that have few resources.*

Once a firm's managers have established a view of the market and completed a market segmentation based on its view, managers must take action and choose how to approach the market. The needs of the target segments could dictate the firm's objectives, and resources at hand to accomplish the objectives may vary. Therefore, after segmentation is complete, managers are faced with a new set of decisions regarding tradeoffs between the segment(s)' needs and available resources to meet those needs. The choices managers make amongst these tradeoffs define the firm's strategic market approach. The following section describes the relationship between resources and the strategic market approach.

2.5.3 Strategic Market Approach: RA Theory and Resource Dependency

At this point in the decision tree (horizontal dotted line in Figure 3), managers in a firm will have identified the market segment(s) they intended to target and the needs of the targeted segments will have been described as part of its strategic segmentation research. Now, the firm must address the segments' needs and may or may not have the resources at hand to meet the needs of the targeted segments. RA theory defines all resources as "the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s)" (Hunt, 2000, p. 11). These resources are not uniformly dispersed and are imperfectly mobile and, therefore, firms must choose how to use the resources they have or how to acquire resources they need (Hunt, 1995).

Within this context, resources to meet the target segment's demanded value proposition are encompassed by a) a product that meets a need, b) a distribution network, c) promotional channels, and d) operational capabilities. Since resources are imperfectly mobile, acquiring resources not currently at hand incurs varying costs wherein tradeoffs occur (Hunt, 1995; Porter & Millar, 1985). If competitors are better aware of how a resource may meet consumers' needs, the value of that resource rises as competition for it grows. Hence, imperfect information about the need for a resource leads to a potential to under- or over-value the resource and is a weakness for the firm with lower-quality information (Porter & Millar, 1985). The choices of which resources to give up and which to obtain represent strategic tradeoffs the firm must make between short-term profit improvements and the possibility that competitors may choose to acquire resources to better meet customer needs over the long-term (Porter & Millar, 1985).

The first decision managers of the firm face is an assessment between existing resources and the demands of the target segment(s) (Wind, 1978). If the firm happens to have at hand a marketing mix (product, promotion, distribution and price) that meets the demands of the targeted segment(s), then managers are more likely to enter the market (Hunt, 1995). Managers in this category do not need to bend demand to meet supply at hand since their supply is aligned to demand (Smith, 1956). In addition, if the firm has ample liquid resources (e.g. cash) to quickly ramp up supply to meet the quantity demanded from the target segments, the firm is well positioned for competitive advantage and to achieve superior financial performance. Therefore,

H4: *Managers at firms with high alignment between the marketing mix and segment's needs and with high available cash are more likely to enter into* *segment's market immediately and then expand into the segment's market than firms with low alignment and low available cash.*

However, though companies with high alignment between their marketing mix and the target segments needs are likely to enter the market to take advantage of their superior resource position (Hunt, 1995; Hunt & Morgan, 1997), those same firms that are faced with low cash reserves are constrained from expanding due to a shortage of resources (Hunt, 1995). Available resources beyond the marketing mix at hand may be constrained such that the managers may not be able to quickly meet the quantity demanded of the target segment(s) (Hunt & Morgan, 1996, 1997). Therefore,

H5: *Managers at firms with high alignment between the marketing mix and a segment's needs but with low available cash are more likely than firms with high alignment and high cash to enter into the segment's market immediately but not expand.*

However, it is possible that firms may not be fortunate enough to have the marketing mix at hand demanded by the target segments. In this case, the managers are faced with the difficult market approach decision of bending demand or altering supply (Hunt, 2011; Smith, 1956). If there are sufficient liquid resources available to improve the firm's marketing mix, managers may choose to do so. If a manager decides to do so, she is, by definition, taking a long-run approach to the market due to the time required to acquire and implement the new resources (Hunt, 1995, 2011). Firms in this category are demand driven and managers will decide to enter the market only after acquiring the resources needed to meet the segment's needs (Hunt, 2011; Wind, 1978). Therefore,

H6: *Managers at firms with low alignment between the marketing mix and a segment's needs but with high available cash are more likely than firms with low cash to not enter the segment's market immediately but acquire resources to meet the segment's needs.*

Finally, some firms find themselves without an adequate marketing mix to meet the targeted segment's needs and without sufficient liquid resources to acquire the needed resources to meet the segment's needs. Managers at these firms are then, by default, supply-driven and may choose to "bend demand" through extrinsic product differentiation in attempts to sell existing inventory to the target segments (Hunt, 2011; Smith, 1956). Because these firms' marketing efforts do not involve improvements to operations or product they are more likely to use promotion and distribution in an attempt to gain sales with the target segments by bending the segments toward the available product supply (Hunt & Arnett, 2004; Smith, 1956). Therefore,

H7: *Managers at firms with low alignment between the marketing mix and a segment's needs and low available cash are moderately likely to enter the segment's market immediately and more likely to only alter promotion and distribution of the marketing mix.*

CHAPTER 3 – METHODOLOGY

This section describes the methodology used to empirically test hypotheses regarding the relationship between key firm resources and both the firm's strategic market view and strategic market approach. To accomplish this, an experimental methodology similar to those used by other researchers (Aaker, Fournier, & Brasel, 2004; Andrade, Kaltcheva, & Weitz, 2002; Monga & Lau-Gesk, 2007) and nearly identical to Wheeler and Berger (2007) (with two separate two-by-two experiments) was employed.

Managers with strategic segmentation experience in their career were the ideal targets for this dissertation. Often participation in surveys is restricted by corporate policy due to confidentiality. Using an experimental scenario that was realistic, but not actual, provided an additional advantage in that managers would likely be more willing to respond to the scenarios instead of sharing actual decisions made at their firms. This also helped to reduce social and selection bias that may occur when respondents are asked for their 'actual experience.'

