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How to evaluate a market segmentation process

-A study on behalf of Svenska Cellulosa Aktiebolaget

Master's thesis within

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Abstract

Background

A widely used concept within marketing is market segmentation, which companies use to create value. Many researchers have focused on different approaches to market segmentation and the segmentation process, but little attention has been given to how one can evaluate such a process. The thesis is written on behalf of the Swedish company Svenska Cellulosa AB that is currently working on a market segmentation project for their baby products category.

Purpose

The purpose of this thesis is to develop a standardized process for evaluating and measuring the value of a segmentation process. The evaluation process will then be used to give recommendations to SCA on how they can evaluate their own segmentation process.

Method

To better understand how companies utilize market segmentation, but also how and if they measure the value of such a process, this thesis is conducted using a qualitative approach. The authors chose to collect the primary data through interviews with selected companies. The information gained from the interviews was then used to build three case-studies. The secondary data was collected from reviewing both scientific journals and textbooks concerning the relevant topic. The interviews were further analyzed using qualitative analysis techniques and based on the analysis a segmentation evaluation process was then developed.

Conclusion

The authors have found some common denominators among the case study companies on how they utilize segmentation to create value. However, none of the companies had developed a structured process to evaluate their segmentation process. By matching the case study findings with the frame of reference in relation to the research purpose the authors were able to develop a standardized segmentation evaluation process. This process was then used to give recommendations to SCA regarding their segmentation project.

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1 Introduction

1.1 Background

A key concept for every company with profit intentions is value, to create customer value that will turn into value for the company. Value is the goal of all functional areas of a business, thus also to marketing. Marketing decisions are taken with the intention of creating value, monetary or non-monetary, that hopefully leads to a sustainable competitive advantage and a profitable business. When referring to value one has to make a difference between business value (value created for the company) and customer value (value created for the customers). Business value and internal value are used interchangeably in this report and refer to any value a company procures. It can be either in monetary terms e.g. profits or sales, or in non-monetary terms e.g. the intangible value of a common organizational language or culture. Customer value or external value is referred to as the perceived value by consumers or the company customers. It is the difference between what the customer receives from a product/service and what he/she gives for it.

One of the concepts that has become fundamental in marketing is market segmentation. The ultimate purpose of market segmentation is to create customer-value by dividing the heterogeneous industrial market into homogenous consumer segments and to tailor a value proposition for each of those segments. Hopefully, creating customer value will result in increased value for the company. It is important to stress that the market segmentation as such does not create any value; rather it is the decisions which are based on the results of the segmentation that can create value (Håkan Erander, personal communication, 2011-03-24). In order to create customer value it is important to develop and maintain long-term relationships with the customers and to engage both employees and consumers with the brand (Prahalad & Ramaswamy, 2004). This is at the heart of the concept brand activation; to activate and interact with consumers in order to evoke interest in the company brand experience (Nguyen, 2007). A market segmentation creates a foundation on which a company can take decisions that will lead to brand activation. So through market segmentation a company can increase brand activation which, in turn, can lead to a higher value delivered to the customers.

Kotler, Wong, Saunders and Armstrong (2005, p. 31) define a market segment as *“a group of consumers who respond in a similar way to a given set of marketing stimuli”*. Another definition of a market segment is *“a group of buyers who have broadly similar needs and wants that differ in some relevant way from those of other customers in the same market”* (Baker, 2006, p. 739). Wendell R. Smith introduced the concept of market segmentation in 1956. According to Smith (1956, p. 5), market segmentation is based upon *“developments of the demand side of the market and represents a rational and more precise adjustment of product and marketing effort to consumer or user requirements”*. Kotler et al. (2005, p. 391) defines segmentation as *“dividing a market into distinct groups of buyers with different needs, characteristics or behaviour, who might require separate products or marketing mixes”*. As mentioned, since the pioneering article by Smith, a lot of attention has been given to this concept and it is widely used in the world of business. Most companies have realized that they cannot target everyone with their products to be effective and that this requires a division of the market. To understand the consumers and to identify which segments that are most likely to buy your product (or service) are essential for a business to be successful. Thus, companies put a lot of investments on performing market segmentation. These segmentation projects are often seen by the companies as a long-term investment where a recurring segmentation process or tool is established on which future actions will be based. If this is not done properly from the

beginning a poor foundation is laid which in turn will lead to poor decisions. Hence, it is important that companies create a solid segmentation ground from the start, and even more important if it is the first time a market segmentation is performed, to thoroughly evaluate this process. An evaluation, at its best, will help the company to improve its segmentation process, making it more solid and accurate, resulting in better decisions in the future.

As the frame of reference will present, there are a vast number of studies made on market segmentation as an approach to divide the market into homogeneous segments, and even on market segmentation as a process, but less focus have been given to the evaluation of such a process. Therefore it is interesting to investigate how and if companies measure the value gained from a segmentation process, either in monetary or non-monetary terms, externally or internally. The evaluation step of the process is perhaps more important when a new segmentation project is initiated. In contrast to market segmentation, the term segmentation process consists of three main elements: market segmentation, targeting and positioning (Dibb & Simkin, 1991). Targeting deals with which segments and how many segments the company should target. Positioning is a tactical element where marketers try to develop an image or identity of their brands, products or organization in the mind of their target consumers. To better understand how companies evaluate this step it is also important to look at the implementation phase of the segmentation process in order to see what decisions that are subject to evaluation.

The authors wrote this thesis on behalf of Svenska Cellulosa Aktiebolaget (SCA) at the initiative of the Global Hygiene Category division. SCA is currently working on a market segmentation project for its baby product brands (mainly diapers) and our ambition is to assist them in the evaluation process of this project.

1.2 Svenska Cellulosa Aktiebolaget (SCA)

SCA was founded in 1929 in a merger between ten Swedish forest companies, a merger that was financed by the Swedish financier Ivar Kreuger also known as the “Match King”. The main production at the time consisted of paper pulp, and in 1932 the Östrand pulp mill was put into operation becoming one of the largest pulp mills in the world at the time. Exports accounted for about 50% of sales in the 1930’s with USA as the biggest market. After the Second World War SCA was listed on the Stockholm Stock Exchange by the new owner and Swedish bank Handelsbanken as a result of a substantial increase in sales and profits. The following years, newsprint and kraftliner were introduced into the product mix. It was not until 1975 that SCA became a producer of consumer goods as a result of the acquisition of the Swedish personal care company Mölnlycke (SCA, 2010a). This was the start for the current business areas within personal care such as tissue, diapers, feminine hygiene and incontinence care. Today SCA is present in over 100 countries all over the world with 110 billion SEK in sales and over 45,000 employees making it one of the largest companies in Sweden (SCA, 2010b). The company’s major business areas are personal care products, tissue, packaging, publication papers and solid-wood products.

1.2.1 SCA Baby category

As mentioned, in 1975 SCA entered the consumer goods industry when acquiring Swedish Mölnlycke which facilitated the transition from being a forest company to include product categories such as baby diapers, feminine hygiene products, incontinence care and tissue.

The baby category includes several brands in many different markets. *Libero* is the largest and most wide-spread brand with Europe as its main market. Other brands are *Hey Baby!*, *Drypers*, *DRYPantz*, *Drykids*, *Cuddlers*, *Treasures*, *Tessy babies*, *Plissé Bébé*, *Pequeñin* and *Libero Peandouce*. In addition to the main product diapers, other baby products such as wipes, lotions, shampoo, oil, creams etc. are included in some of the brands (SCA, 2011).

World-wide SCA has the number four position as a diaper manufacturer and in Europe it is number three behind the competitors Procter & Gamble with *Pampers* as its main brand, and *Huggies* by Kimberley-Clarks.

One of the major turning points for SCA's baby category was the decision to differentiate the *Libero* brand from its major competitor Procter & Gamble's *Pampers* by conveying emotional aspects of SCA's products to the consumers rather than rational ones (Brit Fagerland, personal communication, 2011-02-21). In the beginning of the 1990's Procter & Gamble was the market leader in Sweden but SCA's decision to differentiate the company proved to be successful as it now has replaced Procter & Gamble as the number one diaper brand on the Nordic market. Another turning point was the introduction of pant diapers, also known as training-pants or pull-ups, which is a diaper that eases the transition from baby diapers to normal underwear. Today this type of diaper can be found in different sizes and does not necessarily have to be used for potty-training for older babies. The development of this product has been driven by SCA's *Libero* brand and is both positive and strategically important for the business (Brit Fagerland, personal communication, 2011-02-21).

1.2.2 SCA Baby - Market Segmentation

SCA is currently in the final phase of a segmentation process for its baby category brands, a process that started one and a half years ago. This process has been a collaboration between three parties; a global marketing research company, a London-based advertising and communications company, and a SCA core team (Brit Fagerland, personal communication, 2011-02-21). The key purpose of the segmentation project is to establish a multi-cultural segmentation with local relevance to enable key activities for *Libero* in focus markets from 2010 and onwards. The hope is that this will lead to more precise targeting and communication which, in turn, will lead to brand activation and brand-driven growth. Another goal with the segmentation is to establish a common language and mindset so that the organization becomes more consistent.

The market research has been performed in eight markets; three focus markets, three benchmark markets where SCA baby brands already are successful and two support markets. Initially a qualitative research was performed by doing both in-depth interviews and focus groups in order to find the key drivers for its categories. When this information had been acquired the research continued to the quantitative phase, where a total of over 5000 mothers and 500 pregnant women were interviewed in the different markets. These interviews were done by either online surveys or face-to-face questionnaires. The point of the benchmark markets was to investigate why SCA's brands are so successful in those markets and how that knowledge could be applied and leveraged in the selected focus markets. The hope is that this segmentation can create higher efficiency in marketing activities such as being more precise in targeting and communication but also to create a consistency externally- and internally to what the brand actually stands for. The segmentation has been performed using market research company Synovate's Censydiam Model, which is a complex segmentation tool using a "targeted" segmentation. The model provides information about customer attitudes, needs, motivations, behaviour and

demographics, and has its main focus on the relationships between these variables. These relationships are the foundation on which the segments are based and they are also what is said to make the segments more tangible and targetable (Brit Fagerland, personal communication, 2011-02-21).

During the segmentation process SCA has continuously been working on developing the brand and its position. As a part of this, SCA has changed the direction of the brand platform¹ using the findings in the segmentation as a basis, and a brand platform has also been established for one of the newly acquired brands in Mexico.

Currently SCA is also working together with each of the markets in the study to align and sharpen its market communication and brand expression using the target segments as a base, and at the same time they are adapting to local differences. The study will, for example, be used in market communication projects in Eastern Europe and Northern Africa.

In the near future a product design project will be initiated where the project brief will be grounded on the segmentation study. In addition SCA has plans to use the segmentation internally to popularize the segments through the whole organization by describing them using so called "Id cards". Discussions regarding decisions and actions for brands in South East Asia and South America are also in progress. Finally, SCA will adapt its brand tracking according to the new direction of the brand platform and form new product development and concept projects with the chosen segments in mind (Karsten Wijk, personal communication, 2011-03-31). The next step is 'link to execution' where all of these decisions will be executed in each market by collaborating with local advertising agencies.

1.3 Problem discussion

A market segmentation study is often not performed once and never again, rather it is a continuous process that is constantly updated and improved. Thus, an initial segmentation study usually lays the foundation for this continuous process that will guide the direction of the company in the future. So when starting a segmentation project it is important to evaluate the project so that the company can make improvements and avoid future decision-making based on a poor foundation.

As mentioned, it is the decisions that are taken on the basis of the segmentation that creates business value and not the segmentation alone. These decisions vary from company to company and thus there is no standardized way of evaluating the results of them. Segmentation as a process is complex, from the initial step of segmentation to evaluation, which is why it is difficult to measure if it has generated any value for the company.

Hence, the authors are interested to investigate how companies utilize their market segmentation studies, but particularly how and if they evaluate the segmentation process. What decisions are made to meet specified performance criteria? And even though companies meet their overall performance criteria on a higher strategic level, can they link this directly to the segmentation or is it presumed that the segmentation was successful?

¹ A brand platform can be described as a comprehensive framework which describes how a company applies their values and competencies to create value for the customer in a consistent way. It can be seen as a strategic tool to create uniformity in external communication but also to guide the organization on how to support the brand in terms of language and actions (Brand tool box Ltd., N.D). A brand platform should define essential brand behaviours and include following components: the brand vision, brand core values, brand position, brand dimensions, brand promise and the brand character.

For SCA baby this is the first time segmentation is performed on a global level. Therefore it is important that the decisions that it takes are based on a solid segmentation and that these decisions are evaluated to see whether they have created any value for SCA. An evaluation is also essential for making improvements and updates of the segmentation foundation or tool that has been formed in order to make better decisions in the future. For an evaluation to be effective there is a need for a method or process for conducting it, meaning that it is better to have a consequent process when evaluating so that each evaluation is done in the same way in order to facilitate comparisons.

As mentioned, in relation to market segmentation is the concept of brand activation. One of the goals of SCA's segmentation project is to use the segmentation results to activate their brand among both consumers and employees. So, in addition to the evaluation of a market segmentation as a process, the authors will investigate how a company can utilize market segmentation to facilitate brand activation.

1.4 Purpose

The purpose of this thesis is to develop a standardized process for evaluating and measuring the value of a segmentation process. The evaluation process will then be used to give recommendations to SCA on how it can evaluate its own segmentation process.

1.5 Research questions

To develop a segmentation evaluation process one needs to fully understand the concept of market segmentation. In addition, to be able to evaluate a segmentation process you also have to understand how market segmentation can be utilized since it is the decisions and not the actual segmentation that creates business value. Therefore the authors have specified the following research question:

Research Question 1: How can market segmentation be used to create business value?

The answer to question number one will give the authors an insight into what decisions are taken to create value with the segmentation as a basis.

Once question number one is answered the authors have decided to research if and how other companies evaluate these decisions as a part of the segmentation process. This is done to provide the authors with an insight into real-life business practices that will help to build a foundation in the development of a segmentation evaluation process. Thus, research question number two is specified as:

Research Question 2: How can you evaluate/measure the value of a market segmentation process?

As a final question, since one of the goals of SCA's segmentation project is to strengthen its brands and increase 'brand activation' the authors have specified the following question:

Research Question 3: How can a company utilize market segmentation to create brand activation?

This question will answer how the decisions found in research question number one can help a company to activate its brand, both internally and externally.

2 Frame of reference

2.1 Market segmentation

Kotler et al. (2005, p. 391) defines segmentation as “*dividing a market into distinct groups of buyers with different needs, characteristics or behaviour, who might require separate products or marketing mixes*”. The purpose of market segmentation is to concentrate marketing resources on one or several market segments to gain competitive advantage (Thomas, 1980). However, in some cases companies choose to target the whole market. A company targeting all consumers is often not very effective in its communication because all consumers are different. So, to divide a market into several segments facilitates the market communication so that it can be adjusted depending on which group of consumers the company wants to communicate with.

