Thomas Roßberger (Autor)

Alignment and Coordination of Customer Segmentation, Distribution Channel Segmentation and Overall Strategy of the Firm

A Qualitative Study on Sporting Goods Industry

Dr. Thomas Roßberger

Alignment and Coordination of Customer Segmentation, Distribution Channel Segmentation and Overall Strategy of the Firm

A Qualitative Study on Sporting Goods Industry

Cuvillier Verlag Göttingen
Internationaler wissenschaftlicher Fachverlag

https://cuvillier.de/de/shop/publications/7126

Copyright:
Cuvillier Verlag, Inhaberin Annette Jentzsch-Cuvillier, Nonnenstieg 8, 37075 Göttingen, Germany
Telefon: +49 (0)551 54724-0, E-Mail: info@cuvillier.de, Website: https://cuvillier.de

CHAPTER 1. LITERATURE REVIEW

1.1 The global business environment

In order to understand the importance of customer segmentation analysis for enterprises factors are evaluated individually. Two aspects have significantly changed the rules of the game in international business, faster changing market structures and hyper-competition. Hence a snapshot of this development delivers the background to understand the hypothesis of this research.

1.1.1 Changing market structures

The costs of capital, goods, transportation, information, as well as for manpower decrease globally. Modern communication tools allow exchange of information fast, safe, correct and cheap. These changing environmental factors, influencing the modern society, are defined in the term "Globalization" (Bildung, 2013).

Main elements of globalization are a liberalized international trade, the expansion of foreign investment and linked to that, short and long term capital across borders (Keegan, 2010; Bildung, 2013). However, contemplating the global financial crisis, more dimensions have to be taken into consideration when talking about globalization. Thus reinforced international cooperation on economic, political and social levels requires cultural integration and new rules of interactions, subsumed under global governance (Bildung, Ökonomie der Globalisierung, 2013).

With the „Blue Ocean Strategy" Kim (2005) shows the way to terminate the struggle among competitors within an industry sector. The basic thought of Kim´s approach is that, "tomorrow´s leading companies will succeed not by battling competitors, but by creating blue oceans of uncontested market space ripe for growth" (INSEAD, 2005, 5). This theory was represented earlier by several notable authors like Porter (1980), Ansoff (1965) and Bain (1956). The theory of Kim contains elements, deviating from conventional theories. Fights for market shares are taking place in almost every industry and mainly the speed of change regarding markets has increased nowadays. Consequently the product-lifecycle is significantly shorter and therefore unmatched

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.

higher research and development investments are necessary. Moreover Kim´s theory abandons traditional thought patterns regarding the competitiveness.

Companies should no longer develop a defence- or attack-strategy against competitors. Instead they deal with developing untouched markets or market niches without a noticeable competitor by thinking unlimited *out of the box.* US-corporations in an oligopolistic market in the nineteen sixties were the first to adopt a "blue ocean strategy", by entering the transatlantic markets with oil, tobacco, automotive and pharmacy products, to prevent "cut throat competition" at home. Moreover, the main statement of the Blue Ocean Strategy (Kim, 2005) is *value innovation*.

The logic is, "instead of focusing on beating the competition, they concentrated on making the competition irrelevant by creating a leap in value for buyers and the company, which opened up new and uncontested market space" (Kim, 2005, 17). This approach is a strategic change, which embraces the entire operative system of a company. This implies that market boundaries and structures are not seen as solid anymore. They can be redefined by the action of any single market player within a short time. This influence requires not only faster but also more differentiated reaction and strategies of corporations worldwide. Customer segmentation analyses in distribution channels performed frequently could be the key to more competitiveness through serving both, customer and consumer faster, more individual and hence more profitable.

1.1.2 Hyper-competition and the market segmentation

In most industrial branches the corporations participating in the European market are in a hyper-competition. Saturated or even declining markets, a high presence of national and international competitors and accelerating globalization are key drivers for this development.

In 1994 Professor Richard D´Aveni already used the term "hyper-segmentation" to describe a dynamic and competitive environment in which no action, strategy or advantage sustains for long. Circumstances in such markets change fast due to the

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.

dynamic maneuvering and strategic flexibility of firms. Two decades ago Microsoft, Procter and Gamble, Apple and Samsung were examples for fast and dynamic market partners (D´Aveni, 1994). D´Aveni describes that target and intention of creating a business strategy has significantly changed from sustaining to disrupting competitive advantages.

