Market segmentation and the structure of competition: applicability of the strategic group concept for an improved market segmentation on industrial markets

Albrecht Söllner,*, Mario Rese

*Westfälische Wilhelms-Universität Münster, Institut für Ökonomische Bildung, Scharnhorststr. 100, 48151 Münster, Germany
Universität-GH Paderborn, Lehrstuhl für Betriebswirtschaftslehre, insbes. Marketing, Warburger Str. 100, 33098 Paderborn, Germany

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Abstract

In recent years, many attempts were made to elaborate reliable segmentation concepts. However, even current articles on market segmentation focus only on customers. Competitors are at best accounted for once the segment formation is completed. And in contrast to customer analysis, the methodological consideration of competitors is rather superficial and unsystematic. In this respect, the current approach of market segmentation in theory and practice generally reflects the one-sidedness of marketing as criticized by Day and Wensley [Day GS, Wensley R. Marketing theory with a strategic orientation. J Mark 1983;47:79–89]. The authors claim that the results of segmentation could be improved considerably if information on competitors were considered in the process of market segmentation. A preliminary empirical test of the approach shows good support for the authors’ hypotheses. © 2000 Elsevier Science Inc. All rights reserved.

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1. Introduction

Since Smith (1956) coined the term ‘market segmentation,’ the concept has received considerable attention both in marketing theory and practice. Although the approach was originally developed in connection with questions relating to the consumer market sector, it has found wide acceptance in the industrial market sector as well (for a general survey cf. Chéron and Kleinschmidt, 1985; Plank, 1985). Today, ‘market segmentation’ is a fundamental concept in modern marketing. Bonoma and Shapiro (1983, p. 2) refer to market segmentation as the “core of good industrial marketing.” At the same time, they reach the conclusion that “conversely, many industrial marketing problems stem from poor market segmentation.”

Therefore, it does not come as a surprise that in the past couple of years, many attempts were made to elaborate reliable segmentation concepts. It is striking, however, that even current articles on market segmentation—in the sense of formation and selection of customer groups—focus only on customers. Competitors are at best accounted for once the segment formation is completed. And in contrast to customer analysis, the methodological consideration of competitors is rather superficial and unsystematic. In this respect, the current approach of market segmentation in theory and practice generally reflects the one-sidedness of marketing as criticized by Day and Wensley (1983).

According to our view, the results of segmentation could be improved considerably if we could get away from an exclusive customer orientation.

1. The consideration of competitive structure provides additional basic information on segment formation.
2. The consideration of competitive structure facilitates the selection of promising segments.

In order to prove our thesis, we will proceed as follows. First, we will present the current state of market segmentation, especially with respect to industrial markets. Second, we will present a proposal, which includes competitive...
structure. We interpret the strategic group concept as a competitive counterpart to customer segments. Third, we will provide theoretical explanations of both approaches as a summary. Finally, we will put the present concept to a first empirical test using the elevator industry as an example.

2. Market segmentation on industrial markets: a brief survey

Bonoma and Shapiro (1983, p. 1) give an accurate description of the core of market segmentation:

Segmentation is the process of separating a market into groups of customers, prospective customers (prospects), or buying situations such as that the members of each resulting group are more like the other members of that group than like members of other segments.

In the course of this separation, customers are grouped in segments who react to a concrete marketing mix with homogeneous buying behavior. The underlying hypothesis is that the benefits sought by customers are expressed by their buying behavior. Accordingly, a segment is defined as a group of customers who experience a similar problem and who react to market stimuli in the same way. For a firm, this means that different segments require different marketing activities. Such targeting can raise the prospect of success, i.e. the risk of wasting resources on customers who do not belong to the target segment will diminish.

The research results in organizational buying behavior studies are of particular importance to the industrial market sector. In principle, all factors of organizational buying behavior can be applied as segmentation criteria. This holds for the characteristics of the purchasing organization, the structure of the buying center, the buyclass, or for the situational factors influencing the buying process.