Originally, market segmentation focused on segmenting the market using geographic variables. Minor American manufacturers wanted to limit their investments or they did not have enough distribution resources to cover the whole U.S market, so they decided to segment the market to sell only to some areas (Haley, 1968). As brands became national a new segmentation approach emerged called demographics. This approach includes variables such as age, gender, income and educational level. Demographic segmentation quickly became popular, but studies have shown that demographic variables are not a good predictor of behaviour among consumers (Haley, 1968). According to Kotler and Keller (2009) there are four primary approaches that one can use to segment a market: Geographic, Demographic, Psychographic and Behavioural variables. These segmentation approaches are described more in detail below. In addition a fifth approach is also included, benefit segmentation, as this is another widely used approach.

- **Geographic segmentation** is perhaps the easiest way to segment a market. As the name implies the market is segmented using geographic variables such as a country, state, region or neighbourhood (Kotler & Keller, 2009).
- **Demographic segmentation** is used when one is interested in variables such as age, income, educational level, occupation, nationality, social class, religion etc. It relies on pure statistical data and is perhaps the most common way to segment a market (Marconi, 2000).
- **Psychographic segmentation** is used when one is interested in differences when it comes to life-style, personality or attitudes (Kotler & Keller, 2009). Psychographics is often used in conjunction with geographic or demographic variables, or sometimes both, to get a more specific target segment that is based not only on pure statistical variables but also on behavioural ones.
- **Behavioural segmentation** takes in to account areas such as benefits sought, purchase occasion, user status, degree of usage, degree of loyalty, readiness stage, and marketing factor sensitivity. Buyers are usually divided into groups based on knowledge of the product, response to the product or attitude towards it (Kotler & Keller, 2009).
- **Benefit segmentation** (or sometimes called needs-based- or need-benefit segmentation) identifies market segments by causal rather than descriptive factors and bypasses demographic explanatory variables. The underlying assumption of

this approach is that benefits that consumers seek in a product are the main reasons why the market is fragmented. Thus, this is an approach that focuses on the needs and desires of the consumers where benefits sought can be regarded as manifestations of consumer needs and wants (Haley, 1968).

As mentioned, demographic segmentation is perhaps the most common way to segment a market but does not say much about the needs and wants of consumers. Instead, Yankelovich (1964) propose that buyer attitudes, motivations, values, patterns of usage, aesthetic preferences and degree of susceptibility better predict the buying behaviour of a segment which is further supported by Plummer (1974). In other words, these variables are closer to consumer values than descriptive variables such as demographics. This is not to say that demographic segmentation should be neglected but instead that it should be regarded as one of many approaches of segmenting a market. Demographic variables can be very helpful when buying media advertisement since demographic data on the audience is easy to find. However, both geographic and demographic segmentation rely purely on descriptive data instead of causal factors, which means that they are poor estimators of future behaviour. Psychographic variables in contrast to demographic variables group consumers according to life-style patterns as described above. Wells and Tigert (1971) introduced a survey method called Activities, Interests and Opinions (AIOs) to create a psychographic profile of consumers. When combining this with demographic variables an AIO profile can be of great help when analysing behaviour patterns of consumers.

A more recent segmentation approach focuses on the “new” global consumer referring to the homogenized needs and wants of the consumers in the world. It enables global companies to target a worldwide audience with more standardized products and market communication. This universal approach to segmentation is argued to be more innovative and also more likely to give the firm a competitive advantage because of standardization of the product and communications mix (Hassan, Craft & Kortam, 2003). The inventors of the term call it ‘hybrid global segmentation’ and refers to the core essence “think global similarities and adapt to local differences” where the focus is to find similarities instead of differences as in the case of a multi-domestic approach. This approach is highly relevant as consumers around the world seem to want similar products. As differences in consumer preferences diminish, global companies have an opportunity to take advantage of the forces of market globalization by using a more standardized approach. However, in some markets it can be desirable to allow adaptation to local needs and sometimes it might even be required (Keegan and Schlegelmich, 1999).

Independent of which variables that the segmentation is based on Kotler have developed five criteria that must be met for a segmentation to be effective, criteria which are still relevant today (Kotler and Keller, 2009). These are:

- **Measurable:**
This means that the segments should be measurable when it comes to size, buying power and profiles
- **Accessible:**
The market segments can be efficiently reached and served
- **Substantial:**
The segments should be large or beneficial enough to target
- **Differentiable:**

The segments must be conceptually distinguishable and respond in different ways to different marketing programs.

- **Actionable:**

It should be possible to develop a marketing program to attract and serve the desired segments.

Once the segments are selected the company needs to take tactical decisions based on its target segments in order to create value and grow the business.

How a segmentation process can lead to business growth

A sound approach to segmentation is to think of it as a tool for creating customer value. A company divides the market to better understand consumers in order to deliver an offer they perceive as valuable. Simplified, if the consumers perceive an offer to be more valuable than the deal of a competitor the company will most likely capitalize on that offer, generating value for the business. Thus, segmenting the market and creating an attractive value proposition for the target segments will probably result in more customers. If a company can continue to deliver high value to the customers they will increase customer retention and in due time, develop a relationship with them where both parties benefit from being loyal to the other party. According to Belk (1988) many customers are developing relationships with brands, and it costs five times more to get a new customer than keeping an existing one. Thus developing a company-customer relationship is beneficial for a company (Prahalad & Ramaswamy, 2004). So the key to long-term growth starts with understanding the consumers by e.g. performing a segmentation, and then based on that segmentation select suitable target segments and tailor a value proposition for them. Doing this on a continuous basis creates both customer value and value for the business in the long-term.

Market segmentation, how it can be utilized and how it creates value: Consultants' insights

Companies often perform market segmentation projects in collaboration with market research companies and/or consulting firms. So the authors have chosen to present the view of two consultants on the topic to get a professional perspective. These consultants represent the two internationally well-known consulting firms Cap Gemini and Accenture.

A segmentation is valuable as a foundation on which decisions are based but does not create any value in itself (Håkan Erander, personal communication, 2011-03-24). Internally a company can utilize a market segmentation by developing a common ground in which a unanimous image of the company's target markets is created (Caroline Holm, personal communication, 2011-03-18). This facilitates the decision-making of the different business functions so that all actions are taken with the different segments in mind e.g. the marketing department is able to better make an attractive offer for each and every segment based on variables such as needs, behavior and attitudes found in the segmentation. Creating this common ground is called positioning in marketing, which is the process where a company tries to develop an image and identity in the minds of the target consumers or employees (Håkan Erander, personal communication, 2011-03-24). The positioning is a part of the segmentation process and thus involves decisions that can create value for the company. By measuring the internal image/identity of the company and comparing it to the external image/identity of the consumers, which is found in the

market segmentation, one can detect discrepancies (Håkan Erander, personal communication, 2011-03-24). If a gap between the external and internal image is identified a company should take actions to close that gap, which can in part be done using internal marketing such as diffusing information about the company's target segments and the segmentation project. A possible way to measure the effects of the diffusion of information found in the segmentation is to use a staffing index (Caroline Holm, personal communication, 2011-03-18). When using a staffing index the company may be able to detect changes in behaviour of the employees pre- and post the segmentation process. When performing an internal survey before and after, an index can be calculated so that changes in employee behaviour related to the segmentation process are detected (Caroline Holm, personal communication, 2011-03-18). Changes in the staffing index can indicate if the diffusion of information during the segmentation process has created internal value or not.

As mentioned, a segmentation is thus a base for decision-making so that different business functions can make decisions related to the company's internal processes. These decisions will hopefully result in the creation of customer value. Internal processes could be product development, brand management, manufacturing, selling/distribution of products. *“With these four parts you have covered the core processes of a company, namely product development, supply chain management, customer relationship management and the overall planning and management of the enterprise”* (Håkan Erander, personal communication, 2011-03-24). The result of the segmentation should be present in all of these core processes, meaning that decisions regarding new products, how to position the brand, what suppliers to use and overall business strategy should always be taken with the chosen target segments in mind (Håkan Erander, personal communication, 2011-03-24). According to Mr. Erander, the most important of these processes when it comes to generating customer value is product development (Håkan Erander, personal communication, 2011-03-24). It does not matter if the company is a manufacturer of simple or advanced products. More advanced products such as a dishwasher can have many functions and attributes added to it in order to fit the needs and behaviour of the target segments, while a simpler product such as chewing gum can have a different product- or package design to attract consumers. However, independent of which product the company manufactures it can be preferable to have a few core products that can be adapted to the different segments to e.g. lower costs (Håkan Erander, personal communication, 2011-03-24).

Besides product development, a company can also make use of a segmentation when choosing suppliers. As an example, if a segment of consumers is concerned with price, one should manufacture products that are price competitive but also distribute these through a price competitive channel, such as e.g. Lidl and Willys where that segment is most likely to shop (Håkan Erander, personal communication, 2011-03-24). The same principle goes for market communication. If a company has a premium product that is aimed for consumers that are price insensitive it should choose communication channels accordingly by e.g. maybe not use flyers or coupons.

“To measure direct value of a segmentation process is immensely hard. It might be that you have made a great segmentation but you take bad decisions. Or you do a bad segmentation but take great decisions, such as an innovation which is superior to your competitors” (Håkan Erander, personal communication, 2011-03-24). In addition, environmental factors such as competitors going into bankruptcy, natural disasters affecting supplies or a change in the economic climate also play their part in the final outcome, and the effects of these factors are almost impossible to calculate (Håkan Erander, personal communication, 2011-03-24). However, one can make a rough

estimation of the value gained from a segmentation process by looking at the initial goals of it (Caroline Holm, personal communication, 2011-03-18). If the goal is to increase the top of the mind awareness of a brand, one should investigate the value drivers for this goal. What is it that drives top of the mind awareness? If it is determined that the number of advertisements is the driver for top of the mind awareness, then the financial effect can be measured by looking at how many consumers accepted an offer that was based on the segmentation. One method for measuring these effects is by taking advantage of a customer loyalty program. The loyalty program can track the shopping behavior of the customers on a segment level, and by acquiring this knowledge the company can send specific customers an offer that is based on the segmentation and the area of interest for the consumer. If the value of the offer is high enough the consumer will accept the offer, which is then recorded by the loyalty program. A second method for measuring how many consumers that accepted an offer is by the use of a survey. This is however less reliable than the two previous methods as the survey questions can be interpreted in various ways by different consumers (Caroline Holm, personal communication, 2011-03-18). As a consulting firm there are several things to look at to see if a segmentation project has been successful. After segmenting the market on variables such as needs, behavior, attitudes and to some extent demographics one can follow the penetration of certain products and brands within the segments but also changes in those variables post-segmentation by using market research (Håkan Erander, personal communication, 2011-03-24). For example, one can take measurements before and after tactical actions have been taken to detect changes in awareness and attitudes. The only way to find out is by doing market research before and after a segmentation project (Håkan Erander, personal communication, 2011-03-24).

When it comes to brand activation Mr. Erander says that a company has to tune the market communication in accordance to the different target segments. If we take a pharmacy chain as an example; they have identified a segment with bargain hunters, which consist of roughly 8 % of the Swedish population. The question is what kind of communication they should use to reach these consumers in the best way? This segment is very rational when they buy products and concerned with price, but this does not mean that they want to buy inferior products. So a commercial which compares two brands, and says that the pharmacy chain in question have the exact same kind of product but cheaper can be a good way of getting the consumers involved (Håkan Erander, personal communication, 2011-03-24). However, this is more of a one-way business to consumer communication. Another way of activating a brand, which some marketers argues to be the better way to go, is to interact more with the customer using a two-way dialogue. Then a company has to start looking at which channels to use, such as social media (Håkan Erander, personal communication, 2011-03-24). The segmentation is used to differentiate the homogenous groups on the market, to understand these groups and how to communicate with them in order to get them to communicate back. Once the market segmentation study is finalized one can use forums, fan clubs and membership clubs to interact with the consumers that hopefully create value for both the customer and the business. A successful example is the Lego factory, where Lego found a number of people interested in technology and design, so they created a forum to get them to interact. Lego has probably performed a segmentation that was used as a base for taking the decision to start this forum (Håkan Erander, personal communication, 2011-03-24).

Consulting firms are often involved in the market segmentation projects at large companies, and hence the authors consider it to be important to present the view of consultants within the area. They are often involved in the implementation of the results from a market segmentation as a part of the whole segmentation process. That includes

participating in the formulation of marketing and strategic decisions which is related to the next section “Strategic Marketing”

2.2 Strategic marketing

Strategic marketing is a process involving, among other things, market segmentation, targeting and positioning i.e. a segmentation process. It focuses on creating customer value which is essential for a company to operate in today’s competitive environment. Creating value for the customers is often equivalent to creating value for the company (Nijssen & Frambach, 2001). Without proper strategic marketing planning it is highly unlikely that large corporations like Intel would be able to satisfy its customer’s needs by developing new high-performance processors or that Apple would be so successful with its innovative products. Thus, the root of successful strategic marketing is to identify the “right” segments and understanding the profound needs of those segments. Otherwise the marketing mix will be planned according to misconceptions of the company’s target consumers and consequently the marketing strategy is likely to fail. It is apparent that the concept of strategic marketing is highly relevant for a consumer-driven company as the purpose of all strategic marketing decisions is to create value for the customers which is essential for creating value for the company.

Until the 1980’s marketing focused mainly on operational decisions such as the marketing mix (product, price, place and promotion), and there was little attention paid to the external environment of a company. However, in the late 1980’s and early 1990’s marketers aimed to bridge the gap between the marketing mix and the more environmentally oriented business strategy, so they created the concept of strategic marketing. Hence, strategic marketing is a process that helps to accomplish and shape a company’s business or corporate strategy (Nijssen & Frambach, 2001). The process includes establishing an organizational mission, business strategy, marketing goals and objectives, marketing strategy and writing a marketing plan. Hence, strategic marketing is a more holistic approach to business or corporate strategy including both marketing elements (marketing objectives, goals, strategy and marketing plan) and strategy concerned with a company’s external environment. In other words, strategic marketing involves the selection and analysis of markets a company wants to target and the creation and adaptation of a marketing mix to the needs of the consumers in those market segments (Ferrell, Hartline & Lucas, 2002).

The process of strategic marketing planning often starts with goal setting, including defining the corporate mission and objectives (see Appendix 1.) Once the mission and objectives is set, a situational analysis of the company external and internal environment is done. The external analysis includes e.g. customer analysis, distribution analysis and competitor analysis. It is at this stage a company analyzes the customer environment, gain insights about consumer needs, behaviour and communication behaviour and assess the size of possible segments, which includes performing a market segmentation. The internal analysis includes performing a marketing audit and a financial audit (Nijssen & Frambach, 2001). A part of the situational analysis is also to assess the company’s internal strengths and weaknesses, and detect external opportunities and threats, called a SWOT-analysis. Based on the SWOT and situational analysis the following stage is then concerned with more specific marketing elements such as the marketing objectives, goals, strategy and writing a marketing plan (Hamper, 1990). This includes developing the marketing mix. Just to clarify, the term strategic marketing is not to be confused with the term marketing strategy which is a stage in the strategic marketing planning process. The marketing strategy

is developed to provide an integration of marketing efforts that aims to realize the marketing objectives (Ferrell et al., 2002). This includes selecting which segments to target and how to develop the marketing mix. So, the segmentation process is incorporated in the whole strategic marketing planning process while segmenting the market is performed at an early stage in the assessment of the external environment.