3.1 Research Design

The instrument used was a combination of two separate two-by-two, between subjects scenarios, one to test the hypotheses related to strategic market view (H1 to H3) and one to test the hypotheses related to strategic market approach (H4 to H7) (refer to Figure 3 in previous section). Once participants met the qualifications of the survey, they were randomly assigned to one cell in both of the two scenarios. Therefore, each participant received two treatments, one to evaluate resources as related to the strategic market view and one to evaluate resources as related to the strategic market approach.

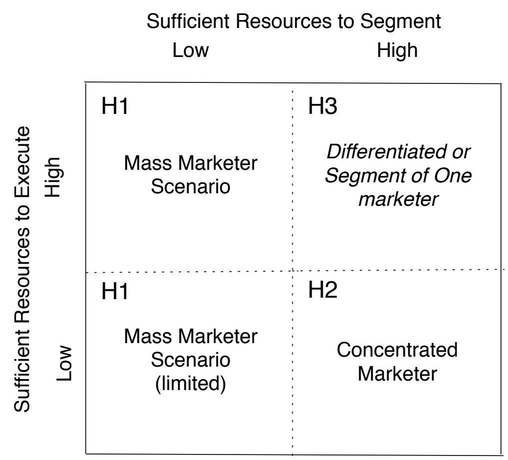

Figure 4. Strategic Market View Variations

In the strategic market view treatment (see Figure 4–hypotheses coded within each cell for ease of reading), participants were provided a scenario that described a hypothetical role they were to assume as a "recently hired head of marketing" for an growing firm, Albrach, which operates in the consumer packaged goods (CPG) industry. The participant was given background information on why Albrach was seeking to perform a strategic segmentation of the consumer market and was then provided with one of four alternatives regarding the resources available to both perform and execute the segmentation. The scenarios varied the available resources Albrach had related to performing segmentation (e.g. data, statistical knowledge, previous segmentation experience) and the resources Albrach had to execute a strategic segmentation (e.g. manufacturing capacity, access to distribution channels, etc.). The participant was then asked to identify the number of segments they would recommend to be *identified* in the market and the number of segments that should be *addressed*.

As a logical function of the experimental flow, managers finding themselves in the scenario of having insufficient resources to segment would, by definition, not execute on the segmentation (since the segmentation would not exist). That is, if segmentation cannot be performed, having sufficient resources to execute the segmentation is moot. Thus, a respondent categorized in the Low/Low cell and High/Low cell were both considered as viewing the firm as mass marketer, with those in the Low/Low cell limited by their ability to expand. When testing hypothesis one, these two cells were collapsed and analyzed as one group of respondents.

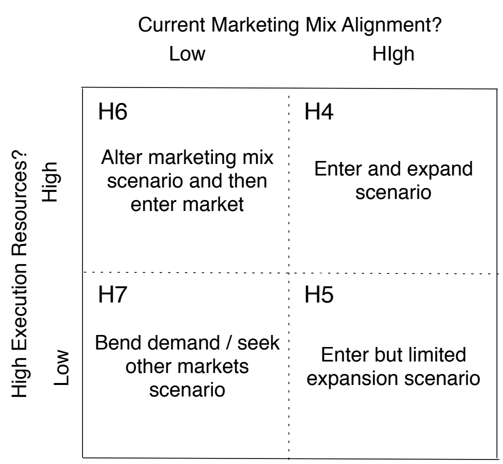

Figure 5. Strategic Market Approach Variations

In the second experiment, participants were exposed to treatment conditions that represented the strategic market approach conditions (see Figure 5). This scenario explained that Albrach's president accepted the recommendations made by the respondent in the previous scenario and further analysis of the selected primary target segment had been performed. During the narrative (see Appendix A for full scenario) the participant was provided information as to the available cash position of Albrach (high or low) and the results of the market research on the target segment (high or low alignment with Albrach's current marketing mix). The participant was then asked a series of questions regarding the likelihood of them recommending a) entering the market, b) expansion beyond the original segment, c) altering the *product*, d) altering the *promotion or distribution*. The combination of the respondents' answers allowed the responses to be compared to the proposed taxonomy and to test hypotheses four through seven.

3.2 Participants

3.2.1 Unit of Analysis

Because information was sought about the choices marketing managers make when faced with performing a strategic segmentation, the unit of analysis is the individual marketing manager. Specifically, participants who would likely have experience making decisions related to strategic segmentation (i.e., management within a marketing department) were used in the current study. Titles for these positions vary, particularly with the size of the organization, and range from manager, director, and vice president, to chief marketing officer.

Since strategic segmentation is about determining market segments that align with the *corporate* mission, vision and strategic intent and then taking action with respect to the segments (Piercy & Morgan, 1993), this dissertation used managers who would likely be responsible for strategic segmentation to better align responses with the object of study. Therefore, respondents were selected if they had at least five years of marketing experienced and direct involvement in at least one segmentation planning project.

3.2.2 Target Consumer Type

The potential heterogeneity of consumer markets suggests that firms that create products for individual consumers (labeled as "B2C"), versus firms that create products for industrial consumption (labeled as "B2B"), offer a richer environment in which to study segmentation. For example, Barry and Weinstein (2009a) argue that lifestyles, which are used in B2C segmentation, are much more prevalent in B2C populations than B2B. They also argue that job security goals of employees in B2B firms likely translate to the employees being more risk adverse, therefore less variable, than consumers.

