



CREATING VALUE THROUGH MARKETING EXCELLENCE: SEGMENTATION, THE FOUNDATION OF MARKET UNDERSTANDING

1. Marketing – the basis of REAL and SUSTAINABLE competitive advantage

In my first article for the ECMRA Newsletter, I argued that marketing, NOT cost-cutting, is the TRUE basis of SUSTAINABLE competitive advantage, because it is through marketing that you understand how to respond to those factors that are really driving the demand for what you have to offer.

Marketing is **fulfillment of customer needs at a profit**. If you aim to fulfil customer needs at a profit, you must:

- Understand the market place and the customer well enough to be able to discover opportunities.
- Identify target customers who have needs that you can satisfy better than any competitor.
- Exploit or develop your competencies and resources to deliver a superior offering to those customers.
- Then DO IT and obtain the recognition for the value to the customer by getting paid.

Marketing demands a combination of **high quality information, insightful analysis** and **creative interpretation and response** in order to develop sustainable competitive advantage through differentiated offerings. These are the elements that are lacking in many North American and European chemicals and plastics companies.

2. Segmentation: Clarifying your view of the market-place

Segmentation is probably the most anomalous term in the marketing dictionary. It suggests cutting up, but it is used to describe a process, which involves grouping together. No wonder people get confused!

Segmentation is the foundation for good market planning, provided that it is done on a meaningful basis. Segmentation should help the marketer to make CHOICES.

- Choices about where to compete
- Choices about which customers to target and which to leave alone
- Choices about where to deploy resources
- Choices about what competencies to develop

Segmentation should clarify the marketer's view of the market, take away the fog and the blur and bring the target into sight and into focus. Good segmentation should make the eventual choice of strategy a simple and obvious one.

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Basically, segmentation involves grouping together customers who have similar needs or behaviour, on the premise that they will respond in a similar way to the same offering.

Most companies in the chemicals and plastics industry have access to a wealth of information about their market place. In fact, the industry is in information overload. All see the same information, in multi-client market studies, in reports from industry bodies, from conference papers, in the published statistics of the consuming industries and so on. Some supplement this data by commissioning ad-hoc market studies in an attempt to gain greater insight into the demand for specific products and services. All have their own internal market intelligence also.

The challenge for most managers is to sift and interpret this wealth of information effectively.

True, but it also helps if you ask the right questions of the right people in the first place.

The real issue is not the amount of information available, the real issue is whether that information is HIGH QUALITY; i.e. does it REALLY tell the marketing strategy decision-maker what she or he needs to know?

Who is the REAL customer?

What really drives their buying decision?

What drives their preference for one supplier over another?

What unmet needs do they have?

What could a supplier offer them to improve the quality of their business?

The second factor in developing a successful marketing strategy is what you decide to do, based on your interpretation and understanding of that information.

A future article will start to address these questions and many more, when I tackle the challenge of getting the right and meaningful answers from information and market research.

Creative marketers see what everyone else sees, but THEY THINK WHAT NO-ONE ELSE HAS THOUGHT and THEY DO WHAT NO-ONE ELSE HAS DARED.

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3. Identifying the customer

Our first challenge is to identify the customer. It may be the company that you sell directly your products and services to – but not necessarily or not only.

It is essential in marketing that you are able to convince the ALL of the people who benefit from your offering that they should prefer your offering to any other. How do we identify our customers?

The simplest approach is to draw the complete value chain, and then to identify the company or person furthest down the value chain who still derives a benefit from your offering and recognises it (or can be convinced to recognise and value it). Either this customer or the most powerful and influential member of the value chain should be targeted as the level at which segmentation should be discovered.

Segments will be defined by grouping together customers who have similar needs.

A simple example: Polyols & MDI for PU foam insulation in refrigerators

Energy supplier →Hydrocarbon cracker →Polyol & MDI supplier →Polyurethane foamer →Foam cutter →Refrigerator Producer →Appliance Wholesaler →Appliance Retailer →Industrial or domestic consumer

As a refrigerator cannot function effectively without the PU Foam insulation the customer should be recognised as the Industrial or Domestic Consumer.

If I am the Polyol and MDI supplier this means that potentially I need to market to all levels in the value chain between me and the Industrial or Domestic Consumer. Those suppliers have patently failed to do this, and in the process they have allowed someone further down the chain to reap extra value or to destroy some value in the chain.

I am sure that this will bring howls of protest from some of you, but may I refer you to the marketing strength and success of Intel (amongst others).

To take my simple example further, you may discover groups of customers who can be described by the following needs (to name but a few):

- High performance refrigeration
- Environmentally friendly refrigeration
- Low cost refrigeration
- Readily available, fast delivered refrigeration

What we must also recognise is that different members of the value chain may have very different needs, which will have to be addressed by our marketing offerings.