According to D´Aveni´s (1994) model of competitive advantage there are four areas where the strategic interaction of companies unfolds:

- Cost and quality

There are seven strategic interactions on the cost and quality side where the competition could be challenged (D´Aveni, 1994).

1) price wars
2) quality and price positioning
3) middle path
4) coverage of all niches
5) outflanking and niching
6) movement towards an ultimate value marketplace
7) escape from the ultimate value marketplace by restarting the cycle

In a nutshell competitive interactions are rather concentrated on achieving a leading competitive edge by realizing cost reduction, quality improvements or by occupying niches. Various ways enable companies to reach that goal, for instance through mergers and acquisitions, international expansion or reinforced investment in research and development.

- Timing and know-how

D´Aveni (1994) finds six dynamic strategic actions heating up the competition based on organizational advantages.

1) first mover advantages
2) imitation and improvement by followers
3) creating impediments to imitation

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.

4) overcoming the impediments
5) transformation or leapfrogging
6) downstream vertical integration

Generally speaking there are two abilities which put a company ahead of competition. At first to mention, is the speed of entering new markets, i.e. being the “first mover” and secondly the capability of creating innovative products or technologies, which provide a know-how advantage.

- Entry barriers

The third area where hyper-competition is exhibited includes traditional barriers like economies of scale, product differentiation, capital investment, switching cost, access to distribution channels, cost advantages other than scale and government policies.

D´Aveni (1994) describes eight aggressive strategic interactions companies take action to erode the entry barriers and thus protect their market position. The first interaction is building a geographic stronghold by creating and reinforcing entry barriers. Such action is known as protectionism of the home market.

According to the principle, “offence is the best defense”, the second strategy is targeting to weaken the product market strongholds of competitors in other countries. The third strategic interaction appears when incumbents make short counter – responses to guerilla attacks. Powerful incumbents are probably able to push back invaders price wars, product innovations or factory investments. The fourth interaction takes place when incumbents realize, that they must create new hurdles to push back aggressive invaders, like import restrictions or PR campaigns urging people to buy national products. In the fifth interaction competitors react to the new obstacles. The sixth interaction encompasses the reaction of competitors to new hurdles by long–run counter–responses, which can be defensive or offensive. In the seventh strategic battle the competition between the incumbent and entrant is switched to the entrant´s home turf. The eighth and final round of strategic interactions is reached when an unstable standoff between the competitors is established.

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.

After overcoming all entry barriers and no more competitive advantages are to be achieved, competitors need to move to the fourth arena, which is the “deep pockets”.

- Deep pockets

The fourth arena deals with four strategic interactions focusing on monetary aspects.

These interactions are (D´Aveni, 1994; Keegan, 2010):

1) drive competitors out of the market
2) small competitors use courts or congresses to derail deep pocketed firms
3) small firms neutralize the advantage of deep pockets
4) rise of a countervailing power

With his theories D´Aveni (1994) disagrees with Porter´s (1985) work on a competitive advantage. D´Aveni perceives Porter´s thesis as a static system, which is not adequately considering the accelerating dynamics of competition in the new millennium. D´Aveni´s (1994) thinking is influenced by the observation that the dynamics in many markets have changed drastically. Shorter design and development cycles, new technologies, global competition as well as cultural influences cause market instability. As a result D´Aveni (1994) sees an incremental competitive pressure which forces companies to monitor their environment closely and adapt fast and flexible to changing market conditions.

However, in the past, the realization of these multiple market- and competition-requirements are neither implemented sufficiently, regularly nor in a structured way by the marketing- and sales-organizations of many corporations.