In addition, B2C segmentation has the potential to produce more segments than B2B because of two factors: 1) with 300 million consumers over the age of 13 within the U.S., the servable market is quite large and 2) significantly more customer data is available for individuals than for businesses providing the opportunity for more sophisticated segmentation schemes (Becker, 2012). One could argue these factors should decrease the limits B2C firms would face in attempting to create more sophisticated segmentation schemes and, therefore, would increase the likelihood managers in B2C firms would be more experienced participants. As such, firms serving individual consumers, versus industrial consumers, were selected for this dissertation. Due to the large number of industries that serve individual consumers, this selection was narrowed further, as discussed in the next section.

3.2.3 Industry

There are many industries that provide products and services directly for individual consumption, for example banking, automotive, and pharmaceuticals industries. However, the consumer packaged goods (CPG) industry was selected based on its size and importance to commerce within the United States, and CPG products are directly linked to individual consumers' choice to spend. The CPG industry represents approximately $2 trillion dollars in the United States (Lawrie, Brown, Leaver, & Sedov, 2009) and covers a broad array of products that consumers purchase regularly for consumption including food, household supplies, paper products, etc. As of 2007, more than 25,000 firms are included in this category for the production of foods ("Economic Census: Industry Snapshot," 2012). This industry provides a broad range of variation in consumer spending and consumer marketing opportunities, has a sizable market, and therefore, could arguably benefit from segmentation. To select respondents within the CPG industry, a filtering question was included in the instrument. Respondents had to select CPG as their current industry and be employed in that industry for at least five years to be qualified.

3.3 Procedure

Performing an a priori sample size calculation for a two-by-two MANOVA using the recommended small expected effect size of 0.2, a desired power level of 0.8 and an alpha of 0.05, a sample total of 65 (or 17 per cell) is required (Cohen, 1988). Based on the calculated sample of 17, a goal ranging from 20 to 30 respondents per cell was set.

To acquire sufficient respondents, two commercial research panels, Qualtrix (which also provided the online survey environment) and Worldwide Panels, were enlisted to source qualified respondents. Each firm provides payment to respondents, but to help reduce the potential bias introduced by direct payment (Singer, Van Hoewyk, & Maher, 1998), and to remove participants from the panel who do not provide usable responses, participants at both research panels are compensated on an aggregate basis (through a point system) based on participation not just in this instrument, but other surveys administered by the research panels. Once participants accrue enough points, the points can be exchanged for certificates.

Upon entering the Qualtrics system, each participant was randomly assigned one of the cells (i.e. reads one of the scenarios) for experimental treatment condition one and, after answering the questions related to the first scenario, the participant is then given the scenario for the randomly assigned experimental condition number two. Each of the second scenarios accounts for the possible outcomes from the first scenario in order to have a continuous flow of the scenarios used during the experiment. Emails requesting participation were sent by the research panel firms in waves of randomly selected individuals who were expected to qualify based on the described target.

The link took potential respondents to the Qualtrics web site, which administered the study to participants via a web browser. Before the scenarios were provided to the participant, the general purpose of the study and confidentiality of the participant's responses were restated and were then followed by instructions on how to use the online survey. To maintain context of the scenarios, participants were required to complete the survey in one session, approximately 20 minutes, or the survey results were rejected.

The final instrument was sent to 34,496 potential respondents via these two commercial panel management firms. The instrument was available online for approximately 45 days, during which time multiple waves of emails were sent from the various research panels. The research panels attempt to meet a quota of completed surveys. However, they have incomplete data on factors required for this study (e.g. the panels do not have years of marketing experience or, in many cases, current industry). Because the research firms cannot target more accurately, a larger number of emails are sent to find a sufficient number of respondents who meet the minimum study requirements. Since many of the invitees are not qualified, two different response rates are calculated. The first is based on those starting the survey divided by those emailed an invitation. The second is the internal response rate and calculated based on those completing the survey divided by those starting. Total emails sent, along with total number of delivered emails and response rates can be seen in Table 2.

Table 2

Response Rates by Panel

Panel	Emails Sent	Participants Starting	Response Rate	Completes	Internal Response Rate	Qualified Participants
Qualtrics	18,296	1,409	7.7%	95 (54%)	6.7%	91
Worldwide	16,200	1,157	7.1%	81 (46%)	7.0%	77
Total	34,496	2,566	7.4%	176 (100%)	6.9%	168

Of the 176 pre-qualified responses received, six respondents did not complete the survey and were dropped from the analysis (three from each panel), and one respondent from Worldwide did not complete the manipulation check questions. Finally, from an evaluation of the raw data, one respondent from the Qualtrics panel appeared to be entering false data or was, at a minimum, an outlier (e.g. respondent entered 86 years of marketing experience but reported being only 28 years old) and was dropped, leaving a total of 168 respondents to be used in the data analysis.

3.4 Stimulus Instruments

3.4.1 Overview

Four general scenarios were used to provide the needed variation in the dependent variables (resources) for strategic market view. There were two scenarios representing high and low resources available to perform segmentation and two scenarios representing high and low resources available for execution of the results of segmentation. Likewise, there were four general scenarios for variation of the treatments for strategic market approach. There are two scenarios representing high and low alignment of the targeted segment's needs to the current marketing mix and high and low available cash to supplement implementation.

3.4.2 Pre-tests

To help ensure ecological validity (Brunswick, 1955) of the content, three subject matter experts ("SMEs," i.e. experienced marketers in the CPG industry) were asked to confirm the validity of the jargon and concepts in the scenarios. For example, the product described in the scenarios is 'a new energy drink' and those in the industry may or may not feel this is a viable market. If not, ecological validity could be strained for the respondent. Appendix A contains the full text of the scenarios and the related questions. This process also allowed for a cognitive review of the instrument to help ensure the logic and flow was sensible and understandable, and to test for approximate timing to complete the instrument. Based on conversations and input from the SMEs, minor changes in the language were made.

