

5.3: Segmentation of B2B Markets

Learning Objectives

By the end of this section, you will be able to:

- Describe the challenges of segmenting B2B markets.
- Discuss the advantages of segmenting B2B markets.
- Explain methods of segmenting B2B markets.

Challenges of Segmenting B2B Markets

Just like its consumer market counterpart, business-to-business (B2B) market segmentation focuses on identifying unique market segments based on common characteristics. However, segmenting a B2B market is in many ways far more challenging than segmenting a consumer market because the motivations, processes, and considerations of B2B buyers are quite different from those of business-to-consumer (B2C) buyers. Let's take a closer look.

- **Challenge #1: Dealing with Highly Complex B2B Markets.** As discussed in Business Markets and Purchasing Behavior, decision-making in B2B markets is quite different from decision-making in B2C markets. In a B2C market, the consumer is often the only decision-maker involved in making a purchase. That's not the case in B2B markets, where you're often dealing with a buying center—all the people in the organization who have varying influence on the B2B buy decision. You may also recall from this chapter that buying centers have various members who play different roles, such as users, initiators, influencers, gatekeepers, decision-makers, etc. Accordingly, it can be difficult to identify precisely who the target buyer is (Infiniti Research, 2018).
- **Challenge #2: Dealing with More Rational Buyers.** Although the view is somewhat controversial, it is said that B2B buyers are more "rational." Consumers tend to buy what they want and are more affected by emotions when making buying decisions. Alternatively, B2B buyers typically buy what they need, and buying decisions are more deliberate, particularly in terms of price. Accordingly, in B2B markets, the marketer must determine the drivers of those needs.
- **Challenge #3: Complexity of B2B Products.** Just as the decision-making unit in a B2B transaction is more complex, so too are the B2B products themselves. When you make a major purchase, like a high-definition TV, your choice is likely made based on fairly simple criteria. You might evaluate things like screen size, resolution, and your budget. However, in the B2B market, even the simplest products may have to be integrated into a larger system. For example, a new payroll system might have to be integrated into the company's human resources information system (HRIS). Another consideration with respect to the complexity of B2B products is that many B2B purchases are frequently tweaked to meet the company's detailed specifications, whereas consumer products are almost always standardized (Hague & Harrison, 2022).

Advantages of Segmenting B2B Markets

Market segmentation is a tried-and-true method that's been around since the 1950s, but there is still some confusion about how to use it in a B2B setting because it's not as clear-cut as other forms of market segmentation. How does a marketer target the characteristics of something impersonal like a business? Despite the challenges of segmenting B2B markets, it still plays a critical role. Let's examine some of the advantages (Kompass International, 2023).

- **Improved Campaign Performance.** Like the previous example of a company using specialty magazines to reach the right target audience with the right message, B2B marketers can do the same. For example, Mailchimp, a marketing automation platform and email marketing service, examined user data to compare segmented marketing campaigns with non-segmented campaigns. The statistics based upon a comparison of 18 million email recipients were eye-opening. Campaigns directed toward defined market segments saw increases in several areas, including a 14.3 percent higher email open rate (Kenny, 2024).
- **Improved Customer Loyalty and Retention.** In our discussion of consumer market segmentation, we pointed out that market segmentation allows marketers to better understand what consumers are looking for in a product or service, and the same holds true with B2B market segmentation. The more marketers know about their customers' business objectives and challenges, the more they can attempt to meet their needs. That not only builds confidence in the brand but also ultimately leads to greater customer retention and loyalty (Roy, 2020).
- **Assistance in Product Development.** By using market segmentation, a company can refine its products or services to better meet the needs of its B2B customers. For example, let's say your company's product is payroll software. Having better identified the needs of the target market, your company may be able to add new features and functionality to make it even more

attractive for the target market and possibly add a new revenue stream by making the product useful for another market segment.

- **Improved Profitability.** Implementing a market segmentation strategy accomplishes three important goals. First, targeting the right B2B customers with the right message increases your company's competitiveness. Second, it enables the marketer to price products properly and at the best price for its different customer segments. Third, it helps identify the best prices to target new customers and ensure that your organization's offerings are neither overpriced nor underpriced, thereby increasing profitability (Pribanic, 2020).

