Chapter 2: End-User Analysis: Segmenting and Targeting

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- **LEARNING OBJECTIVES**
  - Understand the central role played by end-users and their demands in the design of marketing channels.
  - Define "service outputs" and identify and analyze them.
  - Recognize how to divide a market into channel segments for the purposes of marketing channel design or modification.
  - Understand how to target channel segments to optimize sales and profits.
  - Evaluate when and whether to try to meet all expressed service output demands in the short run in a particular market.
  - Describe the relationship between service output demands and solutions to overall channel design problems.

END-USER SEGMENTATION CRITERIA: SERVICE OUTPUTS

- These service outputs in turn can be classified into six general categories:
  - Bulk breaking
  - Spatial convenience
  - Waiting or delivery time
  - Product variety
  - Customer service
  - Information sharing

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Bulk Breaking

- Bulk breaking refers to the end-user's ability to buy a desired (possibly small) number of units, even if the product or service originally' was produced in large, batch-production lot sizes.
- When the channel system allows end-users to buy' in small lots, purchases more easily support consumption, reducing the need for end-users to carry unnecessary inventory.

Spatial Convenience

- Spatial convenience provided by market decentralization in wholesale and/or retail outlets increases consumers' satisfaction by reducing transportation requirements and search costs.
- Business buyers value spatial convenience too

Waiting Time

- **Waiting time** is the time that the end-user must wait between ordering and receiving the goods or postsales service.
- The longer the waiting time, the more inconvenient it is for the end-user, who must plan or predict consumption levels far in advance.

Product Variety and Assortment

- **Variety** describes generically different classes of goods that constitute the product offering, namely, the *breadth* of product lines.
- **Assortment** refers to the *depth* of product brands or models offered within each generic product category.

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Customer Service

- Customer service refers to all aspects of easing the shopping and purchase process for end-users as they interact with commercial suppliers (for business-to-business purchases) or retailers (for business-to-consumer purchases).

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Information Sharing

- Information sharing refers to education provided to end-users about product attributes or usage capabilities, as well as pre- and postpurchase services.
- For some manufacturers and retailers, information sharing has been classified as *solutions retailing.*

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Price

- Price has not been listed as a service output.
- Price is what the customer pays to *consume* the bundle of product + service outputs; it is not a service that gets consumed itself.

SEGMENTING END-USERS BY SERVICE OUTPUTS

- Different groups of end-users value service outputs differently.
- We must consider how to group end-users according to their service output needs, by segmenting the market into groups of end-users who differ not in the product(s) they want to buy, but in how they want to buy.

- There are three general steps to segmenting end-users by service outputs.
  - First, it is essential to generate a comprehensive list of all the potential service outputs desired by each end-user for the products being offered.

– Second,
- The market might be divided into a priori segments (e.g., those often used in product or advertising decisions), then analyzed to see whether those segments share common purchasing preferences.
- Research might be designed and conducted to define channel segments that best describe end-users' service output needs and purchasing patterns.
  – Channel segmentation should be designed to produce groups of buyers who
    » (1) are maximally similar *within* a group
    » (2) are maximally different *between* groups
    » (3) differ on dimensions that *matter* for building a distribution system.

– Third, channel manager should name each segment to capture its identifying characteristics.
- Naming each segment facilitates internal communication and organizational alignment, which is helpful in executing an effective channel strategy

Service output	A	B	C	D
References and credentials	5	4	6	25
Financial Stability and longevity	4	4	5	16
Product demonstrations and trials	11	10	8	20
Proactive advice and consulting	10	9	8	10
Responsive assistance during decision process	14	9	10	6
One-stop solution	4	1	18	3
Lowest price	32	8	8	6
Installation and training support	10	15	12	10
Responsive problem solving after sales	8	29	10	3
Ongoing relationship with supplier	1	11	15	1
Total	100	100	100	100
% Respondents	16%	13%	61%	10%

Segment Name/ Descriptor	Bulk Breaking	Spatial Convenience	Delivery/ Waiting Time	Assortment/ Variety	Customer Service	Information Sharing
1.						
2.						
3.						
4.						

INSTRUCTIONS: If quantitative market research data are available, enter numerical ratings in each cell. If not, adopt an intuitive ranking system, noting for each segment whether demand for the given service output is HIGH, MEDIUM, or LOW.

TARGETING END-USER SEGMENTS

- Assess segment attractiveness.
- Target a subset of the segments identified.
- Customize the marketing channel system solution used to sell to each targeted segment.

The end!

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