After the SME review, a sample group of individuals, randomly selected by Qualtrics from a pre-qualified list of panel members were invited to participate in the study. After twelve qualified respondents completed the instrument, panel solicitation was paused and an evaluation of the data was performed looking for evidence respondents were having difficulty navigating the instrument or understanding the questions. The data were checked to ensure the online software was appropriately randomizing incoming respondents into the four high-low resource groups and results showed the randomization was worked as expected and no changes were made to the instrument. Once confirmed, the survey was released and the research panels began emailing potential respondents in waves.

3.5 Measures

The following section describes the independent and dependent measures used for each of the experimental conditions (1 and 2).

3.5.1 Experimental/Treatment Conditions

In the SMV section, the respondent was presented with one of four possible treatment conditions, varying between high and low resources available to a) segment the market and b) execute on the segmentation. Similarly, in the SMA section, the respondent was informed of the outcome from SMV section (all respondents were told their recommendation from the previous section was accepted) and then the respondent was presented with one of four possible conditions that vary key resources between high and low. Resources varied for SMA were a) target segment alignment to current marketing mix and b) available cash. Therefore, the manipulations include varying 1) resources available to perform segmentation, 2) resources available for implementation of segmentation, 3) product-need alignment, and 4) cash. Four manipulation checks were performed at the end of the instrument to test that participants perceived the variation describe in their assigned scenario. Each check employed a seven-point Likert scale and can be found in Appendix A.

3.5.2 Dependent Measures

Dependent measures for the first experiment sought to measure how many segments the respondent would a) identify and b) address in the market. Each of these two measures was on a ten-point scale with a lower bound of “one” and an upper bound of “a large number” These bounds were selected to avoid anchoring the respondents to a specific number on the upper end of the scale. Since the taxonomy suggests respondents could select “segment of one” as their upper limit, and this number of segments could be very large, specifying a number may have resulted in a anchor that was out of context with the respondents thoughts and potentially risk ecological validity. Together these two dependent measures encompass the two-by-two for strategic market view.

The second experiment had four dependent measures each using a nine-point Likert scale, allowing for a neutral response. The scale was bounded by “Completely Disagree” and “Completely Agree.” The respondent was asked to answer four questions rating their view on a) entering the market, b) expanding in the market, c) alter the product, d) altering promotion or distribution. All six dependent measure questions were required to complete the survey and can be found in Appendix A.

3.6 Data Analysis

The hypotheses H1 to H3 were tested using ANOVA to confirm if there was a significant difference between how availability of resources to both perform and execute on segmentation affected participants' view the market's heterogeneity. ANOVA was used since there was only one dependent variable and no covariates. Hypotheses H4 to H7 were tested using MANOVA to confirm if there was a significant difference between a) resource availability to implement in the market and b) alignment of the existing marketing mix with the target segment to how participants would approach the market. MANOVA was used since there were multiple dependent measure but no covariates.

CHAPTER 4 – RESULTS

4.1 Respondent Source Analysis

To verify that the two separate research panels did not influence the results obtained, a comparison of means of the dependent variables was performed using independent-samples T test. With the exception of question two, the number of segments the respondent thinks can be addressed, results showed no significant differences in respondents' answers from the two different panels (see Table 3).

Table 3

Comparisons of Dependent Variables by Panel

Panel	Q1	Q2	Q3	Q4	Q5	Q6
Qualtrics Mean (n=91)	6.60	5.62	5.31	5.15	5.64	5.91
Worldwide Mean (n=77)	6.62	6.40	5.83	5.43	5.83	5.70
Sig. (2-tailed, equal variances assumed)	0.957	0.041	0.158	0.425	0.547	0.583

4.2 Manipulation Checks

All respondents answered four questions, one for each of the manipulated scenarios respondents were randomly assigned (segmentation, execution, cash, and market alignment). Results in Table 4, should indicate that respondents with "High Treatment" have higher means than respondents with "Low Treatment." Results, however, show that all means except manipulation check number two are in the correct order (high treatment has higher means), but only manipulation check number four reached significance. While question three exceeds an α of 0.05, Perreault, Jr. and Darden

(1975) suggest using an α greater than 0.05 should be at management's discretion. Therefore, to be conservative, an α of 0.05 was used in this dissertation.

Table 4

Manipulation Checks for All Respondents (n=168)

Question	Resource	High Treatment Means	Low Treatment Means	Sig.
Q1	Segmentation	6.851	6.802	0.882
Q2	Execution	6.734	6.798	0.845
Q3	Cash	6.931	6.296	0.056
Q4	Alignment	7.108	6.000	0.002

4.3 Descriptive Statistics

Additional attributes were also collected to provide a profile of demographic and experience of the respondents. Table 5 summarizes the descriptive statistics for each of these categories showing the total number of respondents and percentage of respondents by category. Results do not total 168 when respondents did not answer a given question.

4.4 Hypotheses Testing

Hypotheses 1 to 3 consist of high/low resource combinations testing the relationship between segmentation and execution resources and the number of segments the respondent thinks can be identified and executed on. For these hypotheses, managers would be expected to have higher means when resources were higher. The dependent variable identifies the outcome tested by each hypothesis, followed by the significance and if the results support the hypothesis.