Once the marketing strategies and objectives are set, tactical plans are developed accordingly and a budget needs to be set for those plans. The company then needs to develop a program for implementing these strategies and plans (McDonald, 2008). For the implementation program to be effective strategies should be formulated specifically for each business function e.g. marketing, R&D, production etc. Finally, the implementation of a marketing strategy needs to be evaluated and monitored to ensure that the business is kept on track (Doyle & Stern, 2006). Also, this evaluation helps the company in future strategic marketing planning.

SCA has selected target segments and developed a marketing strategy for its baby category based on the findings in the market segmentation. The next step for SCA is to develop and execute tactical plans regarding e.g. market communication and product development. After the implementation there is a need to evaluate this market segmentation project. This is to see if segmentation goals are met, but also to be able to update and improve the segmentation process for future use.

The segmentation process is a part of the strategic marketing planning with the main purpose of generating customer value. A segmentation process should be reflected in all processes within a company to create a consistency in e.g. production, services and communication, as a part of a value-creation process.

2.3 Value-creation

Value-creation is a cornerstone in business and is, in part, realized through strategic marketing decisions. According to Mizik and Jacobson (2002) companies allocate resources between two processes, namely creating value (i.e. innovating, producing and distributing products) and appropriating value (i.e. extracting value from the market place) which are both required for a sustained competitive advantage. Innovation, product development and marketing communication creates value for the consumers that is subjective in nature, meaning that “Value is in the eye of the beholder”. In turn, delivering a superior customer value leads to a more tangible internal value in terms of profits for the company. The value is thus created within the mind of the customer, which is why the customer should always be at the center of attention.

Business value starts with knowledge and understanding of the customers and this value, according to many marketers, is what initiates competitive advantage (Cheverton, 2010). Thus, understanding the customers is what eventually will lead to value, meaning that a market segmentation could be the start of value-creation for a company since understanding and identifying consumers is the ultimate goal of segmentation. Both Cheverton (2010) and Mr. Erander (personal communication, 2011-03-24) agree that a segmentation is valuable but that it is the value proposition that is developed for the customers that ultimately lead to competitive advantage and business value. Drucker (1954) further states that sustainable competitive advantage is achieved by creating superior customer value, which is at the heart of the whole marketing concept. Of course, after creating a value proposition the company must deliver that proposition and preferably engage in after-sales activities. However, Mizik and Jacobson (2002) says that creating and

delivering a value proposition for the consumers is not enough to attain business value, a company needs to be able to extract profits from that proposition in order for it to return any value to the organization. To do this a company must be able to restrict competitive forces such as imitations of its own products. Companies that do not have the ability to control these external forces cannot fully exploit the value that they have created.

The authors would like to summarize this, from a broad and simplified perspective, by saying that to be able to create business value it is essential for a company to:

1. Have knowledge and understanding of the customers (generally attained through market research and segmentation)
2. Create a value proposition for the customers (e.g. through product development)
3. Deliver the value proposition (e.g. communication, distribution)
4. Engage in after-sales activities (e.g. customer support, guarantees, insurances)
5. Restrict competitive forces (e.g. erect barriers to imitations)

There are numerous variables, not mentioned above, that will have an effect on business value. These five steps must of course be in line with a good business strategy that is clear and communicated within the organization. The structure of the organization, to give another example, can also affect the processes in each of these steps positively or negatively. As with most marketing theories it is impossible to include all variables so we make simplifications of the reality. Having said that, the essence of these steps is that it ultimately comes down to whether the customer perceives the offer to be valuable enough to make a purchase and whether he/she will consider buying the product or service again. So, by understanding the consumers a company has a better chance of developing and delivering an offer that he/she cannot resist. This is what marketing is all about and, at the end of the day, what creates value for both the customer and the company.

In order to create a unique value for the customer it is important to make the employees themselves understand the meaning of the brand. By creating a consistency in all interactions with the customer, the company becomes perceived as one coherent brand and can create a more advantageous offer for the customer. This is the primary function of brand activation, which is further discussed in the next section.

2.4 Brand activation

Brand activation can be simply described as both activating the employees in a company in order to better satisfy the customers' needs and wants, and also evoking an interest in the consumers to take part in the brand experience. The use of traditional marketing is diminishing and the consumers are getting better at blocking ads, which suggest that a more refined marketing communication is required in order to engage the interest of these consumers (Nguyen, 2007).

Today's business climate is highly competitive and to create unique product features has become hard and expensive, where commercial success is not guaranteed by simply generating technical progress. This has led to that some larger companies such as Microsoft and Nike are beginning to put focus more on their brand image rather on their products. By doing this these companies are turning their brands into competitive weapons, where the brands are carrying a proposed emotional value for the consumers and acts as symbols of the companies' competitive competence. The challenge lies in creating a meaningful and comprehensive relationship with the customers. Previously branding was only a marketing communication tool, but in order to inspire trust and loyalty from the new modern

customer the whole company needs to utilize the benefits of the assets which are included in the brand (Morel, Preisler, & Nyström, 2002).

As consumers are becoming more selective of their brands and products in line with their values and preferences, companies who do not deliver on their communicated promises will not remain in the minds of the consumers. Obviously, this is not a preferred scenario for any company, which makes it important to engage in brand management and use it in more areas beyond the marketing functions, rather than handing over the issue to a marketing bureau. According to Morel et al. (2002) a brand can be activated in every customer relation, e.g. in customer support, when the employees answer the phone, in the design of a product and so on. If this is to be possible the company needs to demystify the brand and distribute the brand knowledge to the employees in order for the brand to be used as a source for innovation and for creating new ideas within the whole organization.

What is brand activation?

One might say that the term brand activation is used to contrast the traditional one-way business-to-consumer i.e. communication from the company to the consumer (Nguyen, 2007). Rather than being a theory, brand activation is more of a process in the development of brands. Once the necessary brand strategies have been implemented the company needs to transact them throughout the organization and in the comprehensive offer to the customers. Brand activation is a deeper investigation of the possibilities of the brand, its strategy and position to identify assets that can be utilized by the company to create an advantage (Morel et al., 2002). There is a range of situations where a brand can be activated which are summarized by Morel et al. (2002) as four cornerstones; *Products and services, Employees, Identity and Communication* (see Appendix 2). An active brand will offer the customers products and services which are in line with the brand position, where the customers is met in a personal manner closely linked to this position. It will have a consistent appearance independent of which interface the customer use to interact with the brand. That is to say, that the customer will see the brand as a uniform company whether he or she interacts with it through the product, the telephone, with direct contact with an employee or digital media. The active brand's position is also communicated through different kinds of advertising (Morel et al., 2002).

What to activate

A brand is activated through looking at what core features that make up the brand. This can be e.g. the vision of the company, the position which is being communicated or some benefit which is promised to the customers. This is where a consumer segmentation can be important, as it aids in discovering what it is that the consumers value which can be used to better reach those consumers (Morel et al., 2002).

When using communication to activate a brand there are several interesting tools which can be used, for example experiential marketing and tryvertising² (Nguyen, 2007). The authors have chosen to illustrate how brand activation can be used by the example of the company Dove. Dove initiated a brand activation project in 2003 which was called "portrait of Dove women". The objective of the campaign was to bring life to the brand vision of "beauty without artifice". The strategy was to promote the real brand experience

² The concept of tryvertising is basically concerned with allowing the consumers to try the products by e.g. placing an IKEA bed in a hotel room. The consumers will then be more aware of the brand when exposed to advertisements and hopefully make a purchase based on the experience of the product (Moutinho, 2011).

with a deeper connection with women through the use of a photo exhibition. Dove employees recruited women all over Italy for several months, through in store activities and also in the cities. Over 10000 women volunteered to be photographed, where 100 of these photos were used in an exclusive photo exhibition, uploaded on an internet site and printed into books that were sold all over the country. At the same time advertisements were made to promote the event, where the profit would support a non-profit women organization in Italy (Schillewaert, Ruyck & Disave., 2007). This is a good example of how an integrated marketing approach was used, where the Dove customers were included in the campaign. One-way business-to-consumer market communication can also facilitate brand activation. By creating a message which is emotional rather than rational and relevant to the consumers, a conversation is more likely to occur between consumers, thus the advertisement has created activity around the brand. In addition, a higher brand activation, according to study made by InSites Consulting, Pub & VmmTV, increases consumer buying intentions (Van Belleghem, 2011).

2.5 Summary of chapter 2

Market segmentation as an important strategic marketing decision is performed in order to group consumers into homogenous segments according to e.g. their needs and wants. It is important to understand that a segmentation does not create any value by itself, but rather it is used as a decision basis for different business functions (e.g. the marketing department and those working with activating the company brands) within a company which in turn may or may not create business value. Thus, when evaluating a segmentation process it is the decisions a company takes, with the segmentation study in mind, that have to be evaluated. So after reading previous literature and interviewing consultants within this area the authors are also interested to find out:

- Which segmentation approaches do companies use today?
- Is market segmentation utilized differently in different industries?
- Which business areas/processes do companies mainly use their segmentation studies for?

In addition, as the frame of reference suggests value can be in the form of customer value (external value) or business value. Hence the authors are interested to know:

- How do companies utilize market segmentation to create value both internally/externally?

3 Methodology

3.1 Research design

When conducting research it is important to determine what design that will be used throughout the research project, that is, whether to use a deductive or inductive approach. This is not to say that one is “better” than the other, but rather that one of them is better to use depending on the research question(s) (Saunders, Lewis & Thornhill, 1997). Saunders et al. (1997) give suggestions of meaningful criteria for determining the approach. The first and most important criterion is the nature of the research topic. If there is an abundance of literature concerning the topic from which one can build a theoretical framework and formulate a hypothesis, it is generally more appropriate to use a deductive approach. On the other hand, if the topic is relatively unexplored and if there is little existing literature on the topic, then it is usually more appropriate to approach the topic inductively by first looking at the empirical data and then developing the theory from what the data suggests. Even though segmentation is a well established concept, we know little about how segmentation actually can be used to create business value and also how this can be evaluated. The authors therefore decided to work using a combination of deduction and induction. This is commonly referred to as the abduction research process, which starts with a general framework that is followed by an observation of the phenomenon of interest. The researcher then returns to search for theories that match the findings in the empirical material (Dubois & Gadde, 2002). As stated by Kovács and Spens (2005) the abductive approach aims at searching for theories that suits an empirical finding. This is further developed by Dubois and Gadde (2002) in what they call “systematic combining” or “theory matching”. By using systematic combining one can simultaneously gather information and build theory, which implies a “back and forth” process between the empirical study and theory. The abductive approach is summarized in the following model by Kovács and Spens (2005):

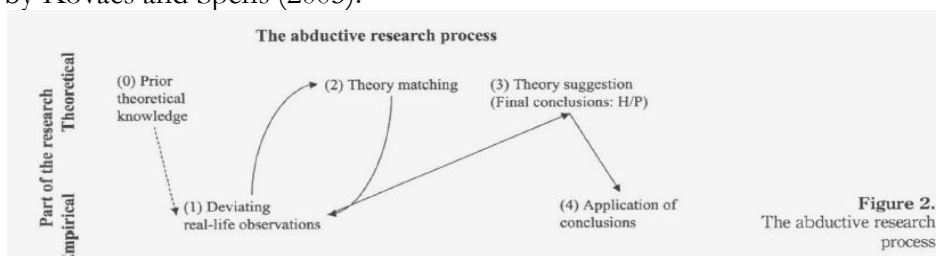


Figure 3.1 The Abductive Research Process (Kovács & Spens, 2005, p.139)

3.2 A multiple case study approach

When investigating a phenomenon that is difficult to research outside its natural context and when the quantification of variables and concepts is difficult, the case study approach can be very useful (Ghauri et al., 2005). When deciding upon what research strategy that is most suitable to utilize, one of the most important conditions to identify is what type of research questions that are asked. If the questions are of the type "how" and "why" then case studies are likely to be favorable (Yin, 2003). This thesis is interested in finding out *how* a segmentation can be used to create business value and also *how* a company can evaluate the value of a segmentation process, which seems to correspond to Yin's reasoning. Yin (2003) further explains that the essence of a case study is to crystallize a set of decisions made by an organization; why they were taken, how they were implemented and with what result. Given the exploratory nature of the purpose of this thesis the case study approach, which gives the opportunity to investigate why and how a set of decisions were taken by a

company, was deemed most appropriate. The data collection techniques used in a case study may be many and can also be used in a combination with each other. These techniques may consist of e.g. observation, interviews, questionnaires and documentary analysis (Saunders et al., 2007), which is further discussed in the data collection section.

Yin (2003) also mentions that a case study can take different forms as either a single-case study or a multiple-case study. The single-case study may be more suitable when e.g. a critical case is tested against a well-formulated theory, or when the studied case is so unique and extreme that using a single case is meaningful for documentation and analysis. He further states that the multiple-case study has the advantage over a single-case in that the evidence is more compelling and the study is therefore considered to be more robust.

The decision of using either of these designs should be made early in the research. Ghauri et al. (2005, p.120) asserts that *“The use of a particular case study method depends also upon the type of study we are doing, whether it is inductive or deductive, and also upon whether we are looking for specific or general explanations”*. For example, if the research is inductive and has the aim of finding general explanations, the multiple-case study is preferable (Ghauri et al., 2005). The authors have decided to use the multiple-case study approach in this study which seems to be the most appropriate approach in regard to the previously examined research methods, where the authors are looking for general explanations. Investigating the phenomena of interest across several case studies was done to be able to generalize the findings into a standardized evaluation process.

3.3 Choice of method for data collection

Ghauri and Grønhaug (2005) asserts that when conducting business studies most researchers have to collect some amount of primary data which can be used to answer the specified research question(s). Once the decision has been made to collect information from a primary source, the next decision is to determine what kind of information collecting method that will be utilized. According to Ghauri and Grønhaug (2005) these collecting methods generally includes observations, surveys, interviews and experiments. The term business value is not easy to quantify and is likely to have a different meaning between companies, hence the decision was made to use a qualitative approach where the authors can be more in-depth in the investigation. This qualitative approach is further supported by Saunders et al. (2007, p.145) who explains that *“...qualitative is used predominantly as a synonym for any data collection technique (such as an interview) or data analysis procedure (such as categorizing data) that generates or uses non-numerical data.”* The authors are interested of exploring the whole segmentation process, from the segmentation itself to the evaluation of the decisions which are taken with the segmentation as a basis in order to create business value. This is one of the strengths of a qualitative methodology, which has the ability to research complex processes where relevant variables have not yet been identified (Marshall, 1999).

3.4 Data collection

The data in the thesis has been collected in two ways. The most critical source of information was gathered from the interviews with the selected case study companies to get an understanding of the research topic. Other information has then been collected from secondary sources in order to create more accurate case studies and to help build the theoretical framework.