In addition to this behavior-oriented explanation of market segmentation, a theoretical foundation of market segmentation is also derived from micro-economics (cf. Frank et al., 1972, 177–185). More than 60 years ago, Robinson (1948) explained that a salesperson has the possibility to divide the market according to various demand elasticities, making price the only marketing instrument. Chamberlain (1947) concentrated on two additional marketing instruments. Profits can be maximized by product differentiation and the application of “selling costs” like advertising, sales promotion, and a profit margin for retailers and wholesalers.

Excess of supply over demand motivates the practical application of segmentation concepts. It demands that suppliers “have to be better,” meaning that they must meet customer needs to a higher degree. Market segmentation with its informative and structuring function qualifies for this requirement. In accordance with this, Kotler regards market segmentation as the notion of the modern “marketing concept” that allows market compulsions to be met by higher benefits for each customer. Once again, this reflects the lack of symmetry apparent in the study of customers and competitors, which is symptomatic for marketing science. In this definition of the marketing concept, Kotler (1988) demands that the customers’ needs have to be recognized and satisfied more efficiently and more effectively in relation to the competitors. Nevertheless, this is not expressed explicitly in the different approaches to market segmentation.

If competitor orientation is neglected, the assessment of segments or segmentation criteria using largely accepted requirements for market segments—like customer response, measurability, accessibility, substantiality, and temporal stability (cf. Frank et al., 1972, 27f.)—can lead to disappointing results, since it cannot be stated that a segment fulfills the requirements without the consideration of actual and potential competitors: competitive behavior has a significant effect on the substantiality of segments and on their temporal stability.

3. The strategic group concept as a foundation for a competitor-oriented expansion of the segmentation of industrial markets

The competitor-oriented expansion of market segmentation suggested here falls back upon approaches of industrial organization (Bain, 1956, 1968; Mason, 1957; Scherer, 1980). Recent developments, which overcame the restrictions of traditional industrial organization, are particularly fruitful: The strategic group concept accounts for the empirically determined heterogeneity of suppliers within an industry. Hunt’s (1972) pioneering work in this area was succeeded by further studies. Porter (1980), however, was the first one to popularize the approach in his well-known book “Competitive Strategy.”

A strategic group is a set of firms or business units which pursue the same or a similar strategy with respect to central strategic dimensions (cf. Caves and Porter, 1977; Porter, 1980). Porter points out that the affiliation to a group does not reflect complete homogeneity. Strategic grouping is rather to be interpreted as an analytic tool (Hatten and Hatten, 1987). In this respect, a strategic group forms the “smallest common denominator” of similarity in competitive strategy. On the one hand, it is possible that the firms of a market form a single strategic group. On the other hand, in an extreme case, strategic groups could consist of only one member, with each firm following its individual strategy.

The meaning of the group concept results from the empirically determined recognition that single groups are separated by barriers which restrict the strategic mobility of suppliers (Caves and Porter, 1977). Porter (1980, 133f.) defines these mobility barriers as “factors, that deter the movement of firms from one strategic position to another.”
Potential entrants who do not belong to a group consider themselves to be disadvantaged by barriers, while the same barriers are of advantage to “in-group” suppliers. Barriers separate strategic groups and make sure that, as a rule, potential entrants cannot follow that group strategy immediately or without costs. Also, due to these barriers, certain supplier groups are able to achieve above-average long-term returns on investment.

These explanations show that the height of barriers is no absolute quantity. It depends on the situation and the perception of the firm looking at it, on the conditions forming those barriers in each observed group, as well as on the time of observation since conditions change over the course of time.