Methods of Segmenting B2B Markets

How do you segment B2B markets? Just like with consumer markets, there is a variety of methods. Marketers can segment B2B markets based on firmographics, technographics, needs-based segmentation, value-based segmentation, and behavioral segmentation (see Figure 5.7). We will look at each of these in the following sections.

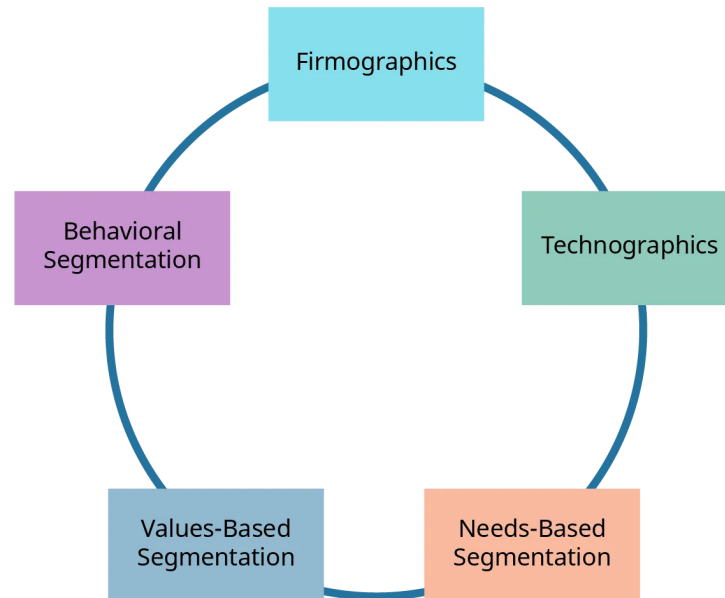


Figure 5.7 Methods of Segmenting B2B Markets (CC BY 4.0; Rice University & OpenStax)

Firmographics

Where demographics are concerned with people, firmographics are concerned with companies. They are a grouping of B2B customers based on shared company attributes. There are five general categories of firmographics:

- **Industry.** What are the organization's primary activities? Once you've determined that piece of information, you can use market segmentation to group firms that are in a similar line of business.
- **Location.** The mantra in the real estate industry is that three things matter: location, location, location. As for geographic segmentation in the B2C market, a marketer can choose a city, state, country, or even continent, depending on the line of business. For instance, depending on the cybersecurity challenges or threats customers face in different countries or regions, a cybersecurity firm may offer different cyber safety features in its software (Roy, 2020).
- **Size.** Will your company target small and midsize operations or Fortune 500 companies? The needs of these organizations are vastly different. Firmographic size typically involves two components: revenue and number of employees.
- **Legal Structure.** In firmographics, legal structure denotes the legal status of a firm. For example, is the organization a sole proprietorship, a limited liability company, a corporation, or a nonprofit firm? Is it an independent business, a parent company, or a subsidiary of another business (Roy, 2020)? All of these factors are important to know to create targeted content.
- **Performance.** Customer segments can be broken down based on performance, such as market share, quarterly or annual sales figures, and growth and/or losses (both in employees and revenue).

Segmenting Customers Based on Technographics

Technographic segmentation is based on the various hardware and software technologies used by B2B customers. It allows the marketer to organize prospects by their technology ownership and usage and narrow the market to those prospects who want to

invest in new technological solutions in the future (Roy, 2020).

Needs-Based Segmentation

Think about it: What's the point of marketing a product or a service to an organization that doesn't need it? Needs-based segmentation is the concept that a marketer should focus limited resources on those customers who need the product and can purchase it.

Needs-based segmentation clusters groups of customers based on what they need or want when seeking a product. Does your company's product offer the features or benefits that the B2B buyer is seeking? Will the product meet the buyer's (or company's) needs? Those are the questions marketers need to answer when segmenting the B2B market based on needs. The late Theodore Levitt, an economist and a professor at Harvard Business School, once said, "People don't want to buy a quarter-inch drill; they want a quarter-inch hole" (Puterman 2018). Accordingly, rather than segmenting a market based on firmographics, many marketers choose to segment it based on what is valued by decision influencers.