3.4.1 Selection of companies

When deciding which companies to include in the case studies five main criteria were initially developed which were applied to all companies in a screening process. Once the potential companies had been identified various sub-criteria were selected to group the companies into two subcategories.

Main criteria:

- The first criterion to be established was that the case companies should have *strong brands*. This is due to the nature of the purpose of this thesis where the subject of interest is the segmentation process. The authors are of the opinion that it is more likely for companies with strong and established brands to have utilized a consumer segmentation in comparison to a small and relative weak brand.
- Secondly, the case companies should be *international*. As SCA is a global company the authors believe that it is more beneficial to compare other companies that are similar in this aspect. But since global companies can be hard to reach for an interview we decided to limit the research to *international* companies. Being an international company implies that it is faced with the challenge of performing a segmentation on various markets around the world that can be very dissimilar in e.g. demographics, psychographics and behavior. In contrast, a local company would probably only be interested in segmenting a single market.
- The third criterion was that the case companies need to be *attainable*. The primary meaning of attainable is that the company needs to be within a reasonable geographic distance due to time and financial limitations.
- Another important criterion was that the company should be in the *manufacturing* industry. A service company is offering intangible products and is therefore more concerned with the individual whom it is providing the service in question. The manufacturing company is offering tangible products which can be measured more effectively over time. As SCA is in the manufacturing industry it seems more appropriate to study other companies within that industry.
- The final main criterion is that the products of the case companies should be sold from a *business-to-consumer* (B2C) perspective. This is due to the nature of the marketing operations within a B2C company which is likely to differ from that of a B2B (business-to-business) company.

As mentioned, after these main criteria had been applied in the screening process several other criteria were then used to group the companies into two sub-categories. This was done to detect possible differences in segmentation methods between companies with regard to what kind of products they are offering. As stated by Huberman and Miles (1994), if the cases are adequately sampled it will help answer the question if the findings make sense outside a specific case.

The consumption goods category contains companies which provide products that are not related to baby products. Furthermore, these products should be consumption goods such as food

and drinks.

The consumer durable goods category is the second category which is similar to the consumption goods category in that it includes companies that do not provide baby products. The difference is that instead of consumption goods the category should include consumer durable goods such as furnishings, cars and appliances.

There was supposed to be a third category including companies that manufactures baby related products but none of the contacted companies wanted to participate in the research. In addition, there were not many companies fitting the profile of being both international and a producer of baby products so the number of interview requests in this category were few. Initially, the purpose of including this category was to compare a company in a similar industry as SCA.

In the beginning of the work on this thesis it was difficult to determine how much each case would be able to contribute with. Therefore the number of cases to include was decided during the research process, in contrast to during the planning stage, to affirm the quality of the case study. Initially 10 letters were sent to the companies deemed appropriate to be included in the study in accordance to the selection criteria. The recipients were then contacted one week later to determine if they were interested to participate in the case study and ultimately four companies agreed to take part in the research. These four companies were hence interviewed but ultimately only three of them are used as cases as one of the companies interviewed did not prove meaningful enough for our purpose. It should be mentioned that after the interviews were completed we could have contacted additional companies to be included in the study. However, the authors have interviewed several experts with knowledge in our area of interest and the extracted information from these interviews was therefore deemed sufficient in order to build a case study. The companies that are used as cases in the empirical findings are therefore:

Arla Foods AB

Arla Foods AB is a cooperative dairy company which is owned by Danish and Swedish dairy farmers. The company is one of the strongest actors on the international dairy market and has core markets in Sweden, Denmark, Great Britain, Germany, Finland and the Netherlands. Arla produce dairy products such as milk, soured milk, cheese and butter, where some of its most recognized brands are Bregott, Kelda and Kvibille (Arla Foods, 2011). Arla Foods AB was selected for the consumption products category, as it is both manufacturing and selling dairy products on the international market.

AB Electrolux

Electrolux is one of the world largest producers of home appliances, producing products such as dish washers, stoves, refrigerators, vacuum cleaners and washing machines (AB Electrolux, 2011b). In 2010 Electrolux was named one of 130 global high performers and among the top five companies in consumer durables by Forbes Magazine (AB Electrolux, 2010b). As Electrolux is one of the strongest actors in durable goods on the international market, with its headquarters in Stockholm, we decided to include them in the consumer durable goods category.

Swedish Match AB

Swedish Match AB is a global manufacturer of tobacco products such as snus, cigars and chewing tobacco, but is also producing matches and lighters. The Nordic countries, especially Sweden, are Swedish Match's main markets for snus but it is also active in USA to some extent (Swedish Match, 2010c). Swedish Match was selected on the premises of being an international manufacturer of tobacco products with their headquarters in Stockholm. The fact that Swedish Match is selling tobacco products offers an interesting angle to the use of segmentations, as it is very limited in its marketing communication. The authors are therefore interested to investigate how this has affected Swedish Match's segmentation process in relation to Arla Foods and Electrolux.

3.4.2 Interviews

The primary source of empirical data in the thesis was gathered from personal interviews with employees in key positions within the selected case study companies. The interview approach was selected as the authors are interested in gaining a deeper understanding of how the companies have used consumer segmentations in order to create business value and also how/if they have measured the value gained from these decisions. As Yin (2003, p.89) asserts "*One of the most important sources of case study information is the interview*". The primary data is necessary in order to go beyond studying only the existing material on the subject when answering the research questions (Wrenn, Stevens & Loudon, 2002). The authors took initial contact with the relevant persons by calling each company asking who might be most qualified to answer our questions and then a letter (see Appendix 3 and 4) was sent to that person asking if an interview was possible. By doing this the authors were able to get in touch with the most qualified person in the company to answer our questions, which made the interviews more time effective.

As defined by Saunders et al. (2003) interviews can be unstructured, semi-structured or structured. Depending on which of these approaches the researcher decide to apply he will gain access to various types of data, the description of varied cause and effect relationships and ultimately end up with differing conclusions and results. This is an important observation and it is necessary to understand these differences in relation to the purpose of the research to be able to select the correct approach (Lantz, 2007). In regards to the purpose of this thesis, a semi-structured approach is used which gives the interviewee the opportunity to define and explain the effects of a phenomenon in question (Lantz, 2007). To conduct a semi-structured interview implies that the researcher has a prepared roster of questions and themes of what he wishes to cover in the interviews (Saunders et al., 2003). When performing an interview there are several ways of recording the data. The most common way of doing this is either by taking notes or audio-recording (Yin, 2003; Saunders et al., 2003) which is the data recording method the authors decided to utilize in order to ensure the validity of the interviews.

The questions for the interviews were developed by the authors beforehand in order to give a similar structure to the interviews according to the mentioned concept of semi-structured interviews. These were developed by first looking at the purpose and the research questions of the thesis, which was put into perspective from comparing this with the theory in the frame of reference. The questions emerged by reasoning about what we already know, what we are interested in finding out and what could therefore be appropriate to ask the companies. All questions were covered during each session, but not necessary in the same order but rather in an order which emerged during the interview. The reader can find the questions asked during the interviews in Appendix 5. In addition, we

decided to interview two persons from respected consulting firms on the topic, both with long experience within management consulting, to get additional perspectives. These questions are to be found in Appendix 6 and 7.

The interviews were conducted at each of the companies' headquarters in Stockholm. The interviewer and interviewees sat down in a meeting room and the interviews took approximately 60 minutes each. Below the reader can find when, where and with whom the interviews were conducted:

Case companies:

- 28th of February 2011, Headquarter of Swedish Match AB – Stockholm
Interviewee – Ms. Maria Nicholl (Director of Market Research)
- 3rd of March 2011, Swedish Headquarter of Arla Foods AB – Stockholm
Interviewee – Ms. Inga-Lena Fridheimer (Nordic Consumer Research Manager)
- 3rd of March 2011, Swedish Headquarters of AB Electrolux – Stockholm
Interviewee – Mr. Anton Lundberg (Global Consumer Insight Director)

Consulting-firms:

- 18th of March 2011, Accenture – Jönköping (telephone interview)
Interviewee – Ms. Caroline Holm (Management Consultant)
- 24th of March 2011, Cap Gemini – Gothenburg
Interviewee – Mr. Håkan Erander (Vice President Marketing, Sales & Services)

3.4.3 Pilot test

Before the interviews commenced the questions were pilot tested by performing a face to face interview with a representative from SCA Feminine category in order to ensure the internal validity of the pre-developed interview questions. By doing this the authors were able to detect if some of the questions were not understood or gave similar answers from the interviewee and therefore needed to be rephrased.

3.4.4 Secondary data

The secondary data in this thesis was collected by using both internal and external secondary data. The internal secondary data was gathered from the case-companies' websites and by reading their annual reports. The external secondary data was obtained by reading textbooks and scanning scientific articles from the 1950's to present day in order to detect changes of opinions during time concerning the relevant topics, but also to ensure the objectivity and validity of the thesis. The authors used standardized key words when searching for articles in several accepted databases such as Emerald, ABI/Inform, Google Scholar and Jönköping University Library database. These key words were initially *market segmentation, value creation, strategic marketing, market segmentation+literature review, value+marketing* and *brand activation*.

During the collection of empirical evidence new theories relevant to the purpose of this study were discovered and subsequently evaluated and researched. These theories are *market communication, new product development, internal marketing* and *brand tracking*.

The journals which were scanned are:

- *Journal of Marketing*: From 1950 – 2005
- *Journal of Consumer Marketing*: From 1987 - 2005
- *Marketing Intelligence & Planning*: From 1990 - 2002

3.5 Empirical analysis

The empirical analysis in this thesis was carried out by matching the case study findings with the frame of reference in relation to the research purpose. Due to the abductive research approach of this thesis and the previously mentioned concept of theory matching, new relevant theories which were discovered during the collection of the case study findings and are incorporated in the analysis. The cases are also analyzed independently. The reason for why we have chosen to do this is in relation to how we selected the companies for the case studies, where the criteria were developed in order to be able to detect differences or similarities between companies operating within different product categories. It therefore makes sense to analyze these separately in order to detect those possible differences or similarities. This analysis approach is referred to as the cross-case synthesis (Yin, 2003) or the cross-case display (Huberman and Miles, 1994). According to Yin (2003) the cross-case synthesis is especially suitable for analyzing multiple cases, where there are at least two cases. This technique treats each individual case study as an independent case, where the findings in each case are aggregated into a comparative analysis. Furthermore, by using a cross-case analysis it aids in enhancing the generalizability of the findings (Huberman and Miles, 1994).

3.6 Trustworthiness

For a research to be trustworthy it should be conducted in the right way by ensuring that the information gathered is valid and reliable. If the validity and reliability is high, the findings in the research will be more credible for the reader.

3.6.1 Limitations

One limitation of this study is the amount of time of the interview. In order to be in-depth in a case study one might argue that a single 60 minute interview is not enough to extract the information required for a case study. However, the nature of our purpose implies a limited set of questions and approaches, as it involves the specific phenomena of the use of segmentation. After the interviews the authors felt that the subject had been exhausted to the extent that a second interview would not prove meaningful. Further, the authors were able to find the “right” persons to interview in the companies, which made the interviews more effective.

We also thought about including a case company which is manufacturing diapers in order to compare this company with SCA, but this idea was discarded due to ethical reasons. To avoid this ethical issue we wanted to include a company which is producing other baby related products e.g. baby food, toys and strollers. However, none of those companies were willing to participate in an interview, as mentioned earlier.

3.6.2 Validity

Maxwell (1992) gives three threats to the validity of a qualitative research. The *Description* threat is concerned with not being able to accurately reproduce the data collected from the interview. This threat can be overcome by audio- or video-taping the interview. At the interviews the interviewees had no problem with us recording the conversation, which allowed the authors to accurately transcribe the interviews later on. Furthermore, once the interviews had been compiled into cases they were sent back to the interviewees for validation. The *interpretation* threat deals with the risk of forcing the empirical evidence to match the theoretical framework, instead of adapting the framework to what is emerging during the process. In this thesis this was not a problem as the authors started out with a base of theories on the subject, but also incorporated new theories which were found appropriate from the empirical evidence. There is also the *theory* threat of not considering alternative explanations to a phenomenon. This can be countered by seeking data which are not congruent with theory.

3.6.3 Reliability

In research the term reliability reflect upon the question whether to what extent the data gathering techniques and analysis methods will yield similar results if replicated (Mark, Philip & Adrean, 2007). In response to this Marshal and Rossman (1999) states that the issue of reliability concerning findings resulting from using a non-standardized research method are not necessarily intended to be repeatable since they reflect reality at the time they were collected, in a situation which may be subject to change.

The value for the authors of using a qualitative non-standardized research is its ability to delve deeper into the phenomenon of the segmentation process in order to get a real understanding of it in relation to the context of the organization. However, the authors used semi-structured interviews where the questions had been prepared before the meetings. From this the authors were able to ask the interviewees similar questions and direct them towards the purpose of this thesis.

3.7 Summary

This thesis is conducted by using a qualitative approach combined with an abductive design. The secondary data in the frame of reference is collected from reviewing both scientific journals and textbooks concerning the relevant topic. The authors chose to collect the primary data through interviews with selected companies. This information was used to build three case studies, which are found in the next section of case study findings.

4 Market segmentation in three international companies

4.1 AB Electrolux

4.1.1 Company background

AB Electrolux started out with one single vacuum cleaner in 1919 when the company was founded as a result of a merger between two Swedish companies; Elektromekaniska AB and AB Lux. The merger was carried out by vacuum cleaner producer Axel Wenner-Gren. In the early 1920's Electrolux started to manufacture and sell refrigerators after buying the rights from inventors Baltzar von Platen and Carl Munters (AB Electrolux, 2011a). This was the first step in a differentiation process for Electrolux which was earlier known for being the number one vacuum-cleaner manufacturer (AB Electrolux, 2011b). Other product launches through the history can be found in Appendix 8.

Electrolux has grown steady since the start in 1919 and is the second largest appliance manufacturer in the world after *Whirlpool*. The products are sold under well-known brands such as *Electrolux*, *AEG-Electrolux*, *Zanussi*, *Eureka* and *Frigidaire*. In addition to consumer durable goods Electrolux also sell products for professional use (AB Electrolux, 2011b).

Product categories at Electrolux (also see Appendix 9)

- **Category A – Kitchen:** Refrigerators, freezers, cookers, ovens, hobs and dishwashers
- **Category B – Laundry:** Washing machines and tumble-dryers
- **Category C – Floor-care:** Mostly vacuum cleaners
- **Category D – Other products:** Small appliances like toasters, coffee machines, food processors and irons which account for about 10% of the sales
- **Category E – Laundry equipment (professional products):** Include same type of products as category A but they are instead made for professional use in e.g. laundromats, apartment buildings or laundry rooms.
- **Category F – Food-service equipment (professional):** The focus in this category is to provide restaurants, public institutions and professional kitchens with complete solutions for its kitchen including kitchen appliances like dishwashers, freezers and refrigerators (AB Electrolux, 2011b).