Mobility barriers can be systematized into so-called structural barriers and expected retaliation, i.e. the reaction which potential newcomers expect from established members when they try to enter the group (Porter, 1980). Structural barriers are all the restrictions that would prevent potential newcomers from entering the group, regardless of the reactions expected from the established members, posing an obstacle to the mobility of newcomers. The reasons for these barriers can be both activities within the framework of usual business and former actions exclusively directed against potential competition. Since Bain’s (1968) investigations, we have had three principal possibilities: existence of economies of scale, absolute cost advantages, and advantages on account of product differentiation, each on behalf of the established suppliers. The second group, ‘expected retaliation,’ includes all reactions potential newcomers expect from established firms that have a negative influence on the “value of entry” (Salop, 1979). According to Porter, ‘expected reactions’ can be provoked by signaling commitment to defend incipient barriers, by establishing blocking positions in other industries or countries, by matching guarantees, by raising the penalty of exit or lost share, by accumulating retaliatory resources, by encouraging good competitors, by setting examples, or by establishing defensive coalitions (Porter, 1985). It turns out that mobility barriers have the same sources as market entry barriers in traditional industrial economics.

“Sunk costs” play a particular role in the explanation of mobility barriers.

Sunk costs . . . , are costs that (in some short or intermediate run) cannot be eliminated, even by total cessation of production. As such, once committed, sunk costs are no longer a portion of the opportunity cost of production. (Baumol and Willig, 1981)

The central element of this definition is the impossibility of an alternative usage of goods which cause sunk costs. Sunk costs are irrelevant to the supplier’s decisions; a newcomer’s decision, however, depends upon them (Eaton and Lipsey, 1981). While low prices can still be judged as positive seen from the established supplier’s point of view, they have become disadvantageous for the potential entrant because he cannot cover his relevant cost (Milgrom and Roberts, 1982).

In this sense, sunk costs can explain both structural mobility barriers and “expected retaliation” at the same time. Thus, a highly specialized production line can produce absolute cost advantages. Furthermore, the new challenger must fear that the established supplier will cut down the price to the coverage point of relevant costs for lack of alternative possibilities.

All in all, on the background of current results in research, the strategic group concept proves to be appropriate for the assessment and the portrayal of competitive structures of the markets. In addition to having an easily memorizable form of expression, the approach has the advantage of explaining the existence of different results reached in different firms on the same market and of accounting for the temporal stability of these conditions. In Section 4, we will see if the approach is able to expand the segmentation of a market towards competitor orientation.

4. Theoretical reasoning: why does the strategic group concept help to segment a market?

Comparing both discussed concepts, it seems appropriate to interpret strategic groups as the supply-side equivalent to customer segments. The formation of groups of customers and competitors includes the consideration of barriers: “Preference barriers” are the reason why customers within a segment show a more homogenous buying behavior than customers of different segments; mobility barriers are the reason why suppliers within one strategic group show a more homogenous supplying behavior than suppliers in different groups.

The strategic group concept supports market segmentation in two ways. On the one hand, the concept provides starting-points for an improvement of basic information of the formation of customer segments. On the other hand, competitor analysis can support a promising selection of segments on the basis of the presented concept.

4.1. Factors supporting the segment formation

The structure of competition is considered to be helpful to the formation of segments, since it allows the utilization of knowledge about the structure of customers inherent in the positions of competitors. In so far, the position of competitors is assumed to be arbitrarily determined. It reflects how competitors estimate the market situation and how they evaluate the ability to offer satisfying solutions to the identified target customers in order to realize a sufficient number of transactions. If this knowledge is included, it is possible to force back the bounded rationality of the segmenting firm to a certain extent. The augmentation, as
well as the revision of knowledge, become attainable goals. Both will ensure the survival in competition.

What kind of information, sent by competitors, will help to segment the market? In order to answer this question, we need to outline the relation between the underlying notion of competition and the strategic group concept.

Two preliminary assumptions shall explain the approach: In the long run, it is unrealistic to believe that several strategic groups will serve the same market segment in such a situation. Homogeneous customers will decide in favor of the group offering the best cost/benefit ratio (according to the customers’ assessment). From a static point of view, the corresponding long-term effect would be a clear assignment of market segments to strategic groups on such a model market (cf. Fig. 1). In the described situation, transactions would only be imaginable between customers of one segment and suppliers of one strategic group. Only the suppliers of one strategic group would have a competitive advantage; other strategic groups can only exert competitive pressure if groups are changed on account of the differing profit levels in the various market segments or group constellations.