H1 tested the relationship between resources to segment the market and the manager's perception of the market's heterogeneity. Specifically, the high-segmentation

Table 5

Descriptive Statistics for All Respondents

Category	Count	% of total	Category	Count	% of total
Gender			Job Level		
Male	110	66%	Administrative	12	7%
Female	56	34%	Staff	17	10%
Total	166	100%	Supervisor	16	10%
			Manager	49	29%
Perceived Company Serves			Director	39	23%
B2B	27	16%	VP	17	10%
B2C	55	33%	SVP or EVP	2	1%
Both	86	51%	C-level Exec.	11	7%
Total	168	100%	Owner/Founder	5	3%
			Total	168	100%
Respondent Works At			Age		
Main HQ	88	52%	22-25 Years	10	6%
Regional HQ	47	28%	26-30 Years	25	15%
Subsidiary Office	23	14%	31-35 Years	41	24%
Home	7	4%	36-40 Years	41	24%
Other	3	2%	41-45 Years	22	13%
Total	168	100%	46+ Years	29	17%
			Total	168	100%
Employed with Co.			Marketing with Co.		
1-5 Years	37	22%	0-5 Years	37	22%
6-10 Years	82	49%	6-10 Years	91	54%
11-15 Years	26	16%	11-15 Years	25	15%
16-20 Years	12	7%	16-20 Years	7	4%
21+ Years	10	6%	21+ Years	8	5%
Total	167	100%	Total	168	100%
Marketing at any Co.					
5-9 Years	73	43%			
10-14 Years	47	28%			
15-19 Years	24	14%			
20-24 Years	11	7%			
25+ Years	13	8%			
Total	168	100%			

resource group responded with a mean 12 percent higher (6.966 vs. 6.235, p=0.038) than the low segmentation group. H2 tested the relationship between all managers having low execution resources but some managers having high segmentation resources and the view of these two groups' view of the market's heterogeneity. H2 predicts that managers with both low segmentation and execution resources will view the market as more homogeneous (lower mean). However, means between the two groups did not show a significant difference (6.044 vs. 5.909, p>0.05). H3 predicted managers with high segmentation and execution resources would view the market as more heterogeneous when compared to managers with low segmentation and execution resources. Means between these two groups (6.429 vs. 5.909, p>0.05) were not significant so no conclusions could be drawn. Overall, results provide support for the relationship in H1, but do not support the predicted relationships in H2 or H3.

Table 6

Hypothesis Testing – Hypotheses 1-3

Hypothesis	Means by Independent Variable		Dep. Variable	Model Sig.	Result
H1	HiSeg (n=87)	LoSeg (n=81)			
	6.966	6.235	Q1 (identify)	0.038	Supported
H2	HiSeg / LoExec (n=45)	LoSeg / LoExec (n=44)			
	6.044	5.909	Q2 (address)	0.808	Not Supported
H3	HiSeg / HiExec (n=42)	LoSeg / LoExec (n=44)			
	6.429	5.909	Q2 (address)	0.345	Not Supported

Hypotheses 4 to 7 consist of high/low resource combinations, also assigned randomly to each respondent. This grouping of hypotheses tests the relationships between cash and market alignment as to the independent variables and the respondent's views on market entry and market expansion. Table 7 lists the means for each grouping of independent variables (in a 2 by 2, see figure 5) against multiple dependent variables. MANOVA was used since these hypotheses involved multiple dependent variables.

H4 tested the relationship between managers with high alignment and cash resources to managers with low alignment and cash resources to predicted outcomes of entering and expanding within the market. Specifically, managers with high resources were predicted to enter and expand in the market more readily. However, there was insufficient evidence to show this result ($p>0.05$). H5 predicted that managers with high alignment and cash would be less likely to enter the market and more likely to expand than those with high alignment but low cash. Results for H5 show there was insufficient evidence to support this prediction ($p>0.05$). H6 tested the relationship between managers with high cash, where all other resources for all managers were low, and predicted managers with high cash would not enter the market but choose to alter the product to create higher alignment. Results for H6 were inconclusive with insufficient evidence to support the hypothesis ($p>0.05$). H7 predicted managers with high cash and alignment would be about as likely to enter the market but more likely to alter the product than merely alter promotion and distribution. Results for H7 show each group had approximately the same likelihood of entering the market, and thus supported the hypothesis. However, insufficient support was found for the remaining two predictions of H7 ($p>0.05$). Overall, H4, H5, and H6 were not supported and H7 received only partial support.

Table 7

Hypothesis Testing – Hypotheses 4-7

Hypothesis	Means by Independent Variable		Dep. Variable	Model Sig.	Result
	HiAlign / HiCash (n=47)	LoAlign / LoCash (n=46)			
H4	5.106	5.543	Q3 (enter)	0.356	Not Supported
	4.745	5.500	Q4 (expand)	0.087	Not Supported
	HiAlign / HiCash (n=47)	HiAlign / LoCash (n=36)			
H5	5.106	5.333	Q3 (not enter)	0.552	Not Supported
	4.745	5.583	Q4 (expand)	0.074	Not Supported
	LoAlign / HiCash (n=40)	LoAlign / LoCash (n=45)			
H6	6.275	5.533	Q3 (not enter)	0.238	Not Supported
	5.775	6.178	Q5 (alter product)	0.324	Not Supported
	HiAlign / HiCash (n=47)	LoAlign / LoCash (n=46)			
	5.106	5.543	Q3 (≈ enter)	0.356	Supported
H7	5.234	6.174	Q5 (alter product)	0.039	Not Supported
	5.404	6.000	Q6 (not alter promo or dist.)	0.235	Not Supported

CHAPTER 5 – DISCUSSION

5.1 Overview

Conceptually, segmentation is a simple idea. One attempts to divide a heterogeneous market into a number of smaller more homogenous segments based on a desired outcome, which is typically described in the literature as price elasticity (Chamberlin, 1933; Hunt, 2011). While advanced analytic methods can create larger numbers of more *theoretically* homogeneous segments, merely increasing the number of segments does not make an effective segmentation scheme. When the additional segments do not lead to superior financial performance *practical* homogeneity has been reached (Hunt & Arnett, 2004).