Value-Based Segmentation

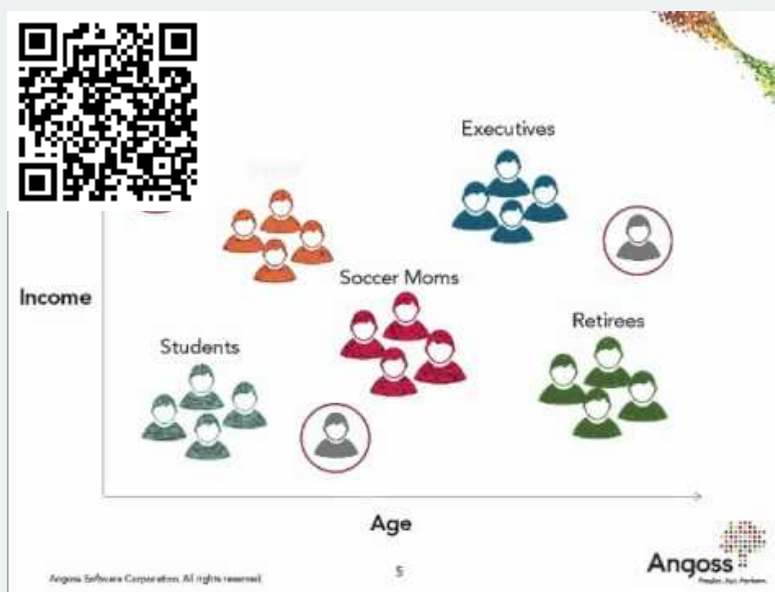
Value-based segmentation (tiering or profitability segmentation) groups customers according to the potential value they may bring to a business. It places potential customers with the same value level (or "transactional worth") into individual segments for target marketing. In its simplest terms, this approach is like the usage-based segmentation strategy of B2C markets. A marketer examines previous purchase data to determine how much a company buys, how frequently it buys, and the value of the purchases (Roy, 2020).

Behavioral Segmentation

Behavioral segmentation considers the behavior of customers toward a company's products or services. We're not talking about two-way mirrors or covert operations here. This can be as simple as determining how the customer interacted with your company's website, what content they interacted with, and whether the customer opened your last marketing email. The marketer then segments customers on the basis of their interaction with the company and attempts to discern if customers within that segment have become more interested or less interested over time. Behavioral segmentation is often used together with value-based segmentation to identify which customers should be pursued to get greater value out of them (Roy, 2020).

Link to Learning: The Importance of Segmentation

For more information on the importance of segmenting B2B customers, check out this video, *The Importance of Segmenting Your Customers*. This video is from AngossSoftware, global leader in delivering business intelligence software and Cloud solutions that help businesses capitalize on their data by uncovering new opportunities to increase sales and profitability and reduce risk. This video speaks to the importance and value of knowing your customers.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

Hoffman Enterprises, a manufacturer of electronic controls for appliances, has segmented its customers based on the size of the company in terms of revenue and its geographic location. What method of segmenting B2B markets is Hoffman Enterprises using?

- a. Technographics
- b. Behavioral
- c. Firmographics
- d. Needs Based

2.

Matias is a marketing manager for a company whose product integrates with customer relationship management (CRM) systems such as Salesforce. In order to segment the market, he researches which companies currently use Salesforce as well as any other complementary or competing tools. On what basis is Matias segmenting the market?

- a. Technographics
- b. Value-based
- c. Behavioral
- d. Firmographics

3.

Which form of B2B market segmentation differentiates customers according to their “transactional worth”?

- a. Behavioral
- b. Firmographics
- c. Value-based
- d. Needs-based

4.

Which form of B2B market segmentation groups customers based on sets of characteristics such as industry, location, size, legal structure, and performance?

- a. Technographics
- b. Psychographics
- c. Firmographics
- d. Demographics

5.

Which B2B market segmentation strategy clusters groups of customers on the basis of what features they normally look for in a product?

- a. Firmographics
- b. Behavioral
- c. Technographics
- d. Needs-based

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