In reality, it shows that the uniqueness of each individual makes it impossible to form absolutely homogeneous segments. And even if we disregard the question of whether homogeneous segments exist—the postulation that segmentation has to be economical often counteracts a subdivision. A certain heterogeneity in the segments is accepted, while the degree of acceptance should be a management decision where potential “mistakes” are made on purpose. We are talking about accepted heterogeneity in segments.

Apart from the intended heterogeneity, there is also, as a rule, unwanted heterogeneity. This indistinction is not accepted by intention. It follows from the analysts’ bounded rationality or knowledge. As a result, this leads to unsatisfactory segment boundaries; the necessity for segmentation can remain unknown, homogeneous customers can be separated, or there can be a case of incorrect setting of boundaries. In segment formation, these mistakes can be reduced if the knowledge about the competitive structure is included.

In consequence of the diagnosed heterogeneity, the chances for competition within a customer segment are not restricted to the suppliers of one group, contrary to the typically depicted ideal. On real markets, as a rule, each supplier will be confronted by two totally different kinds of competitors: On the one hand, they are suppliers of his own strategic group. They carry out the competition with the same strategic means. On the surface, success will be granted to the supplier whose application of strategic parameters is better in the view of the customers within a segment. On the other hand, it can be stated that suppliers of various strategic groups are active within the same customer segment and still successful. They try to gain the interest of the same customers, while they employ different strategic parameters.

Heterogeneity within customer segments enables suppliers of various groups to find customers within one segment. This result has important consequences for segmentation:

1. If a market segment, which was formed only with regard to the customers, is served by several strategic groups,
2. If all participating groups succeed in serving that segment,
3. If this is not only a “discontinued model” in the sense that only one group will survive in the long run,

then there are reasons for the assumption that this segment comprises customers with quite different “benefits sought.” Here, the consideration of the structure of competition reveals that the postulation of a relevance of behavior in the segments was hurt. Accordingly, we can ask once more for the drawing of an adequate boundary.

The “competitor’s knowledge” is integrated into the supplier’s own segmentation indirectly via including the knowledge inherent in the strategic positions of the competitors. This results in a segment formation that integrates the

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Fig. 1. Model for a Customer- and Competitor-Oriented Market Segmentation.
competitors’ experience and insights into the market to a certain extent (cf. Fig. 2). Presumably, the postulation that the behavior in the segments must be homogeneous can be better accounted for this way than by simply focusing on customer criteria.

The effect is not explained by a better insight into the customers’ needs. It is instead the use of the hypothesis that the positions or activities of competitors in relation to customer groups present a good (additional) indicator for the varying needs of customers. Depending on the possibility of determining the strategic groups within an area of competition, the consideration of the competitive structure matches the postulation that segmentation criteria have to be measurable.

As far as intended and unintended heterogeneities are concerned, we would like to point out that the consideration of competitive structure has the same effect. It is possible to form more homogeneous segments. In so far, unintended heterogeneity is automatically repressed. Furthermore, the suggested expansion provides a better foundation for the decision on the degree of accepted heterogeneity, e.g. by combining several segments for economical reasons.

Two central problem areas, however, need to be discussed:

1. Difficulties because of a static understanding of segmentation, and
2. Dependency of segment formation on the decision about the formation of strategic groups.

Concerning the first point, the static segmentation procedure—a snapshot of the market—denies us the judgment of whether the existence of various strategic groups active in one segment is an indicator for an insufficient segmentation and whether it will lead to the extinction of all but one group in the longer term due to the one-sided distribution of the preferences by the actual homogeneous customers. In order to find clear answers to these questions, we need at least a comparative static approach in which the discovered segments and strategic groups of two points in time are compared with each other. Due to the comparison, it is more likely that we can separate effects resulting from insufficient segmentation from other influences. Therefore, we need a dynamic or at least a comparative static approach for the application of the presented ideas. At this point, we need to mention the problem that neither segment nor strategic group is absolutely stable in terms of time. Therefore, the comparison between segmentation/group formation at two points in time can lead to deviation. If we want to judge the quality of segmentation, it is necessary for us to diagnose potential reasons for deviation.