Organizational structure

Electrolux is divided into five business areas that include six business sectors (see the different product categories above) (Anton Lundberg, personal communication, 2011-03-03). These sectors have a total of 25 product lines. Major appliances such as kitchen and laundry products are defined geographically in contrast to Professional products such as laundry equipment and food service equipment which are global (see figure 4.1.)

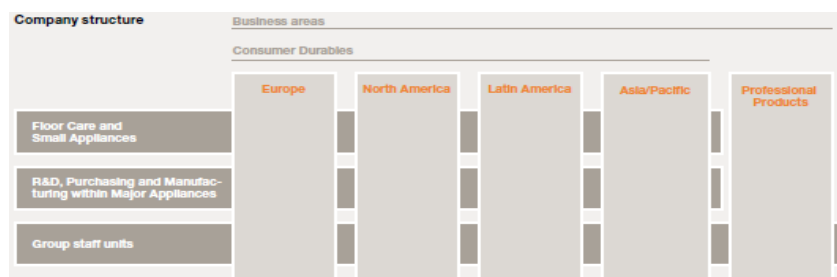


Figure 4.1 Company structure of AB Electrolux (AB Electrolux, 2010, p. 98)

To support the business sectors Electrolux has Group staff units such as Communications, Finance, Legal affairs, Branding and Human resources & organizational development. In addition the company has a global organization responsible for purchasing, product development and manufacturing within Major appliances (AB Electrolux, 2011b). To be more efficient Electrolux has a decentralized structure where so called sector boards are running operational activities in each business sector (Anton Lundberg, personal communication, 2011-03-03). This means that decisions are made locally in each business area. With a decentralized organizational structure it is hard to create consistency among processes and ways of communicating, both internally and externally. Thus, creating a corporate culture is a more complex process with this type of structure compared to a centralized one.

4.1.2 Corporate strategy

The strategy of Electrolux is still very much rooted in the core values *Passion for Innovation*, *Customer Obsession* and *Drive for Results* that Axel Wenner-Gren specified when he founded the company. *Passion for Innovation* is fundamental at Electrolux where product development is very much consumer focused and a driving force for the development of the company (AB Electrolux, 2011c). Always trying to understand the consumers by listening, innovating and adjusting products for specific needs is also related to what Axel Wenner-Gren meant with *Customer Obsession*. Being such a consumer focused company can be very costly in terms of investments like R&D which have caused Electrolux to develop a comprehensive restructuring program to streamline the organization and cut costs. One of the major changes that have been made, which is still under progress, is to move 60% of all production to low-cost countries. Electrolux also aims at becoming the world's number one provider of appliances in the premium segment which is a constantly growing segment. To become this Electrolux has put a lot of emphasis on positioning its brand as being a provider of products with 'thoughtful design', using the *Electrolux* brand as the biggest driver of this notion (AB Electrolux, 2011c).

4.1.3 Segmentation at Electrolux

Electrolux has decided to use a need segmentation when grouping consumers into segments. "By using need segmentation Electrolux aims to connect consumer needs to their appliances and homes to predict future trends and behavior" (Anton Lundberg, personal communication, 2011-03-03). This segmentation process was initially started in 2002 by former CEO Hans Stråberg as part of a global process to unify working procedures at Electrolux (Anton Lundberg, personal communication, 2011-03-03). It is a process that is constantly developing as Electrolux learns more about consumers and its own customers. The latest segmentation project finished recently. The purpose was to check if the segments found in the initial segmentation were still valid and if potential new segments had emerged. This is a process that is performed approximately every fourth year to make sure that Electrolux is up to date on consumer needs (Anton Lundberg, personal communication, 2011-03-03). The reason for updating the segmentation every fourth year is due to that Electrolux is in the consumer durable goods industry which means that the lead times from purchasing to disposal of e.g. a freezer is longer than in the fast-moving consumer goods industry. In Electrolux's case, its customers purchase a new appliance for their home every 7-9 years (on average). This means that the need of a product from Electrolux arise more seldom than do needs for most consumer goods. So, the point is that the time between two consumer segmentations in this industry can have a wider time interval since needs and benefits sought changes slower.

In the four year time span between the segmentations, Electrolux performs market communication tests, concept test and focus groups on each of the segments. The reason is to capture information about the different segments that the segmentation overlooked. These tests are also constructed so that more specific needs can be revealed. We can take vacuum-cleaners as one example. In the focus groups Electrolux can ask specific questions about the laundry process during spring-cleaning that most households perform every spring, and such specific questions are usually not covered in the larger segmentation. As a result, these focus groups can reveal needs that the consumers have connected to specific events/situations and create another dimension in the segments (Anton Lundberg, personal communication, 2011-03-03). This information is used in product development, development of marketing communications and also included in following segmentation projects.

The market research that serve as a base for consumer segmentation at Electrolux is outsourced to marketing research bureaus since they have no such resources in-house (Anton Lundberg, personal communication, 2011-03-03). However, the company has research managers but their task is to create research briefs with relevant research questions to the bureaus. They are the link between Electrolux and the marketing research bureaus so that the right information is acquired. Depending on the scope of the segmentation project Electrolux either carry out the implementation phase of the segmentation results themselves or hire a communications bureau (Anton Lundberg, personal communication, 2011-03-03).

4.1.4 How Electrolux uses segmentation to create value

Internally

When a segmentation is done at Electrolux they communicate the results within the organization so that the employees know what the segments look like. *“By creating a picture or a movie with describing characteristics we try to visualize an image of each segment that is spread across the organization”* (Anton Lundberg, personal communication, 2011-03-03). Every designer and product developer should have a picture of each of the segments on their desks so that they know exactly to whom the product should be tailored. The goal is that the entire organization should know these segments so that internal and external consistency is created, but they have not come that far in the process. For example, employees working in the reception or in the HR department do not know which the segments are (Anton Lundberg, personal communication, 2011-03-03).

Externally

Since Electrolux is a manufacturer of consumer durable goods this means that its customers will have use of the product during a longer time-span than consumers of fast-moving goods (Anton Lundberg, personal communication, 2011-03-03). The involvement in buying an Electrolux product is often higher than for buying e.g. a pack of diapers, for the simple reasons that most of the products requires a larger investment and that they are a part of the customer's life for a long time. Thus, creating innovative and attractive products is of high concern for Electrolux where the segmentation is mainly used as a base for decisions concerning product development. The picture below depicts the product development process of Electrolux (Figure 4.2).



Figure 4.2 Product development process Electrolux (AB Electrolux, 2010, p.36)

Product development that is made exclusively on the basis of the needs found in one segment is only performed for higher-value segments such as the *Electrolux* brand in North America. Products in the lower price categories are to some extent tailored toward specific segments in the form of simple updates of previous models due to the high costs of producing segment specific products. An example of this might be a new design that can be somewhat segment specific and not so costly. Electrolux holds annual *Design Labs* as a part of the product development process where undergraduate- and graduate industrial design students from across the globe are encouraged to present innovative products of the future (AB Electrolux, 2010c). This is to get a global external perspective on new products at the same time as cultural differences can be revealed. This contest was introduced in 2003 as a part of the transformation of Electrolux towards becoming a more consumer-driven company. These kinds of efforts are made to include consumers in the creation of new products and to involve them in the development of the Electrolux brand. Electrolux also encourage interaction by using social media such as Facebook. On Facebook the consumers can e.g. interact with each other, with the company, find information about new products and new competitions.

Even though the main usage of segmentation at Electrolux is product development, other activities such as market communication are also based on the resulting segments. In 2008 Electrolux re-launched its *Electrolux* brand in North America using a brand ambassador in the form of a celebrity (American television host- and actress Kelly Ripa) in marketing communication for their premium segment. It matched the profiles and characteristics of the found premium segment to find a suitable brand ambassador. In addition, the advertisement campaign focused much on product functions that was developed according to segment specific needs. For example, Electrolux had found out that these consumers would like to be able to cook a perfect turkey but without putting too much effort into it. So Electrolux developed a “turkey-function” which makes the oven weigh the turkey and check its temperature, so all one has to do is prepare it, put it in the oven and then it tells you when it is perfectly cooked. So, in market communication a lot of focus was assigned to specific functions and to Kelly Ripa as a brand ambassador.

4.1.5 How Electrolux evaluates its market segmentation process

Internally

As mentioned in the previous section Electrolux communicates the segments through the organization although not to the extent they wish to. This is a something Electrolux does subsequent to every segmentation project to create a common ground and vocabulary when speaking about the segments (Anton Lundberg, personal communication, 2011-03-03). This creates value in itself by making the organization more efficient with less misunderstandings but it also enhances product development activities as the employees have a common view of who the products are made for. However the value created by this common ground is not something that Electrolux measures even though Mr. Lundberg believes it is beneficial (Anton Lundberg, personal communication, 2011-03-03).

Externally

One example of how Electrolux tries to measure value gained from its segmentation process is to look at the results from new product or brand launches. In the re-launch mentioned above, Electrolux also introduced a new product line in the premium segment. *“The product line was solely based on the results of a recent segmentation project in North America. Product development aimed to tailor products to fit the needs of the segments found in the segmentation as much as possible”* (Anton Lundberg, personal communication, 2011-03-03). The performance of highly customized products to the premium segments works as an indicator of how well Electrolux has interpreted the segmentation results. If products and communication are closely tailored to fit with what Electrolux think are the needs of a certain segment and the launch becomes a success, it have a strong reason to believe they have understood the consumers well. But it is hard to say how much of the success (in monetary terms) that can be assigned to the segmentation (Anton Lundberg, personal communication, 2011-03-03). Since everything Electrolux do is somewhat based on the segmentation of each market Mr. Lundberg says that they look at profit as an indicator of a successful segmentation process. Still, Electrolux has no specific process or method for how to evaluate or measure the value (monetary or non-monetary) of its segmentation projects; it just looks at strong indications such as product launches described above.

To see if e.g. the new product launches or communication has changed the perception consumers have about Electrolux as a company, its brands and its products Electrolux uses brand tracking. The brand tracking (or brand health tracking as Electrolux call it) measures, among other things, the success of new product launches and market communication with regards to perceptions of the brand. The findings of the tracking can then be attributed to specific customer types and segments (Anton Lundberg, personal communication, 2011-03-03). For example, Electrolux can see if a product launch in France has had an effect on a specific target segment (concerning perceptions of market communication and the actual product), if the launch was successful and then Electrolux tries to link this to market data of that product (Anton Lundberg, personal communication, 2011-03-03).

4.2 Arla Foods AB

4.2.1 Company background

The company name Arla was the original name of the first dairy cooperative formed 1881 in Sweden. Arla Foods was formed in 2000 through a merger between Danish cooperative MD Foods and Swedish Arla. At the merger the name Arla Foods was adopted with the new logotype; a green oval with the text Arla Foods. During 2008 this new logotype was modified by including a buttercup flower in order to strengthen the brand, where the name Arla was to be the brand of the company with a global logotype for all product categories. At the same time the logotype emphasized that Arla should focus even more on the environment and on natural products (Arla Foods, N.Db) Due to the fact that Arla Foods is owned by the farmers themselves the company faces a possible long term problem. Previously in history the farms were inherited within the family and therefore increased the survival rate of the farms. Today this in no longer the case as fewer people wish to become farmers (Inga-Lena Fridheimer, personal communication, 2011-03-03).

Product categories at Arla Foods

Arla is producing dairy products within several categories where some of its most recognized brands are the Arla red cow, Bregott, Kelda and Kvibille (Arla Foods, 2011).

Their general product categories are milk, cooking dairy products, butter-spreads and margarines, yellow cheese, mould cheese, fermented yoghurt and desserts.

Organizational structure

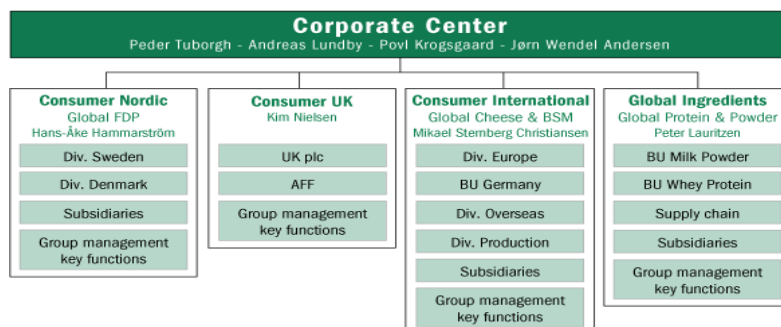


Figure 4.3 Organizational structure Arla (Arla foods AB, 2005)

The structure of Arla Foods (figure 4.3) is divided into the four business areas *Consumer Nordic*, *Consumer UK*, *Consumer International* and *Global Ingredients*. In addition to these business areas, a *Corporate Center* is responsible for integrating the inter-group functions (Arla Foods, 2005). Traditionally Danish Arla has been good at exports while Swedish Arla has been skilled at marketing (Inga-Lena Fridheimer, personal communication, 2011-03-03) which we later on in the case will see has had some impact on the segmentation process.

Arla is the only company in the world which is owned by farmers across country borders. According to Inga-Lena it is very exciting that the farmers have been able to take such a foresighted and important decision. The fact that Arla Foods is owned by farmers instead of shareholders offers a distinct advantage. When it comes to milk production it cannot be shut off at wish and therefore the milk production cannot be optimized, as a shareholder might wish. Instead as much milk as possible is processed and sold and what is left over is made into dry milk and later sold at world market prices (Inga-Lena Fridheimer, personal communication, 2011-03-03).

4.2.2 Corporate strategy

Arla has the following ambition: “*We shall be the best dairy company for more than 250 million consumers in north Europe and Great Britain.*”(Arla Foods, 2011, p.10) This will in part be achieved by having core markets in north Europe. At present its core markets are Great Britain, Germany, Sweden, Finland, the Netherlands, and Denmark. Further, their growth markets are Poland, Russia, China, USA and the Middle-East (Arla Foods, 2011). Core markets refer to markets where it is selling fresh products such as milk and yogurt. But Arla Foods also has products such as cheese and butter which are sold over the world (Inga-Lena Fridheimer, personal communication, 2011-03-03).

Arla is building their basic values on the ambition of creating a global Arla. An important part of these values is its character: *Lead*, *Sense* and *Create*. According to Arla it has a willingness to *lead*, an open *sense* and a *creative* culture. This character is to reflect who it is, what it stands for and its approach to challenges in order to shape Arla’s identity. The ambition of this is that the customers and consumers will meet the same Arla character, where ever in the world they may be (Arla Foods, 2011).

4.2.3 Segmentation at Arla Foods

In Sweden Arla has a long tradition of knowledge in consumer insight where the consumers always have been in focus. It believes this is an important factor for success in order to always be a step ahead. Arla divides and groups its consumers in every project and talk about the segments, whether it is concerning product development, communications development or strategy development, and Inga-Lena believes it is important for every major company to have a large segmentation as a basis when taking decisions (Inga-Lena Fridheimer, personal communication, 2011-03-03).