Therefore, marketing managers are faced with an optimization problem. How many segments should be created to maximize their company's resources? Too many segments creates burden on other areas of marketing, manufacturing, sales, and service. Too few segments and the product may be too generic when compared to competitors and not meet customer needs. Previous research on segmentation has been almost exclusively focused on statistical methods in attempts to find more segments of greater homogeneity, thus many researchers have identified a broad need to better understand the existing gap between theory and practice (Dibb & Simkin, 2009; Dickson & Ginter, 1987; Goller et al., 2002; Quinn & Dibb, 2010). Accordingly, the contribution of dissertation was to a) defining a theory-based taxonomy of strategic segmentation, and b) seek support for the taxonomy through experimental analysis.

This chapter reviews and provides context for the results from testing the theory-driven taxonomy. First the key findings by taxonomic category (strategic market view and strategic market approach) are reviewed. Following this, theoretical and managerial contributions of the findings are discussed. Finally, the last section discusses this study's limitations and recommends future research.

5.2 Key Findings

In testing the taxonomy, the hypothesized results were separated into the two stages: strategic market view (SMV), and the strategic market approach (SMA).The following section details key findings related to each specific hypothesis.

5.2.1 Strategic Market View

The SMV describes resources for creating and implementing a segmentation scheme and correlates these resources to managers' views on market heterogeneity. It was predicted and results for H1 show that when managers were given more resources to create a segmentation scheme, they would consistently do so. Managers with higher segmentation resources recommended almost 12 percent more segments than those with lower resources. However, when both of these groups were faced with the complication of low execution resources (H2), the difference was not significant. Likewise, even when the high segmentation group was given high execution resources (H3), managers did not sufficiently distinguish their ability to make practical use of the larger number of segments they had been willing to create.

One potential explanation for these results is that managers who were targeted for this experiment were sought for their experience in marketing research, specifically filtering criteria required the respondents had been involved in a marketing segmentation planning effort and had at least five years of marketing experience. As such, these managers are less likely to have experience in areas outside their expertise (e.g. manufacturing or operations). If so, execution resources may be more of an abstract concept to respondents and, therefore, may either call to mind more potential barriers or create a problem more complex than can be handled by the respondents. The results suggest the respondents are keenly aware of resources *within* their control (i.e. segmentation resources) but do not exhibit the same understanding of resources that would typically be *outside* of their control (i.e. execution resources).

5.2.2 Strategic Market Approach

The SMA describes market alignment and cash resources for entering the market. Market alignment is predicted to be correlated with rapid market entry. Cash is predicted to be correlated with expansion when alignment is high or altering the product (high cash) or altering promotion/distribution (low cash). However, results did not support any of the hypotheses for SMA, suggesting that respondents' view of how resources could be used is not consistent with theoretical expectations.

Reviewing respondent comments provides some anecdotal information on the respondents' frame of mind. For example, some respondents felt that when the product was not aligned with the market that the company described in the scenario should merely seek another market, assuming one would be available. Similarly, some managers seem to make counterintuitive decisions. In this example quote, exploring the reasoning for his/her decision (a high alignment and low cash respondent), the respondent recommends spending cash the firm does not have to avoid “miss[ing] the mark” of improving a product the respondent acknowledges is already better than the competitors.

> Since the target market says that the product is better than anything a competitor has now but it is not at the best that it could be, I would say that it should be modified to make it the very best before going out into the market. We could even do some more testing to see if maybe even more people would like the product. I know that they are hoping that this would give them the cash reserves that they need, but you do not want to put a product out too soon or it could completely miss the mark.
> – Manager, 10 years’ marketing experience.

As with SMV, one explanation may be related to the breadth, not length, of managers’ experience. Managers gain experience in the department(s) in which they work and, especially in large companies, and are typically not exposed to resource limitations or decision processes of other departments. Since the SMA scenario asks managers to think about resources outside of their department, it is believable the managers might respond inconsistently with RA theory when the resources are outside of their experience (H2-H7) but respond consistently with RA theory when the resources are within their experience (H1).

In summary, the results showed little support for the proposed taxonomy. Beyond the immediate scope of the managers’ role, the findings suggest marketing managers do not approach segmentation strategy, in general, in accordance with the theoretical base posited herein.

5.3 Contributions

5.3.1 Theoretical Contributions

Despite the insignificant findings, this dissertation moves away from the over-studied focus on improving segmentation methods and takes a first step in building a theory-driven view of the strategic segmentation process. RA theory states that resources vary in cost and are imperfectly available to firms. As such, resources related to segmentation should affect a firm's ability to create, implement, and gain improved financial performance from a strategic segmentation. However, testing results do not support this, suggesting that managers' decisions are based on more than just their understanding of all corporate resources. In fact, managers may be making decisions without sufficient understanding of all corporate resources. Therefore, this dissertation has raised important theoretical questions and provides guidance as to future research (Section 5.4) that further attempts to connect theory to practice in a meaningful way.

5.3.2 Managerial Implications

Findings from this dissertation also have implications for marketing managers and the firms they work for, since these managers appear to be making sub-optimal decisions, based on approaches that are anti-theoretical. Firms may seek to create sophisticated segmentation schemes, but such schemes only become "practical" if they can be implemented to achieve superior corporate performance. When considering available resources within their functional domain, marketing managers do not appear to extend execution beyond their available resources (which, in fact, is consistent with the underlying theory in the dissertation). However, in general, marketing managers make inconsistent, and anecdotally perverse, decisions when the resources are outside their functional domain.

