10 minutes with...

George H. Leon

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George H. Leon didn't write the book on B-to-B customer segmentation. That would be *Segmentation Marketing* co-author John Berrigan, former chairman and CEO of research and consultancy firm National Analysts Worldwide Inc. in Philadelphia, No. 33 on *Marketing News*' Top 50 Honomichl list last year. But when *Marketing News* asked Berrigan for a top-notch B-to-B customer segmentation source still in the trade, the retired Berrigan emphatically pointed to Leon.

Leon, a vice president at National Analysts, worked as Berrigan's right-hand man for a large number of B-to-B customer segmentations, and has executed B-to-B customer segmentation studies for the past 22 years for clients such as IBM, Constellation Energy and FedEx.

Q: Why is B-to-B customer segmentation important, and what kinds of companies, based on size, is it important for?

A: The idea of segmentation is to really identify where the opportunities are and to understand the target audience … [so that] you're able to shape marketing messages, you're able to identify prospecting tools and you're able to execute against it in a way that will be both less costly and more advantageous than simply going out blindly to the broader market.

Typically, market segmentation projects involve a significant amount of market research [and] model development. [They] tend to be expensive, so they typically are conducted by larger companies [that] typically have larger and often very diverse customer bases. So it tends to be more important for [them] … to be able to slice it and dice it in more manageable-sized chunks.

Q: What kind of segmentation can researchers at small and mid-sized companies feasibly conduct?

A: The less expensive kinds of segmentation are based on things like customer behavior or sales behavior. So you might identify who your best customers are, who's currently buying from you the most, and profile them … and then you can look for similar kinds of companies. Sometimes companies target specific verticals. Maybe you're targeting financial services firms or targeting manufacturers of a particular type. These are the more basic types of segmentation that almost any company can do. And this is something that should increase the efficiency of your marketing efforts. …

The question is always [asked]: What problem can be solved for this particular audience of customers with our products and services? And that's where the market research part comes in to really say, 'Let's find out what customers are buying and why they're buying it, and what their unfilled needs are and we can target them accordingly.'

Q: Is there any aspect of B-to-B customer segmentation that is especially important to consider that may not be applicable to consumer marketers conducting a segmentation?

A: Typically, B-to-B segmentation can be more complicated. … The difference is when we talk about the targeting and prospecting, typically it's more critical for the B-to-B segmentation, simply because in B-to-C segmentation, unless they're doing direct marketing for their consumers, typically they're relying more on advertising, so you're oftentimes not as under the gun to produce prospecting lists.

Q: Talk me through the segmentation process and discuss what considerations must be made along the way.

A: The very first thing you need to do is introspectively ask: 'What are the company's objectives? What are we really trying to do? Are we trying to grow our existing customer base? Are we launching into new products and services? Are we trying to decrease our marketing costs? Are we looking for new markets to penetrate?' Usually, a company has one or more of those types of objectives in mind when [it approaches] a customer segmentation, and it's very, very important to engage in those business objectives because, ultimately, you really need to be able to track the performance of the segmentation against those objectives.

All too often companies embark on some sort of market segmentation without clearly delineating those objectives, and you'll have a diverse group of people, all of which are looking for some sort of magic bullet from the segmentation, and then nobody's really happy at the end.

Secondly, once those objectives are identified, then you can really begin on the design of the segmentation itself. So if your objective is to increase the wallet share of your existing customers … what you're doing is you're looking at what your customers are buying from you and potentially what they're buying from their competitors and potentially what's driving them to those purchase decisions.

You may find in some cases [it's because of] cost factors, in some cases folks are seeking best of breed, in some cases they are really looking for innovative products and services, and you need to divvy up your customers in those various buckets and meet their needs if you want to grow your revenue with those customers.

Q: How do you ensure a company makes the most of a segmentation study?

A: It's very, very important to get all the stakeholders on board and to really, clearly delineate what the expectations are on the

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back end. … If what you hand salespeople and sales managers is a segmentation report and that's it, I can guarantee you it will fail. It's kind of like trying to give an auto mechanic a physics lesson and expecting him to be able to repair a car. A technician needs tools he can put his hands on and sales forces need tools as well. … They need prospect lists, they need ways of identifying what segment customers are in, they need ways that they can immediately move through a product service offering for a particular type of customer, and they need big messaging associated with that. They don't get that from the research report.

So there's a big leap sometimes from the research part of the segmentation to the execution. You can't just wait and do the segmentation as a research project and then expect to be able to build the execution tools on the back end. It just doesn't work.

Q: In conducting segmentations for more than 20 years, are there some lessons you personally picked up on that you think are important to understand?

A: Rule No. 1 is that one size does not fit all. There's no such thing as an off-the-shelf segmentation. Beware when anyone talks about segmentation systems that supposedly will work in any product category. It's just not so. Each and every segmentation needs to be tailored to the specific product category and that specific company's business objectives.

[Another] point, and this is critically important, is that any segmentation has to engage a deep understanding of that company's customers. It's not enough to just divvy customers up according to some numbers. It's important to truly understand how the customers engage with that company, to truly understand the company's products and services. …

And lots of times, that gets down to issues within a segment of looking at what are the differences between large customers and small customers.

If a small customer says they need to save costs and a large customer says they need to save costs, it can mean two different things. So there needs to be a deep sensitivity of engaging in what we call the voice of the customer.

Q: Are there any recurring problem areas to avoid?

A: What is absolutely critical to any successful segmentation is that the segments make sense, that they're intuitively appealing to the stakeholders. **m**