Arla segments the market using need segmentations. This is due to the changing nature of the consumers of today. Previously the main concern of the buyer was that the products should be of high quality, where as the present-day consumers are moving towards being hybrid consumers. That is, a consumer may want high quality and performance of a car but care nothing about the quality when purchasing food. More product specific, a consumer might value good quality of fresh vegetables but when it comes to the quality of canned tomatoes he/she might be indifferent. This is why it is more important today to discover the different attitudes and wants within each product category through segmentation. The segmentations at Arla are done on a regular basis on the different product categories and are usually updated every third year. The past years the focus has been directed elsewhere and hence segmentation has not been as prioritized, but now they are starting to shift their focus back to segmentation again.

A need segmentation is not necessary to update every year if was properly done the first time, but according to Inga-Lena Fridheimer (personal communication, 2011-03-03) one might have to do supplementary research e.g. design tests, focus groups, shelf tests, for specific projects.

Results from the previously done segmentations at Arla have been relatively stable during the years with few surprises (Inga-Lena Fridheimer, personal communication, 2011-03-03). However, now it is interested to find out if the upcoming segmentation shows any variations from the previous segmentation, as it was some time ago the last one was made. One area of interest is to see how the brands have moved within the frame of the segments and if some sub-segments have emerged which then could be interesting to investigate further.

4.2.4 How Arla Foods uses segmentation to create value

Internally

Today the Arla organization is working towards getting a common global segmentation tool. There are already common global tracking tools and organizational guidelines for pretesting commercials, but from the office in Sweden they are also trying to force a common segmentation tool throughout the organization, as they believe it is extremely useful as a discussion basis. This is especially true when operating in different markets across the world. If it is possible to find common need-segments and opportunities on different markets it is easier to make decisions concerning new products (Inga-Lena Fridheimer, personal communication, 2011-03-03).

As Arla has been working during a long time with consumer insight and segmentation, the employees at the marketing department know very well where the Arla brand is positioned on the market. If a product is planned to be launched with the “wrong image”, everyone

knows that this is wrong and can help to steer the project on the right track again (Inga-Lena Fridheimer, personal communication, 2011-03-03).

According to Inga-Lena Fridheimer (personal communication, 2011-03-03) “*segmentation is important as a strong basis for decisions of how a category should be developed, which needs that should be covered by a product and what the driving forces are within the category. It is also useful for determining which particular brand should focus on certain attitudes.*”

Externally

Arla basically use its segmentations to develop a selection of products that the consumers are satisfied with, together with capturing new needs and new opportunities which can be utilized. The segmentation should be a foundation for new product- and communication developments. Inga-Lena Fridheimer (personal communication, 2011-03-03) asserts that initially a company needs an idea, rather than starting from nothing and for Arla this idea should come from a need segmentation. By having a segmentation as a basis the company have something of value to work from, as it is what the consumers value which should be in focus. For example, if it is discovered that the consumers do not like a new product after it has been launched one can deduct that there is something wrong with the decision basis i.e. the segmentation. If this is the case it does not matter where the product is placed in the shelves or the amount of face time it gets; if the consumer does not want the product Arla will not get a repurchase. So the basic assumption is that the product should fulfill some need for a certain group of consumers, and for Arla this need should come from a need segmentation. Arla has also been working with involving the consumers with its brands. One example of this is an advertisement campaign on Arla’s milk cartons where it encouraged young kids to visit their webpage to write or sing something about the current situation of the environment (Kunde & Co, ND). Arla is also active on Facebook where consumers can write both positive and negative opinions about the company.

Arla’s work with their categories is very important. By working with its segmentations Arla has found driving forces within the categories which have been anchored in the consumers. New product launches are then linked to these driving forces, so it is very important for Arla to know the needs of its consumers (Inga-Lena Fridheimer, personal communication, 2011-03-03).

4.2.5 How Arla Foods evaluates its market segmentation process

Internally

Arla has not done any measurement of the internal value of a segmentation process. As mentioned earlier, Arla has been working during a long time with segmentation and the information has been diffused in the organization over time. Hence, it creates a value in the form of consistency within the organization but it is not something that Arla measures (Inga-Lena Fridheimer, personal communication, 2011-03-03).

Externally

It is important, according to Inga-Lena Fridheimer (personal communication, 2011-03-03), to have the purpose and goals with the segmentation clearly defined. This will enable the company to perform the “right” segmentation and also measure the results in relation to the purpose of the segmentation.

Arla is tracking brand image variables and different attitudes, such as the attitudes towards its products and brands, but also the attitudes of the consumers when it comes to shopping

and eating. This tracking is mainly used as a warning sign for changes concerning these attitudes which is valuable knowledge for Arla.

Arla tries to link important driving forces that are grounded in the needs within a segment to certain attitudes in the brand tracking. An example of this is if Arla notices in the brand and consumer tracking that the attitude towards drinking milk at breakfast is declining, it can do a follow-up on this change in attitudes in order to understand why this is the case and hopefully make the necessary adjustments to their products or communications (Inga-Lena Fridheimer, personal communication, 2011-03-03).

Previously Arla used a tracking tool which incorporated the brand tracking with the segmentation results. With this tool Arla could see e.g. that a specific segment believed that it was less important to drink milk. However, this tool required a lot of knowledge in order to extract something useful from the database, and a lot of time was absorbed in this process so it was discontinued. As noted earlier Arla Sweden is trying to “push” the idea of using a common segmentation tool across the whole organization. Denmark has traditionally been more focused on what the customer is ordering, while Sweden is more focused on consumer insight. Therefore, if the global segmentation tool is successfully implemented the large tracking tool might be brought up for discussion again in the future (Inga-Lena Fridheimer, personal communication, 2011-03-03).

Inga-Lena Fridheimer (personal communication, 2011-03-03) states several ways to measure if decisions resulting from a segmentation have given any effects. One way is to look at how long a new product is successful on the market. If the product is successful for a long time one can possibly conclude that the segmentation, together with the following decisions, was good. One may also look at sales, but it is important not to look at total sales but instead on the sales related to a new product. Also, if a market communication has been created using the results from a segmentation one can investigate if it has been understood as intended, which Arla is doing by always tracking their market communications.

4.3 Swedish Match AB

4.3.1 Company background

Swedish Match AB has been an important part of Sweden’s industry and commerce since the beginning of the 20th century. The company also has had a long history of several acquisitions in USA and Europe which has yielded in deeply rooted traditions and strong positions on the markets. The tobacco operation in Swedish Match has its origin in AB Svenska Tobaksmonopolet which was founded in 1915. The company’s match operation on the other hand has its origin in Svenska Tändsticks AB, founded in 1917. These two companies would later merge under the Precordia Group in 1992 (Swedish Match, 2009a). After the acquisition of Swedish Match the whole Precordia Group assumed the name Swedish Match AB to utilize the advantage of an international recognized brand. Another important event occurred in 1999 when the cigarette brands, e.g. Blend and John Silver, were discontinued and sold to Austrian Tabac. This decision was taken in a time when cigarettes were becoming less popular in contrast to previously in the history when cigarettes had a more positive image. People were realizing the health risks related to smoking which led Swedish Match to the decision that it did not wish to be positioned in that area of the market. Instead focus was directed to their cigars and the smoke free portfolio. This was followed by a joint venture with Philip Morris and the formation of the

new company called Scandinavian Tobacco Group of which they own 49 % (Maria Nicholl, personal communication, 2011-02-28).

Product categories at Swedish Match

Swedish Match has several product categories which are managed by different divisions:

- **Snus and snuff** - The world market for snus and snuff is estimated to more than 1.4 billion cans, where Scandinavia and the US are by far the largest markets. Swedish Match has several brands of snus such as *General, Ettan, Grovsnus, Catch* and *Kronan*. In the US, Swedish Match has brands of fermented snuff such as *Timber Wolf, Redman* and *Longhorn* (Swedish Match, 2010c).
- **Chewing tobacco** - In the US market Swedish Match holds a strong position in chewing tobacco with main brands such as *Red Man, Red Man Silver Blend* and *Granger Select* (Swedish Match, 2010c).
- **Lights** - The match category includes the brands *Solstickan, Fiat Lux, Swan, Tres Estrella, Feudor* and *Redheads* (Swedish Match, 2010c).
- **Cigars** - Within cigars Swedish Match has *US premium cigars, US machine-made cigars* and *European machine-made cigars*. Some of Swedish Match’s brands are *Cobiba, Garcia y Vega* and *La Paz* (Swedish Match, 2010c)

Organizational structure

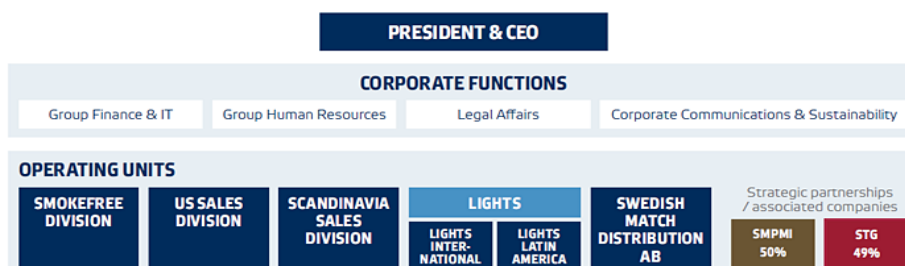


Figure 4.4 Organizational structure Swedish Match (Swedish Match AB, 2011)

Manufacturing, marketing, sales and distribution of Swedish Match’s products are done through six operational units: Smokefree division, US Sales Division, Scandinavia Sales Division, Lights Latin America, Lights International and Swedish Match Distribution AB (Figure 4.4).

The Smokefree division is responsible for the strategic and global processes within the smokefree operations. These include R&D, supply chain, brand categories, marketing, market analysis, strategic procurement and scientific affairs. The division focuses on creating common goals, platforms for the marketing of its brands, work processes and tools & measurement instruments for the global smokefree operations. It is also focused on the growth and expansion of the category in current markets and to be a strategic partner for Swedish Match Phillip Morris International (SMPMI) to enable an expansion into new markets.

Scandinavia sales division is in charge with sales and marketing in Sweden, Norway and tax-free shopping. The division’s focus lies on creating growth within the smokefree category

by effective sales processes, value-creating customer relations and marketing activities in Scandinavia.

US Sales Division is responsible for the sales and marketing of snus and chewing tobacco in USA. The division also has total responsibility for the whole value chain for mass-market cigars in USA, including production.

Lights Latin America and *Lights International* manufacture and market matches and lighters. The units are also responsible for sales and marketing of other products such as razors and tooth pickers. There is also the *Swedish Match Distribution AB*, which distributes tobacco products on the Swedish market, and the mentioned joint venture together with *Phillip Morris International* (SMPMI).

4.3.2 Corporate strategy

Swedish Match has the goal of being a leader within smoke free tobacco, and more specific, to run and develop the smoke free category in Scandinavia and North America. It is the smoke free market Swedish Match wants to be actors on as this is its main business and it believes that producing and selling snus is what it is best at. This goal resulted in the development of the Smokefree division in 2009 which contains the major part of the turnover and is focused solely on the smoke free portfolio (Maria Nicholl, personal communication, 2011-02-28). The strength of the smoke free products lies in the strong and recognized brands together with a well-developed consumer insight. Swedish Match is working towards being the first choice of consumers when it comes to smokefree products and opinion makers of snuff and snus. Swedish Match is continuously working towards developing and innovating its products. In 2009 several new products were launched primarily as line extensions of existing brands but also as new brands which were developed through comprehensive consumer research. One of the brands launched was *The Lab Series 01 and 02* which had a new recipe, a differentiated design, an updated pouch format and new graphics (Swedish Match, 2010c). It should also be mentioned that the company has several other products, as explained in the structure, but these departments have been made separate and more defined as is the case with the smoke free division which has the prime focus in this case study.

4.3.3 Segmentation at Swedish Match (Smokefree division)

The segmentation in this section will focus on Swedish Match Smokefree Division's segmentation on the snus population in mainly Sweden and Norway, which was made in early 2009. The segmentation approach can be defined as a need segmentation, as described in the literature review, which aims at grouping people based on their needs and benefits sought. The choice of segmentation method may be linked to Swedish Match's strategy of being the consumer's first choice in smokefree products and also opinion makers of snus and snuff. For this purpose it is not relevant to only know the age, geographic location and sex of the consumers, but it requires a deeper and more underlying understanding of how the consumers within the smoke free category think.

When conducting the segmentation process Swedish Match hired GFK, a market research company, to perform the data collection and part of the analysis for the segmentation. GFK mainly were concerned with collecting the data and creating the questionnaires, but it also cooperated with Swedish Match to look at the segments that emerged. Swedish Match also used its own personnel to perform much of the regressions and the interpretation of the data. The segmentation resulted in that six segments were identified (Maria Nicholl, personal communication, 2011-02-28).

No segmentation had been made prior the one made in 2009, at least not at the same scale. The reason for deciding to conduct a segmentation in 2009 was due to the fact that Swedish Match during a long time had a monopoly on the Swedish snus market, with a market share of 98 %, and therefore felt no need for this earlier. However, during the 21st century new competitors were emerging on the market and around 2007 the Norwegian market started to grow, although Swedish Match still held a major market share of that market. Swedish Match therefore felt a need to differentiate its products and determine what position the different brands should have on the market. This together with the need of knowing what the primary target group Swedish Match should aim at (Maria Nicholl, personal communication, 2011-02-28).

4.3.4 How Swedish Match uses segmentation to create value

Internally

Swedish Match has been using the information gained about the segments in horizontal workshops within the organization where it look at how Swedish Match can drive the category and how it can evoke interest for its products on a market that is very mature, such as Sweden. This is where it has been very useful to describe the different brands and their individual role in the portfolio with the help of the segmentation. One advantage is to be able to paint a picture of the different segments, i.e. who are the people in this segment, and what does their world look like. By knowing this one can create a better understanding and more clarity within the organization. For Swedish Match it has contributed to a common ground and a mutual language when talking about the segments, both in product development, R&D, sales, marketing etc. (Maria Nicholl, personal communication, 2011-02-28).

Prior to the segmentation the organizational language was a bit unclear, but Swedish Match worked towards communicating the segments to the organization and since then the language has become much better. This resulted in a faster and more effective working environment due to a common ground to work from. To better communicate the results from the segmentation in the future a suggestion was to create a more planned education material, such as a “segmentation booklet” for the organization, and to communicate this to the departments and educating them about what Swedish Match’s segments, customers, products and brands are (Maria Nicholl, personal communication, 2011-02-28).

Externally

As mentioned, Swedish Match has worked a lot with workshops where it looked at under which segment the different brands were positioned to see if it was satisfied with this or not. In some cases Swedish Match thought about if it wanted to “push” a brand closer to another segment and what could be done about the brand to better satisfy the needs in that particular segment. As Swedish Match cannot work with traditional market communications it is important to work with the product itself, by example improving the quality, changing the design, packaging etc (Maria Nicholl, personal communication, 2011-02-28).