The second point falls back on the problem of the formation of strategic groups, since the basic problem of market segmentation—the selection of the “correct indicators” for a subdivision—occurs in the same way as in the formation process of competitor groups: the groups will not show a completely strategic homogeneity.

With reference to the problem of segmentation, this means that an insufficient structuring of strategic groups can lead to the impression that the segmentation is “false,” although this is not the case. Thus, the segmentation result, or, to be more precise, the benefit or harm received by including competitor information, is also dependent on the quality of the division into strategic groups.

The outlined relation between the two approaches to group formation, however, makes it possible to control the discovered boundaries mutually concerning their plausibility. A recurrent approach to a coherent customer segment/strategic group structure seems possible. Thus, the dependencies can be comprehended as an opportunity to get a better understanding of the market structure.

4.2. Factors supporting the segment selection

The central result of the previous considerations is that segment and strategy selections are inseparable. The decision in favor of one segment always coincides with the decision in favor of one strategic group, and vice versa. This holds for both entering segments previously not dealt with and remaining in the segments. Thus, from a dynamic point
of view, the attractiveness of segments is determined by the behavior of customers and competitors. Accordingly, the benefit of considering the competitive structure during the segmentation process is that:

1. from a potential entrant’s point of view, it is easier to estimate the retaliation of established suppliers, and that
2. from an established firm’s point of view, the behavior of potential intruders can be anticipated to a higher degree.

In this context, mobility barriers are particularly important. Since they have a great influence on the behavior of established firms and newcomers, mobility barriers have an effect on the prospect of success within the segments. It is therefore absolutely necessary to pay attention to mobility barriers when segments are selected. We suggest that the height of the barrier be integrated into a matrix of competition, as demonstrated in Fig. 3, with two columns per segment/strategic group constellation. Column 1 indicates the height of the structural barriers. In column 2, the height of the barriers is represented by the expected retaliation. It is to be pointed out that the perceived height of the barriers reflects the condition and resources of each individual firm. Based on this figure, a firm can estimate the chances and risks of entering or defending segments to a higher degree.

For example, if a firm intends to overcome the barriers of group I in order to serve segment 1, or to overcome the barriers of group II in order to serve segment 2, the conditions for entrance vary considerably. From the firm’s point of view, segment 1 is surrounded by high structural barriers, the overcoming of which is linked to high costs. Only few additional retaliatory actions are expected. The decision to enter segment 2 would have different implications. Although the structural barriers could be surmounted comparably easily, the established firms demonstrate great willingness to employ retaliatory measures. While it seems to be relatively simple to enter the segment due to the low structural barriers, the economic success will possibly not last for long since suppliers are able to effectively limit the newcomer’s chances of making a profit. Once again, this is proof that it is not enough to correctly assess the customers’ “benefits sought” of the target segment, nor is it sufficient that the segment is promised to be profitable from the static angle.

If, however, the respective firm is an established supplier or if it succeeded in entering a profitable segment, the tables are turned. Kirzner (1973) gave an impressive explanation of how opportunities to make a profit disappear within the course of time. Pieces of information arising in the market process, e.g. high annual rates of return or potential growth in a segment, reach potential competitors and raise their interest. In addition, Schumpeter (1968) stresses the role that entrepreneurs play in competition. As innovators, they develop new solutions to certain problems. Within the context of the strategic group concept, the first case (imitation) represents a migration of suppliers between groups. By contrast, (strategic) innovation leads to the development of a new strategic group, which in turn can lead to customer migration between the segments. Both cases can jeopardize the attractive position an established firm assumes in a segment. The temporal stability of a segment is determined by both customer and competitor behavior.