Given these results, executive management should consider an explicit role within the planning stage of the segmentation process that is responsible for identifying resource limitations that would inform the design of a segmentation scheme. For example, explicitly assigning a responsibility to someone within the segmentation design process that considers the resources available for the SMV (segmentation and execution resources) could increase the consistency of segmentation choices with ability to execute. Likewise, understanding the implications of resource availability within the SMA (alignment information and cash) would likely benefit the firm by prioritizing activities related to entering and expanding into the market. In addition, training marketing managers about the implications of resource limitations may also improve managers' understanding of how to best approach the market when alignment and cash are either high or low, improving optimization of the segmentation creation and implementation.

5.4 Limitations and Future Research

The theoretical and managerial conclusions of this study are driven by support (H1) and the lack of support (H2-H7) for the theory-driven hypotheses, which raise several questions as to how managers perceive resources and make decisions regarding strategic segmentation. This study had several limitations that, if improved upon, may result in findings that provide either more support for the proposed taxonomy or a clearer understanding of how managers are making decisions outside the theory-driven taxonomy. The following two sections discuss these limitations and opportunities for future research.

5.4.1 Taxonomy Limitations

Key to this dissertation was the selection of RA theory as the theoretical underpinning of the taxonomy. RA theory was selected because its tenets of market heterogeneity, resource needs, and resource attributes lend gracefully to defining a strategic segmentation taxonomy. However, certain constructs supported by other theories may better explain how marketing managers make decisions. For example, Resource-based View (Barney, 1991) suggests that resources are defined by their value, rareness, imitability, and substitutability. Instead of basing the taxonomy on the relationship between availability of resources (high and low), perhaps managers are thinking some resources in the scenarios were not valuable or were so common as to be obtainable even though their scenario defined their current state as “low.” Similarly, Prospect Theory (Kahneman & Tversky, 1979) describes how decisions are made under different levels of risk and may be an appropriate theory to better understand marketing managers decisions within a framework of perceived risks.

5.4.2 Instrument Limitations

This dissertation used experimental manipulation to test managers’ decisions around SMV and SMA when resources where presented as either high or low. Since the scenarios in the experiment were constructed based on actual situations that managers could experience, it is important to establish and understand the respondent’s frame of mind and whether the manipulation had the expected effect. Did, for example, the respondent understand that segmentation resources were high when provided with the high segmentation scenario? Unfortunately, the placement of the manipulation checks after *all* the scenarios had been presented, instead of after *each* scenario, may have confounded the results as respondents did not affirm they had understood each specific situation they were being placed in. Since manipulation checks are designed to ensure the subject was manipulated as intended, Perdue and Summers (1986) report manipulation checks should occur *before* questions related to the dependent variables are asked.

In some parts of the survey, language may have suggested direct instructions to the respondent rather than merely setting the scenario. For example, managers in the low-cash scenario may have been driven by the statement, "The president has informed you Albrach is short on cash and <u>needs to launch this product to build cash reserves</u>…" (emphasis added). For many marketing managers, especially inexperienced ones, this statement may have been misconstrued as a directive from the president that *must* be followed and may also have been construed as instructions for acquiring additional cash. In the future, additional pre-testing should be done to help identify and then remove these and any potential biases.

5.4.3 Sample Limitations

As noted, the results appear to be confounded by asking respondents to make decisions based on resources typically not found within their functional domain. This could be related to the managers' experience. That is, *years* of experience was used as a filter but *breadth* of experience was not included as a requirement to participate. Years of experience, which identifies how long managers have been working, differs from breadth of experience, which refers to the range of experience a manager has across functional areas of a company. If managers are making choices outside their knowledge and functional experience, selecting managers as respondents who have broader experiences may provide different findings. These managers could potentially be recruited through similar survey research panels, but additional screening would need to be done to select managers with the appropriate length and breadth of experience.

Additionally, future research could take a different approach. Instead of seeking managers who have gained breadth of experience through the course of their career, one could train a sample of managers on the relationship between resources “downstream” of the segmentation creation and actions taken by high-performing firms. The trained sample could be compared to a group of managers who have not received training to test for a difference in their decisions when faced with resources constraints similar to those presented in this study. This particular speculation may suggest that the taxonomy is theoretically sound, but managers are not broadly experienced enough to apply the theory.

This dissertation presented resources that applied to marketing managers in the consumer packaged goods industry in particular. It is possible managers in other industries have different types of experience or are more or less integrated with other functional areas. The consumer packaged goods industry was selected due to the size and breadth of the industry. Although these characteristics are advantageous, the industry also has substantial variation in products (e.g. soap, beer, paper products, and perfume), which may lead to different thinking about segmentation. In addition, due to the difficulty in sourcing respondents, two research panels had to be used. This created additional potential for variation across panels, as seen in Table 3 (Panel comparisons). While a Pearson chi-square test showed no significant difference ($p=0.786$), in the random distribution across panels, using one panel would reduce the potential for such variation.

Further breaking down the CPG industry or including other industries could provide additional useful and more generalizable insights as well as increase the opportunity for a larger sample size.

5.5 Conclusion

This study suggests that marketing managers are aware of resource limitations for designing and creating a market segmentation scheme, so they “view” the effective heterogeneity of the market based on resources available to segment the market. However, beyond the realm of resources required to perform their job role, the marketing managers responsible for segmentation apparently do not consistently judge relationships between other resource limitations and marketing actions. Reflective of this, no support was found for the taxonomy within the Strategic Market View (with the exception of creating the segmentation) or in the Strategic Market Approach. Marketing experience did not compensate for this inconsistency, as support for the taxonomy was also not present within the group of experienced marketing managers. Given the results, support for the proposed taxonomy was not established and additional research is recommended to determine if managers are either thinking about resources differently from what RA theory suggests and if firms should integrate resource availability assessment or resource training into the marketing segmentation process.