One example of this is if one segment contains many women, a change in design of the product can be made to make it more appealing for these women. Such a change may be a smaller size of the snus pouch, a modification of the taste and so on. However, Maria Nicholl (personal communication, 2011-02-28) stresses the fact that if they make the snus too feminine the product is likely to fail, since snus is a product traditionally used by men.

As noted, Swedish Match is working continuously with consumer insight to innovate and develop their products. Due to the regulatory limitation of marketing concerning tobacco products Swedish Match is unable to reach its consumers through traditional marketing methods. The only advertising allowed in Sweden is to set up an informational poster in the stores which can in no way be promotional. It is therefore important Swedish Match is offering quality products which the consumers really like and are proud of and in that way becomes ambassadors of the brands through word of mouth. Word of mouth is therefore the single most important marketing channel for Swedish Match. Snus is a low involvement product, meaning that the consumers in most cases have already decided what brand of snus they will buy before they enter the stores. This is why it is so important to have loyal consumers who can recommend their favorite brand of snus to their friends and colleagues. This is a special product as the consumers always carry the product around, similar to always bringing the mobile phone. In this way the snus becomes a kind of an extension of the consumer's identity and creates a loyalty (Maria Nicholl, personal communication, 2011-02-28). This is where the value of a segmentation process lies for Swedish Match. By understanding its customers Swedish Match can adapt the product to what the consumers really are interested in. And as noted, the product is in focus if the company wants to influence its consumers.

As mentioned in the corporate strategy of Swedish Match the new snus *The Lab Series 01 and 02* was developed through extensive consumer research. This was done by using design labs where consumers, researchers and designers worked together to create the "perfect" snus (Svenskt Snus, ND). Thus Swedish Match is actively trying to involve its consumers when developing new products.

Finally, according to Maria Nicholl (personal communication, 2011-02-28) *"the segmentation has been a great aid in product development and to position the brands in the minds of the consumers."* For example, one brand should drive the development, one brand should be focused on the taste experience and one should be positioned as unisex brand.

4.3.5 How Swedish Match evaluates its market segmentation process

Internally

Today Swedish Match talks about its segments and they are presented as pictures, as noted earlier. All who are working close with marketing know what the segments are and this may be viewed as a kind of measure of success. Creating a common ground on how the brands and the segments are perceived and how to actively drive the innovation of the product portfolio also represents a value for Swedish Match, however this is not something that they evaluate. If the language has improved one can see it as a value added, but in the case of Swedish Match no attempt at evaluating it has been made. As mentioned, when future segmentations are made this is one of the things that Swedish Match may look into, but first a serious implementation to communicate the results from segmentations needs to be done (Maria Nicholl, personal communication, 2011-02-28).

Swedish Match was unused to work with segmentation and how to follow up the effects, and therefore might not have done everything it wanted to. Maria Nicholl (personal communication, 2011-02-28) states that *"it is important to take knowledge from the previously done segmentations so that when future segmentations are conducted we will hopefully be more effective in knowing what we want to achieve and also to plan it more efficiently."*

Externally

What Swedish Match has been able to determine is that some design changes which has been made as a result of the segmentation actually has given an effect on the sales. Swedish Match also lost some market share after the abolishment of the monopoly in Sweden, which is only natural. What needs to be considered in regards to this is if it still would have lost some market shares even if it had not done a segmentation. Hence, one should be aware of that there are many variables which could affect the results (Maria Nicholl, personal communication, 2011-02-28).

Swedish Match is using brand tracking and it has developed its own brand equity measurement which is planned be launched soon. This tracking device was developed by conducting a meta-analysis of various studies on brand equity to understand what it is that actually drives brand equity. The other option was to buy standardized measurements, but Maria Nicholl (personal communication, 2011-02-28) has the opinion that these measurements are more focused on investor relations rather than understanding the brand itself. The brand tracking is, however, not grounded in the segmentation itself although they use certain algorithms to link the consumers to whatever segment they belong to.

As argued by Maria Nicholl (personal communication, 2011-02-28) it is difficult for a company such as Swedish Match to measure the effect of a segmentation due to the fact that it is not allowed to do much tactical marketing. In contrast, other companies may to some extent be able to measure the value of a marketing campaign that has been launched as a consequence of a segmentation.

4.4 Case-study summary

The three case study companies are all active within different industries. Still we can see a lot of similarities in the type of segmentation that has been made but also how it has been utilized to create value. The analysis will elaborate on these similarities but also on the differences while answering the research questions stated in chapter one.

5 Analysis and discussion

The case study companies have indicated similar fields of application for their market segmentations. Although being in different industries the companies have, to a large extent, utilized the results from their segmentation in the same way. All three companies, to a higher or lower degree, have used the segmentation to enhance product development. Market communication is also developed on the basis of the segmentation studies except in Swedish Match since market communication of tobacco products is prohibited by law. Furthermore, each company's segmentation has been used, more or less, internally to create consistency in order to facilitate internal communication and external interaction with consumers. Finally, all companies use brand tracking, but Electrolux is the only company at the moment that has a connection between the brand tracking variables and specific segments. Before analyzing each case study the authors will explain these concepts (i.e. internal marketing, product development, market communication and brand tracking) to assist the reader in further reading.

5.1 Internal marketing

In the beginning of this thesis the authors presented brand activation as a concept in the frame of reference. After the interviews with the case companies it was apparent that the companies have the ambition to diffuse the information gained from segmentations within the organization. This diffusion of knowledge is an important component when a company wants to activate its brand, where internal marketing is central. Thus, the concept of internal marketing is integrated and further explained in the analysis.

The concept of internal marketing, also referred to as employee branding or internal branding (Mitchell, 2002), primarily involves the promotion and education of the employees about the brand and thereby shifting the corporate culture into alignment with the goals and vision of the company. Some of the largest companies today, such as IBM and Cisco, have realized the innate power of an informed workforce which is devoted to fulfilling the brand promise (Aurand, Gorchels & Bishop, 2005). The internal marketing is basically undertaken by improving internal communications and the segment awareness of the employees, together with linking these activities to the external marketplace (Hogg, Carter & Dunne, 1998). Groonroos (1990) states that these activities can be performed at either a tactical or strategic level. Internal marketing at the tactical level may involve e.g. continuous training, the encouragement of communications such as newsletters and emails and conducting internal market segmentations. On the other hand, internal marketing at the strategic level is more concerned with different management styles and the implementation of various policies.

When talking about culture it is often defined in line with a consistent set of beliefs, common core values and important understandings. The corporate culture is dependent on how the people within the organization view the company and its goals. If the individual goals can be incorporated into the organizational goals, a more efficient and effective culture can be established, which in turn can lead to a superior customer value (Hogg et al., 1998). Several studies have shown that a strong corporate culture enhances a company's performance (e.g. Peters and Waterman, 1982; Deal and Kennedy, 1982; Kotter and Heskett, 1992) and that companies with a strong culture outperforms companies with a weak culture (e.g. Kotter and Heskett, 1992; Gordon and DiTomaso, 1992; Burt, Gabbay, Holt & Moran, 1994).

In order to provide customer service, every employee has to understand the customers and be more customer-oriented. This is where internal marketing is so crucial, as it focuses on making the employees understand their role in the company and how this role fits the overall organizational ambition (Hogg et al., 1998).

5.2 Product development

American Marketing Association (N.Da) defines product development (or new product development) as “*The overall process of strategy, organization, concept generation, concept and marketing plan evaluation, and commercialization of a new product...*” The process can differ between companies but Kotler and Armstrong (2010) describes a general new product development process in eight steps (figure 5.1).

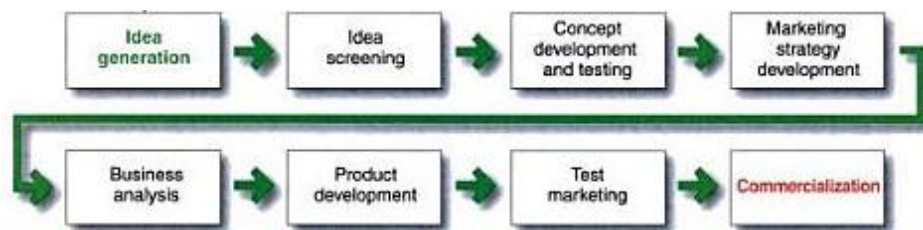


Figure 5.1 New Product Development Process (Kotler & Armstrong, 2010, p. 283)

As displayed, a new product development process typically starts with idea generation, which perhaps is the most important stage, and ends with commercialization of the product. The value creation section explained that to be able to create value for the company they must offer products or services of high value to the customers. Hopefully companies perform their market segmentations so that they understand their customers well, which is crucial for developing successful products. In addition, external sources with high knowledge of the market, such as suppliers and distributors, should preferably be incorporated in the idea generation stage. Distributors are traditionally closer to the market and the consumers, and suppliers can inform the company about new materials, concepts and techniques that can facilitate the development of new products (Kotler & Armstrong, 2010).

When the screening of the ideas is done and the most attractive ideas have been selected and developed into concepts it is important to test these new product concepts. Once again the customers play an important role here as they often are test subjects for the product concepts, together with company employees and distributors. If the idea generation and screening process have been performed in a good manner the concept testing mainly works as a confirmation of that the product concepts have been developed according to what the customers perceives as a high-value product.

After testing the product concepts the number of ideas have been reduced even more and a decision of which ideas to pursuit have been made. Now the company has to calculate price, potential sales volume and estimate profits to see if the project is worthwhile. If that is the case the rest of the process deals with development of the physical product, a marketing strategy and to perform test marketing to decide how it should be marketed. The latter is usually done using various kinds of test markets where the physical product together with the marketing program are put into made up, but realistic, market settings (Kotler & Armstrong, 2010).

The process displayed in figure 5.1 is a sequential model of a product development process. However, nowadays companies often use a parallel approach, meaning that the different

stages are intertwined creating a faster and more effective process from idea to commercialization (Viswanathan, Eppinger & Whitney, 1997). Using a parallel approach does not only mean that the lead time is shortened but also that product quality may be worsened as the process is hastened. Although, as competition increases companies put much emphasis on short lead time to introduce new product before competitors. When a new product is developed it needs to be communicated to the consumers to attain awareness which is what a company does through market communication.

5.3 Market communication

The basic definition of communication is an intentional transaction of information towards an audience. In marketing communication this transaction of information can e.g. be in the form of radio- and television commercials or newspaper advertisements. It is, however, important to understand that this information is not static as it cannot be directly transferred from one mind to another. Instead it is interpreted by the receiver, depending on his or hers pre-existing ideas, attitudes and capacities (Blythe, 2006). This is why a segmentation is important as a decision-basis when designing marketing communication; to be aware of consumer attitudes in order to create a suitable message which will be received and interpreted as intended.

5.4 Brand tracking

Brand tracking is a way of measuring how well a brand is doing (brand equity) in the marketplace by looking at pre-determined key variables such as advertising, brand awareness, brand image, penetration and purchase intention. The brand equity consists of the brand image and brand awareness (Kotler & Armstrong, 2010). A brand must be seen to be bought but the customers must also like its image. Tracking studies can identify the current performance of a brand. Since it is a continuous process, companies can see the impact of successful actions and discover downturn in customer perception or company performance in a timely manner, so that negative effects can be warded off. More hands-on tracking studies can track the effectiveness of advertising campaigns, customer retention and loyalty, but also to monitor the brand's image to see the effects of brand-building investments (Seal & Moody, 2008). In other words, brand tracking is continuous market research performed to measure changes in the performance of a brand.

5.5 Summary of chapter 5 so far

To summarize this chapter so far, the authors have presented four additional theories which are incorporated in the analysis of the segmentation process in the case companies. *Internal marketing* is a central activity for a company that wants to activate its brand through the education of its employees, about e.g. the customers/consumers, core values and the organizational goals, in order to create a strong corporate culture and language. The authors have also explained how the *new product development process* works, from the idea generation to commercialization, and how this process may vary between companies in being either a sequential or parallel process. Also, in order to create a *market communication* which is understood as intended it is important to understand the consumer's pre-existing ideas, attitudes and capacities. Finally, companies can use *brand tracking* to measure their brand equity i.e. how well the brand is doing on the marketplace. As brand tracking is a continuous process a company can use it to e.g. follow up changes in consumer perception of the brand after a certain marketing decision has been implemented.

5.6 Case analysis

5.6.1 AB Electrolux

Electrolux's values are *Customer Obsession*, *Passion for Innovation* and *Drive for Results*. These values have been around since the start of the company and they are what Electrolux has built its organization on. These values, together with the slogan for the Electrolux brand "*Thinking of you*", suggests that Electrolux wants to be at the forefront of innovation by focusing on its customers' needs and wants, and in that way create value and good results. To understand the needs and wants of its customers Electrolux has taken a strategic marketing decision to use a type of need segmentation, which seems relevant to its business strategy. By conducting personal interviews together with studying the consumer in their own home rather than merely asking them about their needs and wants probably gives Electrolux a higher consumer insight than many other companies that only focuses on traditional market research. This revolution of the business, meaning the shift of Electrolux to a more consumer-driven company, is probably what has improved its results and taken the innovation closer to the consumers.

The mentioned core values of Electrolux should be present in all interactions with the company, both internally and externally, which is the essence of the concept brand activation. However, according to Mr. Lundberg this is not the case, at least internally. Although top management and most of the key employees are knowledgeable of the values there are still many employees, perhaps at less important positions, that are not at all aware of them. This can create inconsistencies in the interaction between these employees and external parties such as the customers. Electrolux tries to utilize tactical internal marketing by diffusing the image and characteristics of the resulting segments across the company subsequent to every segmentation, but the diffusion does not seem to reach out to the whole organization. Electrolux does not perceive this as a big problem so no research has been done to see if inconsistencies in the perceptions of employees actually exist. Performing internal research like this does not have to be expensive and this is a way for a company to seek evidence of their investments in brand-building efforts (segmentation being one of those investments) and should thus be something to consider.

Electrolux mainly use its segmentations for product development. For high-involvement products³, as most of Electrolux's products are, in contrast to low-involvement products consumers usually perform external search for information about the product such as opinions of friends and family, professional reviews and consult different websites. This means that the products that Electrolux develops have to be of high-quality to even be considered as an alternative. This is probably why Electrolux has such a high focus on innovating products with high quality tailored to the needs and wants of consumers found in its segmentations. In contrast, a relatively low-involvement product such as a diaper for SCA cannot be changed much in regards to functions and attributes in order to create customer value. These low-involvement products can instead increase in perceived value due to design improvements of the package and the actual diaper.

Electrolux is creating value for the customers by including them in the product development process and letting them affect the outcome. Examples of this are the *Design Lab* competitions, but also the interaction with consumers in social media. These kinds of efforts are getting consumers involved with the company and, if performed well, can lead

³ High-Involvement products are products that have a high degree of personal relevance. They are seen as having important personal consequences or as useful for achieving important personal goals (American Marketing Association, N.Db)

to brand activation. By including the customers at an early stage Electrolux can most likely decrease the probability of creating unsuccessful products. Thus, this shift to a more consumer-driven product development process should mean that the risk of launching products with low customer-value should be decreased and that the products that actually are launched will be perceived as having high value by the consumers. The foundation of this “new” consumer-driven Electrolux is its market segmentations on which these decisions are made.

