

Industry segmentation analysis is not the same as identifying and analyzing market segments. Market segmentation is focused on identifying buyer needs, purchasing preferences, and the marketing activities in a value chain.

Industry segmentation combines market segment information with other significant variables that define *where the firm should compete, i.e. competitive scope*. It answers the question - what segments of the industry should we serve and how best should we serve it? It is the **basis for choosing focus strategies**. It also serves to identify those strategies which focusers can sustain by creating mobility barriers.

On the otherhand, broad based competitors can use segmentation analysis to identify markets where they are vulnerable to focusers, as well as segments that are unattractive and should be left to others.

Industry segments differ in structural attractiveness, i.e. the strength of the five structural forces. They also differ in what is required to gain and sustain competitive advantage. When determining the **variables** that we use to identify and analyze industry segments, beware that although certain variables (product and buyer differences) may be significant to production or marketing, we are looking for those **variables which impact competitive strategy, i.e. impact one of the five structural forces**. For each of the variables below, ask the question - is this variable effecting or determining competitive advantage in the segment?

There are four principle **factors** (categories of variables) with which we identify industry segments. PRODUCT VARIETY, BUYER VARIETY, DISTRIBUTION CHANNEL, GEOGRAPHIC BUYER LOCATION.

**Product variety** variables include ancillary vs bundled product, size, price level, features, technology and design, inputs

employed, packaging, performance, new vs. aftermarket vs. replacement.

**Buyer variety** variables are differentiated between commercial/industrial and consumer goods buyers. For commercial/industrial segments, variables include the strategy of the buyer, level of technological sophistication, OEM vs user, vertical integration, procurement value chain, size, ownership, financial strength, decision making unit.

For consumer goods buyers, variables include demographics, psychology and lifestyle, language, purchase occasion, decision making unit, purchasing process.

**Distribution Channel** variables include direct vs. distributor channels, direct mail vs. retail, wholesale vs. internet, distributors vs. brokers, exclusive vs. nonexclusive outlets, channel potentials.

**Geographic** variables include localities, regions, countries, weather zones, stage of economic development of country.

These are the standard ways of creating industry segments. *Competitive Advantage* can be created by forging new industry segments, defined by new variables.

Industry Segmentation Matrices are very helpful in visualizing attractive segments which **fit** with internal capabilities.

- 1) Select the variables that have a significant impact on the value chain, competitive advantage, or the five force structure.
- 2) What categories do those variables comprise (Buyer, Product, Channel, Distribution)
- 3) Plot the most significant factors on a two-factor matrix, using sets of variables
- 4) Create circles within the matrix that represent and label those segments

- 5) The size of the circles represent the share of the total market each segment holds
- 6) Test the matrix by placing firms within them.

We'll go over this in class. The important feature is the conceptual framework, and not creating the matrix. The matrix is a tool in analysis. It is the analytical capacity which you want to grasp. See if you can apply this to ESI for discussion in your team. It is readily applicable to that industry, because it has so many industry segments.