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APPENDIX – SCENARIOS

The following is verbatim text of the scenarios provided to respondents. Square brackets, [], indicate variables used in processing logical flow of the instrument.

Introduction [CPG industry participants]

You have recently been hired as the head of marketing for a new consumer package good company, Albrach. The company was recently formed to launch a new, healthy energy drink, the rights to which were acquired by Albrach's owners. The new drink, Promax, is made from rain forest fruits and has been shown in focus groups to appeal to consumers of many different ages and lifestyles as a healthy alternative to the high-sugar, high-caffeine drinks currently available. Since the product has many potential benefits and target consumers, Albrach's president has identified strategic segmentation of the consumer market as your first and most important objective. Your assignment is to make a recommendation as to how Albrach should approach strategic segmentation of the market after considering Albrach's currently available resources.

You will be presented with a scenario in two parts each describing Albrach's available resources. After you read the scenario part, you will be presented with a few questions. Please read each scenario part *very* carefully and then answer the questions based only on the information presented in the scenario.

Scenario Part One [Strategic Market View]

After a few weeks on the job, you determined there were two categories of resources you needed to evaluate: 1) resources to perform a strategic segmentation (such as sufficient data about the potential consumers and sufficient statistical abilities of the staff to create an accurate segmentation) and, 2) resources to execute the strategic segmentation (such as an ability to manufacturer various product package sizes and ability to distribute and promote in multiple channels). After interviewing employees responsible for both functions (segmentation and execution) you have come to the following conclusions.

A1 [high segment condition] The resources available for *segmentation* are ample and of high quality. For example, you note that Albrach has already purchased data on 30 million individual consumers who are potential prospects and you have a staff of three statisticians who have performed strategic consumer segmentation multiple times at other companies similar to Albrach.

A2 [low segment condition] The resources available for *segmentation* are limited and of low quality. For example, you note that Albrach has very little data or understanding of individual consumers who are potential prospects and your staff has little experience with performing strategic consumer segmentation.

B1 [high execute condition] The resources available for *execution* are ample and of high quality. The manufacturing function is being outsourced to a large firm capable of producing the product in various sizes and packaging and Albrach already has letters of agreement with various distribution channels to carry and promote the product to any of various segments.

B2 [low execute condition] The resources available for *execution* are limited and of low quality. The manufacturing function is has had shutdowns due to quality problems and the equipment does not support producing the product in various sizes or packaging. In addition, Albrach currently has few established distribution channels to carry and promote the product to various segments.

QUESTIONS FOR PART ONE

1. Given the resources available, please estimate the number of segments that could be *identified* in the market. [Scale scored from 1 to 10 with participant values set at one, a few, many, “segments-of-one”]
2. Given the resources available, please estimate the number of segments that could be *addressed* by Albrach. [Scale scored from 1 to 10 with participant values set at one, a few, many, all identified segments]

Scenario Part Two [Strategic Market Approach]

The president of Albrach accepted your recommendations and market research was then performed on the segment that offered the largest potential opportunity (the target segment), with the goal of immediately releasing the product. [(high cash condition) The president has informed you Albrach’s owners have provided a substantial cash investment for market launch] –OR– [(low cash condition) The president has informed you Albrach is short on cash and needs this product to launch to build cash flow] and the president is asking you to assess the results of the market research and advise the Albrach executive committee on the viability of launching the existing product to the target segment.

[high market alignment condition] Your review of the market research shows the product is perceived by the target segment to meet a need as yet unfulfilled by other competitors –OR– [low market alignment condition]. Your review of the market research shows the product is perceived by the target segment to not meet many needs they have for this type of product.

QUESTIONS FOR PART TWO

Based only on the information provided in the two parts of this scenario, please answer the following questions [9-point Likert, 1=strongly disagree and 9=strongly agree]:

3. Given the available cash and market research results, Albrach should enter the market.
4. Given the available cash and market research results, Albrach should consider *expansion* beyond the current target segment.
5. Given the available cash and market research results, Albrach should acquire new resources to alter the *product* before entering the market.
6. Given the available cash and market research results, Albrach should alter the *promotional messaging and/or distribution channels* to reach this segment.

MANIPULATION CHECKS [9-point Likert, 1=strongly-disagree and 9=strongly-agree]

1. Albrach has the resources available to *perform* a high-quality segmentation.
2. Albrach has the resources available to *execute* on a high-quality segmentation.

3. Albrach has sufficient cash to improve or replace its product if market demands required that.
4. Albrach's product aligns closely to the needs of the target segment.
5. [open ended] Please provide any factors or assumptions you used to make your decisions on the two parts of the scenario you just completed.

CONTROL AND EXPLORATORY MEASURES

Following are a few questions we'll use to categorize your responses. Please answer each question by clicking the answer that best describes you or your firm.

[Note: each question is followed by the field type and selection choices, where appropriate.]

1) Who does your company primarily serve? [B2B; B2C; both;]
2) What industry is your company in? [Census industries displayed a dropdown]
3) How many years have you been employed in this industry? [open numeric]
4) How many years have you been employed with your current company? [open numeric]
5) How many years you been working in a marketing function? [open numeric]
6) What is your gender? [male; female;]
7) What is your birth year? [open numeric]
8) Please provide any thoughts about this survey. [open ended]