Yankelovich (2006) is stressing that there is still a gap between effecting market or customer segmentations and transforming the results into relevant strategic or organizational changes within companies. With the article on “Rediscovering market segmentation” Yankelovic (2006) encourages companies to pay attention to the importance of customer segmentation and to use the benefits of the concept, such as faster response to rapidly changing market conditions as well as developing the knowhow of where and how to compete. Gaining maximum benefit from the marketing resources is the overall target. In accordance with Yankelovic´s (2006)

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.

approach as well as D´Aveni´s (1994) statements one can see the connection with the speed of changing market environment. The necessity of running customer segmentation analyses and formulating competitive strategies are crucial. The speed of fundamental external changes and thus internal influencing factors increased disproportional over the last years. D´Aveni (1994) comes to the same observation in his study two decads ago. These results raise the question in which way companies are able to anticipate these change processes and how to prepare efficient strategies. Keegan (2010) argues that "firms need to look for some unsustainable advantages in order to achieve sustainable advantage" (543). For D´Aveni (1994) the solution is found in the marketing department as their task is creating innovation and discovering new markets. D´Aveni warns managers to hold on to old strategy tools and principles. In hyper-competition generic marketing strategies lead to short term profits at the best, but do not manifest a competitive leading edge positon in the long run. D´Aveni (1994) postulates that profitable and successful market players are the one´s who develop answers to the increasing competition instead of looking for a pre-defined position. D´Aveni´s (1994) describes that the best entry barrier for competitors is to remain flexible and initiative within the own company. It is crucial not to waste energy by developing defense strategies to exclude new entrants: dynamic over static philosophy.
Ghoshal (1997) theory is similar, but adds an additional perspective - organizational sensitivity and learning. "Managers are forced to refocus their attention from a preoccupation with defining defensible product-market positions to a newly awakened interest in how to develop the organizational capability to sense and respond rapidly and flexible to change" (Ghoshal, 1997, 71).

"Their broad objective is to create an organization that is constantly experimenting with appropriate responses, then is able to quickly diffuse the information and knowledge gained so it can be leveraged by the entire organization. The age of strategic planning is fast evolving into the era of organizational learning" (Ghoshal, 1997, 71).

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.

With these statements, Ghoshal (1997) stresses two aspects, responsibility of the whole organization and flexibility to react fast on market changes.

Summarizing the above mentioned theories from D´Aveni (1994), Yankelovic (2006), Keegan (2010) as well as Ghoshal (1997), hyper-competition and market positioning strategies are gaining more and more importance in today´s business. New economic, political and social circumstances require fast and flexible strategic reactions. Hence micro-segmentation of markets and customer needs to become an indispensable tool of the basic analyses of businesses. Logically consistent micro segmenting of markets and customer needs to be part of marketing and distribution strategies covering the marketing mix, product, price, place and promotion (Keegan, 2010, 64). A very effective platform to assure the implementation of these processes in companies is a sustained market and customer segmentation analysis. The following chapter will provide the basic knowledge about market and customer segmentation, a concept which could undergo a revival in the near future.

1.2 Background to market and customer segmentation

Market segmentation is an important tool of strategic marketing planning and represents a central point of marketing literature over the past 50 years (Boejgaard, 2010). However, today the implementation of segmentation projects is a core challenge of companies.

The complexity of the implementation project is documented by empirical data in industrial markets according to Boejgaard and Shapiro (Boejgaard, 2010; Shapiro, 1984). The segmentation process in companies is discussed in detail in literature. Anderson and McDonald (Anderson, 1999; McDonald, 2002) have collected multiple techniques and approaches to the customer segmentation analysis. Segmentation supports, according to their contribution in literature, the understanding of customer needs, the allocation of resources and adaption of the specific marketing mix of the company. Customer segmentation finally helps to develop new product concepts and innovations (Freytag, 2001). The customer segmentation is based on a bottom-up perspective on individual market participants.

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.

The contrary is described by market segmentation as it is based on a holistic top-down view. Freter (2008) sees market segmentation primarily as a theoretic main unit of all existing, homogeneous sub-markets. According to Freter (2008) a demarcation or zoning of a total market is difficult and depending on the nature of markets. In order to define differentiated marketing tools for the target group, homogeneous sub-markets must be analysed (Freter, 2008). As a basic principle, two segmentation approaches for markets are differentiated in literature (Freter, 2008; Küspert, 1992). The narrow, marketing-oriented approach refers to the division of a heterogeneous total market into homogeneous sub-markets.