4. Discovering the segments

In discovering segments, the successful marketer must not just consider the current needs of the customer. If we want to discover real value-adding opportunities, we must explore the customers' poorly met, unmet and unidentified needs.

What do I mean by this? Every customer has some areas of dissatisfaction, or may even have some needs, which they themselves have not yet identified. The successful marketer is constantly alert to such needs, as these are the basis for creating marketing solutions that will DELIGHT the customer and secure their loyalty for the supplier who delights them.

If we can identify segments around poorly met, unmet and unidentified needs we have an opportunity to delight the customer and an opportunity to differentiate our offering from that of our competitors and build a sustainable, value-adding advantage.

We should be constantly asking ourselves:

What does the customer complain about?

What could we do better to improve our customers' satisfaction?

What could we do differently to improve our customers' satisfaction?

The segments we discover may be defined by a mixture of current needs, poorly met needs, unmet needs and unidentified needs.

5. Selecting the target customers – thinking what no-one else has thought

Once we have gained a better understanding of the market and we have discovered meaningful segments, we are better positioned to make meaningful decisions about where we can best deploy our resources and competencies. In other words we can choose where we want to compete and where we do not want to compete. This decision should be based on a direct comparison of the needs of specific market segments and our own unique skills and competencies, in order to find the best match and to find opportunities to exploit any uniqueness in our skills and competencies (which our competitors cannot match).

The basis for segmentation is a key factor in this process and is fundamental to the success of the resulting marketing or business strategy.

On this subject, I'm afraid I have some bad news for all chemists and chemical engineers in marketing and business management positions: there is no formula nor any right or wrong answer to help you to discover the best segmentation scheme for your business.

Notice, also, that I used the word "discover". Segments exist out there in the market place; we do not create them in our office or ivory tower. However, they are waiting to be discovered and to be properly and successfully marketed to, for those who go out and develop a REAL understanding of their customers and use that to discover their target segments.

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In my view segmentation is one of the most difficult challenges for any marketer in the chemicals and plastics industry and the most critical success factor in any marketing or business strategy.

6. Developing a differentiated marketing strategy – doing what no-one else has dared

Having decided where we are going to compete, we must stimulate our creative juices to work out how we are going to develop a sustainable competitive advantage. The second most difficult and equally critical success factor in developing winning marketing strategies (after segmentation, see above) is that of creating a winning value proposition.

The value proposition is the expression of superior customer benefit that you offer, together with the value that you expect to gain in return for delivering those customer benefits better than your competitors.

The value proposition is the foundation stone for the development of your marketing mix. It summarises what you will offer and (equally important) what you will NOT offer. It explains the superior customer benefits and MUST address the key needs upon which the customer bases her or his buying and supplier selection decisions.

Value propositions and the development of winning marketing and business strategies will be the subject of a future article in this series.

7. Sustaining competitive advantage – making it happen

Once we have identified and understood the market place, chosen where we wish to compete and defined how we are going to compete, we must make it happen. This may seem a rather obvious statement, but many excellent strategies have failed due to poor implementation.

Successful implementation is dependent upon excellent planning and communication. In order to develop and implement winning marketing and business strategies it is essential to have a clearly defined, well thought-out, understood and accepted process. This process must be comprehensive in its coverage and description of what needs to be done, by whom and in what sequence. The process must also be compatible with the other processes needed to run a corporation and interfaces must be clearly understood and seamless.

The driving elements of these processes must be absorbed into the culture of the corporation, if they are to be truly effective.

A future article in this series will explore the subjects of process and implementation.

8. Staying ahead through continuous improvement and change management

Even after we have successfully done everything I have outlined above, I must inform you that it is not enough. The world is becoming a faster changing place every day, technology becomes obsolete the day after it has been discovered or developed, people are bombarded with more and more external exhortations to do or behave in a certain way. The same is true in the market place for chemicals and plastics. What was a competitive advantage yesterday is the common standard today.

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The winning market or business manager will be the one who can stay ahead of the competitor by anticipating the next standard and being the FIRST to create that offering as a differentiator.

This demands a level of open-mindedness, creative thinking and willingness to change, which is alien to many in this industry.

True innovation and creativity is

SEEING WHAT EVERYONE ELSE HAS SEEN

THINKING WHAT NO-ONE ELSE HAS THOUGHT

DOING WHAT NO-ONE ELSE HAS DARED

Biographical note.

The author, Phil Allen, runs his own marketing excellence practice, Phil Allen's MarketAbility, creating value for his clients by helping them to apply marketing excellence to their businesses. He has acquired a detailed knowledge of the chemicals and plastics industries during a fifteen-year tenure in sales and marketing positions at Bayer AG, Albright & Wilson Ltd and The Dow Chemical Company. His career spans more than 20 years experience in industrial and business-to-business sales and marketing.

This article first appeared in March 1998 in *In Touch*, the official newsletter of ECMRA.

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