The time it takes, according to Kirzner (1973), for opportunities to disappear depends on mobility barriers. Therefore, the selection of segments is largely determined by the question of whether there are mobility barriers, how high they are, and if additional barriers could possibly be erected. Here, it should be taken into consideration that

![Fig. 3. The Matrix of Market Structure with Barriers.](image-url)
imitators can be prevented from entering a segment both by structural barriers and by signaling a threat of retaliation. In contrast, innovators can only be deterred, as a rule, if they are threatened by retaliatory measures. Highly

Fig. 4. Flow Chart for Supporting the Formation and Selection of Customer Segments.
specific investments can even convince an innovative competitor that the established firm is forced to react to a newcomer’s entry into a segment by taking retaliatory measures. In this context, it is important to raise attention to one of the peculiarities of those barriers established through a threat of retaliation. Such threats are not uttered with the goal to actually carry out a reprisal. A credible threat is rather meant to prevent potential competitors from entering a segment. In consequence of this, there would never be a retaliation.

Based on this, we can conclude that the analysis of the competitive structure offers two additional decisive factors for segment selection: expected retaliation after having entered the segment and the sustainability of a segment within the course of time. The two improvements do not refer to all the demands made on the segments mentioned above in the same way. The behavior of already established suppliers and the pressure of imitation and innovation exerted by potential competitors have an influence primarily on the substantiality and temporal stability of segments.

We summarize the potential support received from the inclusion of the strategic group concept into the formation and selection of segments in Fig. 4.

5. Segmentation in the elevator industry: putting the results to a first test

In order to test if it is worthwhile to expand customer segmentation by adding an orientation towards competitors, we will submit the concept to a first test. The test is based on the following plan:

1. An industry is submitted to a strategic group analysis.

2. A supplier—the firm observing the situation—is questioned about the segments it has formed and about how it estimates the competition in the segments (type and intensity) in the following period.

3. The segments and the strategic groups are compared with each other.

4. As a result of the comparison (3), we will get a matrix of the competitive structure like the one schematized in Fig. 1.

5. The matrix is formulated and interpreted according to the flow chart shown in Fig. 4.

The test is based on the German elevator industry. As we previously noted (cf. Rese, 1993, p. 157), this industry is characterized by a clear strategic group structure grown over a longer period of time. A differentiated strategic group structure is a premise for our idea of segmentation improvement. In Italy, for example, there is no possibility to apply our system. The Italian elevator market is dominated by one strategic group—large manufacturers—with a market share of more than 80%. In such a case (of only one dominant strategic group), the competitive structure is not very useful to improve the segmentation.

The interviews were held in 1989. A substantial number of elevator manufacturers were asked about the segments formed for the year 1986 (Rese, 1993, 134ff., particularly p. 137). Furthermore, they were asked to give some information as to the type and intensity of the competition that they had experienced from 1986 to 1989.

For our test, we use the statements on customer segmentation made by one large manufacturer. The respective segments are shown in Fig. 5 at the top of the columns. In the next step, the segments were combined with the strategic groups, which had been determined for the year 1986. The result is a matrix of the structure of competition described in the flow chart.
as shown in Fig. 5. The gray areas highlight the segments in which the respective supplier was regularly (and not only sporadically) active.

The comparison shows that each of the three pure segments\(^2\) is targeted by several groups. Therefore, it should be examined if the segments combined customers with heterogeneous “benefits sought,” i.e. if the segment is capable of improvement. We will take a look at the success each strategic group enjoys in single customer segments. Success is indicated by the type and intensity of competition felt by the questioned suppliers.

The exact procedure will be exemplified by the primary segment “apartment.” In 1986, suppliers from all three strategic groups are actively involved in the segment and all groups made a profit. The marketing mix varies considerably from group to group. All in all, this indicates an insufficient segmentation. In the following, we will examine if there are actual chances for improvement and in which respect the competitive structure could be supportive.