Mitchell (1998) follows this theory and defines market segmentation as …"an ongoing and iterative process of examining and grouping potential and actual buyers with similar product needs into subgroups, that can then be targeted with an appropriate marketing mix in such a way as to facilitate the objectives of both parties" (431). The wide definition of segmentation regards the market coverage as equivalent to the market processing. Freter (2008) uses this approach by regarding the market processing as a basis for well-targeted marketing strategies. Further on Freter (2008) defines market segmentation as the classification of an anonymous, heterogeneous total market into homogeneous groups.

Above all, in the consumer goods industry these market segments represent an unknown accumulation of individual customers or customer groups, for which suitable products have to be developed in order to meet their needs. Large-scale enterprises are using the expressions strategic business area, a homogeneous group of target customers, and strategic business unit, the organizational anchoring within a corporation, in context with market segmentation. According to Bueschgen (1998) strategic business areas are understood "as combinations of specific market segments with products and services that are homogeneous with regard to the solution of a customer requirement and that are independent from other product-market-combinations" (264).

Disregarding the macro-economic observation or segmentation of a market and considering the micro-economic level of an individual corporation, starts the

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.

discussion over. Thus customer segmentation can be perceived as a „bottom-up“ viewpoint, however it is not to be seen in an isolated manner next to the „top-down“ view of a total market. This research exceeds the above-mentioned definitions of customer segmentation and implicates the deduction of a strategic target by the strategic business area paradigm. According to that paradigm, a strategic business area is a promising product – market combination for which an individual strategy needs to be developed and which delivers a profit contribution to the company (Bueschgen, 1998; Schulte-Zurhausen, 2005). This thesis describes the conjunction of the two significant concepts customer segmentation and strategic business area in a close relation and interaction of theory and practise.

The German authors Nieschlag (2002), Wöhe (2000) or Freter (2008), do not differentiate significantly between “customers” and “end-users” as far as the perspective of the producer is concerned. For Freter (2008), traders or intermediaries, like wholesalers and retailers buy goods for their own account and are therefore customers like any other end-user. Freter (2008) is using the term customer in a more general and descriptive way for all levels within the distribution process, no matter if it is a person or a company.

Apart from that, intermmediaries or trade channel members are executing an intermediary function distributing the product to a special segment of end consumers (Freter, 2008).

Therefore intermediaries constitute an important role in the supply chain between producer and end-user, as they are implementing marketing tools which are vital for the success of both, producer and trade partner. Hence the efficiency of marketing concepts created by the producer is heavily depending on the performance, knowhow and willingness to cooperate. Within the scope of vertical marketing the producer needs to coordinate all marketing activities between trade and producer towards the final end-consumer (Freter, 2008).

The “German” definition of customer and end-user implements, that both levels in the supply chain need to be analyzed and targeted seperately. Especially brand producers in the industry use a double sided strategic marketing approach addressing

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.

the end-user as well as the trade channels, hence applying a push and pull strategy at the same time.

In the context of this thesis, the approach of the above mentioned authors Nieschlag, Dichtl and Hoerschgen (2002), Wöhe (2000) and Freter (2008) is followed, where "customer" is being understood as intermediary and member of a trade or distribution channel. There is different distribution channel systems available in the markets. As this subject plays an important role as far as the go-to-market strategy of manufacturers is concerned the following chapter highlights the complexity of available options.

1.3 Distribution, trade or marketing channels

Products are in general not shipped ex-factory by the producer directly to the end-consumer, neither in industrial nor in consumer markets. Depending on country, industry or market specifics, there are a number of intermediaries taking over various business processes. These intermediaries form a distribution channel, also called trade or marketing channel (Kotler, 2011; Nieschlag, 2002; Freter, 2008). Figure 1 gives an overview of distribution channels used in the business-to-business sector (b2b).

In contrary to the business-to-consumer area, the "b2b marketing involves industrial channels that deliver products to other manufacturers and organizations, that use them as inputs in the production process or in day-to-day operations" (Keegan, 2010, 400). The chart shows the four options or distribution levels for any industry-goods manufacturer towards his end-user. For direct or indirect sales to the industrial end-consumer the manufacturer can use either an own chain of distribution or an industrial distributor. Odds are that a "0-level" channel can be used with direct sales from manufacturer to industrial end-user.

Dieses Werk ist copyrightgeschützt und darf in keiner Form vervielfältigt werden noch an Dritte weitergegeben werden.
Es gilt nur für den persönlichen Gebrauch.