A closer customer analysis has the following result: Buyers are composed of prime contractors, property developers and architects, and of organizations or persons (from the property owner to house building societies) who make purchases for their own needs. Knowledge about strategic groups can help to analyze the buying criteria. According to the various degrees of success, we can draw conclusions on customer preferences. It became obvious that customers interested in small-sized individual elevators preferred to purchase them from small manufacturers and construction firms, while customers buying “elevators off the peg” mainly purchase them from large manufacturers. The majority of customers asking for high-performance elevator systems individually designed and of high technical quality turns to large manufacturers. Medium-sized manufacturers are most successful in selling individually designed medium-sized elevator systems.

Knowing about these success structures and the characteristics of strategic groups, we can draw conclusions on the buying criteria valid for different customers. If small manufacturers show great production and installation flexibility concerning small, technically simple elevator systems, we can assume that this is—in relation to other manufacturers—the best marketing mix for customers buying from small manufacturers. Their “benefits sought” are best satisfied by the group “small-sized manufacturers and construction firms.” The same applies to customers who prefer large manufacturers: If their standard systems show a very good ratio between adequate quality/technical design and low price, the crucial buying criteria are set.

The overall analysis of the primary segment “apartment” results in various “benefits sought” by customers belonging to that segment. The degree of individuality and the size of the elevator system can be identified as the dividing criteria for customers of that segment. The larger the elevator systems are, the more important competence becomes as a factor. Size also seemed to be an indicator for the importance of the elevator and hence, for the demands made on reliability, engineering, and luxury features. Competence is attributed to large manufacturers. By contrast, small manufacturers are thought of as being more capable of developing individual elevators due to their greater flexibility. Only very large elevator systems, unique models, which are virtually always individually designed, are preferably bought from large manufacturers who employ specialist teams for such large orders. All in all, we can differentiate between six customer groups in the segment “apartment,” each of them having quite different needs (cf. Fig. 6).

The other segments shown in Fig. 5 require a similar procedure. For all segments, we can answer the following questions: whether it comprises customers with varying “benefits sought,” how many customer groups there are with relatively homogeneous buying behavior, and which buying criteria apply to each group. However, we have not answered the question if several improved segments can be combined without losing their homogeneity. Our knowledge about the buying criteria, however, will answer this question. If different customers choose the same buying criteria

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\(^2\) The column “Other Segments” will not be discussed further, because heterogeneity is intended here. An aggregation will lead to the involvement of several or all strategic groups. Therefore, multiple listings in the collective segment cannot be explained solely in terms of false segmentation.
and if they select identical supplier groups, we can assume that their “benefits sought” are similar.

The elevator buyers from the three primary segments actually show similar features. It does not matter whether large elevator systems are purchased for residential buildings or office buildings/hotels—the customers are identically oriented towards large manufacturers and have the same buying criteria. Other segments show further similarities. By and large, the segmentation of private customers interested in elevators for residential buildings, office buildings/hotels or industrial elevator systems can be represented as follows.3

From the point of view of the large manufacturer, who forms (and improves) the segments, the barriers are furthermore represented by two columns for each segment стратегического контингента in Fig. 7. Thus, we can estimate the chances and risks of entering a certain segment at a glance. It becomes easier to determine the success expected when other segments are entered.

The present case of the German elevator market in 1986 demonstrates that the entrance conditions for the segmenting firm vary considerably. If, for the time being, we disregard the possibilities of innovative (segment) entrance—where customers are worked upon with a mix

3 Even these segments show such a high degree of aggregation that the strategic groups cannot be definitely distributed. Nevertheless, we get a much clearer picture of the main activities of the suppliers of various strategic groups. In order to account for the incomplete segmentation, the matrix of the structure of competition uses various shades of gray. The dark shading shows the highest degree of interlinkage between the customer needs of one segment and the mix offered by the suppliers of one strategic group. Light shading means that the supplier group only finds customers in that segment because the segmentation is incomplete. In the end, the procedure accounts for the heterogeneity accepted in the segments.

hitherto unknown on the market—we only have entrance by imitating successful strategies. For the constellation “customers interested in individual medium-sized elevator systems/medium-sized manufacturers,” this means that the firm observing the market would have to surmount considerable structural barriers. These barriers result, above all, from the flexibility medium-sized manufacturers showed in comparison. Furthermore, an entrance would probably trigger substantial retaliation. Past experiences have shown that particularly medium-sized manufacturers reacted rather sensitively when other suppliers directed their activities towards “their” customers.

It seems easier to enter the segment/group constellation “customers interested in small-sized large scale elevator systems/medium-sized manufacturer.” As the size of the elevator system increases, the individual structural barriers for the respective firm decrease—which is explained by the existence of particular project departments in large manufacturers, who can neutralize the flexibility/cost disadvantage with the growing size of elevator systems. And the expected retaliation is less marked. The reason for this is a fuzzy line between the segments for small- and large-sized, large-scale elevator systems. The suppliers feel that they are rather active in the same segment. Accordingly, when large manufacturers increase their activity concerning small-sized, large-scale elevator systems, it is not necessarily interpreted as an attempt to enter the segment. In turn, it is assumed that the probability and/or the intensity of retaliatory measures are low.

Seen in relation to others, the segment/group constellation “customers interested in individual elevators/small-sized manufacturers and construction firms” is protected by the highest structural barriers. This is also explained by differences in flexibility and a distinct closeness to the customers, both of which would be uneconomical for
a large manufacturer. Because of these structural barriers, it seems impossible or economically unreasonable for them to enter this segment. This is not to say that the large manufacturer will refrain from entering the segment. In principle, each supplier has the possibility to open a new strategic group and to motivate the customers of one or several segments to migrate to the new group and to build a new segment if he employs innovative competition strategies. In this way, it is possible to initiate competition in one segment with the groups overlapping.

The determination of the possibilities to enter various segments is already of great help to the segmentation process. Still, we have to consider that the attractiveness of a segment is dependent on the time it takes for identified profit chances to disappear. The respective supplier has to make sure that he is capable of entering the segment and that he will be able to defend the envisaged segment later on. Here, the concept of the matrix of the competitive structure provides help, too. We only need to make certain changes: the height of the barriers of the matrix has to be represented from the point of view of each of the other supplier groups. If we have $n$ strategic groups, there will be $n-1$ matrices of the competitive structure that show which strategic group could threaten the envisaged segment by entering the group. We could also discuss the question of whether the erection of barriers is necessary or helpful if the segment is to be defended. We will not apply this estimation of the attractiveness of a segment to our practical example. In reality, there was no entrance. Thus, the discussion would be based on hypothesis. In conclusion, the instrument “matrix of the structure of competition” exemplified by the elevator industry, demonstrated that it is able to offer useful results.

6. Summary and conclusion

Having tested our considerations by using a concrete case from the elevator industry, we are convinced that the formation and selection of segments can be improved if we include theoretical aspects of competitor orientation. The strategic group concept can be regarded as a fruitful expansion of the customer-oriented market segmentation. The main premise is that we have a differentiated strategic group structure in the focused market. While the idea of market segmentation accounts for the fact that, in reality, there are no homogeneous customers (“preference barriers”), our explanations on the strategic groups show that there is similarly no homogeneity on the suppliers’ part (“mobility barriers”). A strategic group can be regarded as the supplying counterpart to the market segments. The customer preferences noted by competitors give an indirect hint of the customers’ buying behavior. Furthermore, the strategic group concept allows a more profound understanding of competitor behavior. We find direct answers, particularly to questions on:

1. retaliation against the entrance of a newcomer by established firms, and
2. the capability to defend an attractive segment within the course of time.

As these questions are highly relevant for marketing management, it seems appropriate to change the practice of segmentation. An emphasis is put on the dynamic perspective of segmentation. The temporal structure of decisions concerning entrance or exit could be improved. The concept of segmentation is linked to the market process. The interdependencies of segmentation become more obvious.

Nevertheless, a first empirical test cannot state the general validity of our considerations of market segmentation. First of all, we must test the hypotheses, which are explicitly and implicitly applied to this concept. A scientific approach to this area is both academically challenging and necessary. The potential result for practical marketing would be worth the effort.

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