In terms of measuring the value of its segmentations Electrolux look at a number of things. As Mr. Lundberg (personal communication, 2011-03-03) mentioned, one thing Electrolux look at are launches of new products or product lines. If Electrolux is as consumer-driven as they say, where premium products with accompanying market communication are completely tailored to the needs and wants of the consumers, this should be a good way to see if the segmentation process was successful. If a product launch is successful and that product is very much developed on the basis of a segmentation study it should be reasonable to conclude that the segmentation study at least has created some value for Electrolux, but how much value is again hard to say. Because even though Electrolux has performed a good segmentation and interpreted the results “correctly” the success of the product launch can partly be the result of a number of uncontrollable external events and factors not related to the segmentation nor the product development process. However, by the use of their brand-tracking tool, where results can be broken down and connected to specific segments, Electrolux can track the consumer perceptions of the new product and the market communication. Reasonably the effects of external factors ought to be smaller if the findings in the brand-tracking are in line with the sales figures. Furthermore, by being able to connect the brand-tracking results to specific segments and track the performance of new segment-specific product launches Electrolux should be able to connect these measures to get an even stronger indication of if the segmentation process has yielded in any value or not. If the brand-tracking indicates that the new product launch together with the market communication have been perceived positively by the consumers and the product launch has been a success (in terms of profit, increased market share etc) this should mean that Electrolux has understood the consumers well from the beginning i.e. by performing a good segmentation. Also, the success of the new product and positively perceived market communication indicate that this understanding of the consumers has successfully been translated into new products and accurate communication.

5.6.2 Arla Foods AB

At Arla Foods they believe that the segmentations are important for its business. Inga-Lena Fridheimer (personal communication, 2011-03-03) stated that a “*segmentation is important as a strong basis for decisions of how a category should be developed, which needs that should be covered by a product and what the driving forces are within the category*”. Especially in Sweden they have had a long tradition of working with consumer insight and putting focus on the consumers. The segmentations are used as a basis for being successful in creating value within all business areas e.g. product development, market communications and strategy development, where the ever changing nature of the Arla consumers seems to drive the need for having segmentations as a strong decision basis. Rather than segmenting the consumers by overall dairy products, Arla is segmenting the needs of the consumers within every product category through regular intervals. This suggests that Arla can find specific needs within a category, such as milk, and create a more attractive consumer value proposition based on this information. The ambition of Arla Foods is as mentioned to be the best dairy company for more than 250 million consumers in north Europe and Great Britain. This ambition

supports the observed need of a segmentation in every market where the consumers are segmented severally for each product category, as is the case today, rather than performing one segmentation for all categories in each market. By doing this the risk of a 'shotgun-effect' decreases, meaning that it is a more closely targeted segmentation where Arla tries to reach only those consumers that they have the best chance to satisfy. This is the goal of the planned global segmentation tool. Once this tool is implemented it can lead to a more efficient segmentation process since the process will be consistent through the whole organization which in turn might create value.

Arla Foods has the ambition of being global and are therefore building its core values around this vision. In Arla's strategy it is clearly stated that they aspire towards having a coherent global character in order for the consumers and customers to encounter the same Arla character wherever in the world it might be. This ambition should encourage Arla Foods to use some form of internal marketing. Diffusing the segmentation goals and results throughout the whole global organization would probably facilitate sensing of global trends and subsequently development of new attractive products. However, we can see how this is hard to achieve when there is no global segmentation tool present. If every market has its own definitions of the segments and methods for discovering these, the comparability across markets is likely to be difficult to say the least. At the marketing department in Sweden Arla has not seen any need to actively diffuse the information gained from the segmentations through the departments since they are all constantly working with it and the segmentation is only relevant for each particular market. This is probably why Arla is working towards the implementation of a global segmentation tool where the internal marketing would be feasible on a global scale and has the potential of creating value not only in Sweden, but in every market which Arla Foods is present in.

As noted in the theory of product development, the first step is to generate an idea for the development of new products. For Arla Foods this idea generation is grounded in a need segmentation. By using consumer segmentation as a basis one will have something of value to work from, as it is the consumers who are in focus which makes it more likely that the company will develop something the consumers are actually interested in. As mentioned this is also one of the main purposes of a need segmentation; to understand what benefits the consumers look for in the products or services. In relation to the theory on brand activation Arla is trying to make the consumers in their target segments more involved with their brand. This has been done by e.g. creating advertisements on Arla's products where children are encouraged to visit their webpage, and also by using Facebook as a medium where the consumers can give their opinions concerning the Arla brand.

After studying Arla Foods it has become apparent that it is important to always have the goal and purpose of the segmentation in mind. This is especially true if a company is to perform the "right" segmentation and subsequently want to be able to evaluate the decisions taken in the segmentation process. In the case of Arla, it is currently using brand tracking as a means to monitor possible changes in attitudes which are then followed up in order to understand why these changes are occurring. By understanding this it is then possible for a company to make necessary changes to the products and the marketing communications. Previously Arla was using a tracking tool which could connect the brand tracking results to specific segments, somewhat similar to the one used by Electrolux. This type of tool seems to better grasp segment-specific effects since analyses can be made closer to the different segments. But as Inga-Lena Fridheimer (personal communication, 2011-03-03) said, this tool required a lot of time and knowledge which eventually led to a cancellation of it. This is due to the fact that when it was used in Sweden it led to

inefficiency as the employees did not have enough time and resource to work with it. For such a tool to work it would seem that the whole organization needs to utilize the tool so that more resources can be exploited and the resulting information widely diffused. Though, Arla Foods does seem to have the ambition to use the tool again if the mentioned global segmentation tool is implemented in the future.

Another way for Arla to detect any effects of the decisions based on its segmentation is to investigate how long a new product is successful on the market. If Arla has been able to develop an attractive product which is repurchased by the consumers, Arla can to some extent determine that the decision basis i.e. the segmentation results, was well understood. Arla also look at sales as an indicator of value, but it is important not to look at total sales but instead on the sales related to a new product, preferably one that is tailored towards a certain segment. Total sales are often affected by a lot of external factors, and if one instead look at sales of a new product one can exclude some of those factors.

As discussed in the theory on marketing communication, segmentation is a good tool for creating a message which is likely to be understood by the consumers. As the need segmentation hopefully reveals the consumers' needs and benefits sought this can to a large extent be utilized in the formulation of an effective message. Arla Foods is tracking its communications to see if the message actually has been understood as intended. So if the communication tracking shows a positive reception and it is linked to the purpose and goal of the segmentation it may be derived that it has aided in enhancing the apprehension of the marketing communication.

5.6.3 Swedish Match AB

Swedish Match has the ambition of being the first choice of consumers when it comes to smokefree products and opinion makers for snuff and snus. In order to achieve this ambition it has to be able to convince the consumers that its products are better than the competitor's. As Swedish Match is unable to market the tobacco products through traditional channels it is forced to rely on other means for conveying a unique value, namely through the products. This is why the strategic marketing decision of segmenting the consumers through a need segmentation has been important for Swedish Match. By knowing the needs and wants of the consumers Swedish Match can change the product to create a more attractive value proposition.

When looking at the internal processes, Maria Nicholl (personal communication, 2011-02-28) mentioned that the segmentation has been used actively within the organization through horizontal workshops to determine how the category should be managed and how they can evoke an interest for the products in a mature market. It is apparent that Swedish Match has been able to communicate the results from the segmentation throughout the organization and according to Maria Nicholl (personal communication, 2011-02-28) she can actually see how the language has changed to the better. The creation of a common language when talking about the different segments seems to be very important when developing new products, in sales, marketing etc. Swedish Match has even reached a phase where it can show pictures and draw a mental image of the consumers when working within these different departments. This active decision to spread the knowledge from the segmentation suggests that Swedish Match is aware of the advantages of an informed workforce. But in terms of internal marketing more can be done, which is something that Maria Nicholl (personal communication, 2011-02-28) recognised. As this was Swedish Match's first large segmentation she believes it has the opportunity to refine the segmentation process when the segmentation is updated in the future. The suggestion to

create a common educational material about the segmentation seems to be a sound approach for diffusing the knowledge to the employees. By having a printed brief of the different segments, brands, products and customers, the employees can educate themselves and always go back to the information when needed. This can possibly create a greater internal consistency, and hence facilitate the ability to work together more effectively when creating customer value. Swedish Match has made no attempt to measure any changes in consistency and understanding of the employees concerning the organizational language at this point. The fact alone that a common language seems to have evolved can be seen as a measure of success by itself. So, when performing the next segmentation Swedish Match has an opportunity to implement internal measurement tools, such as the mentioned staffing index, so that an estimation of the change in internal consistency can be made. This would also be in line with Swedish Match's plan to be more organized in its next segmentation and implement a more serious communication strategy.

As mentioned, the primary usage of segmentation for Swedish Match lies in the product development. Sales of products with high customer-value are the primary source of business value for Swedish Match which is also why Swedish Match put so much emphasis on new product development. Swedish Match needs to create a unique and differentiated customer value through its products, since it cannot influence consumers with planned market communication, in order to create customer loyalty to its brands. This has in part been achieved by using design labs in order to involve their consumers more in the product development process, and thereby moving towards activating the brand through the products. By including the consumers Swedish Match hope to develop a product that the consumers actually are interested in, which may lead to customer loyalty. If successful, this creates positive word-of-mouth communication (WOM) among the consumers which is perhaps the most effective and credible kind of market communication. Positive WOM to facilitate trial and loyalty is a more important factor for Swedish Match than most other companies since it cannot perform their own market communication and affect consumers in that way.

Swedish Match is using the segmentation in workshops in order to evaluate where its brands are positioned in relation to the discovered segments. By doing this Swedish Match can make refined changes in their products, concerning e.g. the quality, taste, size etc, to make certain brands more attractive for consumers within a segment. This is an important resulting value from a segmentation process as well, as the segmentation can be used to better position the brands in the mind of the consumers.

When trying to determine if the segmentation process has created any value for Swedish Match, all it really does is looking at the sales in relation to new products. In contrast to other companies, Swedish Match is unable to track marketing campaigns and similar factors due to the marketing regulation. As noted, they could detect that some effect on the sales had occurred as a consequence of a design change. But to say that this design change is the sole contributor to that effect would be misleading, as there are a number of other possible reasons for this. Nonetheless, high sales figures for new products seem to be one way of detecting if a segmentation process has resulted in any business value since those products are a result of the performed segmentation.

Swedish Match is also using a brand tracking tool to detect changes in their consumers' attitudes. Swedish Match has developed its own brand equity measurement as Maria Nicholl (personal communication, 2011-02-28) mentioned, where she was of the opinion that the standardized equity measurements are too much focused on investor relations rather on the brand. The brand tracking is not directly grounded in the segmentation but it

does have certain algorithms to link the consumers to the segments. This tracking might be seen as an aid in its product positioning where Swedish Match can see which brands are positioned in which segment and then have the opportunity to push certain brands in, what Swedish Match perceives, as a more favorable position for those brands.

It seems important to always have the initial goal with the segmentation present in every decision that is taken to be able to evaluate a segmentation process. It is also important to have goals for every decision to facilitate measurement and not only overall business goals. For example, to better estimate the value of a segmentation process the company needs to have specific goals for e.g. new product development, market communication (if not prohibited) and internal marketing so that performance can be linked to specific decisions.

5.7 Cross-case analysis

In order to facilitate the cross-case analysis for the reader, the authors have created a cross-case analysis matrix which can be found in Appendix 10. When comparing the three case companies we can see a common overall ambition to be the best within the respective business areas. For Electrolux the ambition is to be the world's number one provider of appliances in their premium segment by being consumer driven, Swedish Match the first choice of consumers within smoke free products and Arla Foods the best dairy company for more than 250 million consumers. These are all large international companies and therefore such ambitions seem realistic in order to achieve growth. When taking strategic marketing decisions there is an observed agreement on that a segmentation should be used as a decision basis. By understanding the consumers there is an opportunity to more effectively determine how a category should be developed. Arla Foods and Swedish Match share the view on how the segmentation should be used to develop the products and also how to best position the brands in the minds of the consumers, e.g. which brands that should focus on appealing to consumers with certain attitudes in the different segments. Electrolux has a similar view but is focusing these strategic marketing decisions more at their premium segment, which subsequently can have a spillover effect on the other segments, while Arla Foods and Swedish Match use the segmentation as a decision basis for several target segments. This can be explained by the fact of Electrolux's image of being a provider of high quality products in the premium segments which have a higher profit margin.

The three case study companies are in different industries but we can still see many similarities in the way they have utilized market segmentation and the type of segmentation made. All three companies have decided to use a type of need approach to segmentation which is said to better predict consumer behaviour than for example demographic variables. This type of segmentation focuses on the needs of consumers and the benefits they want from a product. Thus, for Swedish Match this is a suitable approach since its main focus should be on product development (because of market communication prohibition) and therefore it is essential that it understands what the consumers look for in its products. For Electrolux this is also true because its main focus also lies in product development and innovation to create customer value; much due to the fact that they produce consumer durable goods where high-quality products are important for consumer loyalty and re-purchases.

All the interviewees mentioned product development as one of the main usages of market segmentation, and for Swedish Match (for obvious reasons) and Electrolux this was mentioned as the primary area of usage. Both Electrolux and Swedish Match have the ambition of being very consumer driven in order to minimize the risk of developing

products with low consumer value which has in part been achieved by using e.g. design labs and involving the consumer in the development process. It is important for Electrolux to be able to develop products with high-quality as it has high involvement products where consumers e.g. look at specific functions of the product, read reviews, compare products and ask peers for their opinions which are all examples of external information-seeking⁴. Arla is also using the segmentation as a starting point for developing new products in order to always have the consumers' needs and benefits sought in focus. Swedish Match has to be aware of the consumers needs through need segmentation in order to develop products that are differentiated from its competitors. This can in part be explained by that the products in the smoke free market are very similar. So, by differentiating the products it is more likely for these companies to develop high consumer value products and thus increase the rate of successful product launches.

For Arla market communication was mentioned as being an equally important as product development. This might be because it sells low-involvement products, meaning that no or little external product information seeking is performed by the consumer, and therefore it is extremely important with top-of-mind awareness⁵. When it comes to low-involvement products, consumers often only perform internal information seeking⁶. For Electrolux and Arla Foods the marketing communications are based on the segmentation results. When comparing the two companies, Electrolux has been able to effectively use this information to create a promotion which is very much targeted at its premium segment. By knowing who the consumers are in this segment it selected an appropriate brand ambassador in Kelly Ripa to promote the specific functions of its appliances which were desired by the consumers. Such promotions through brand ambassadors are focused on the premium segments, but as mentioned this is likely to have a spillover effect on the other product categories and segments. As Swedish Match cannot work actively with marketing communication it has to work around this problem. This is achieved by instead creating a superior product based on the needs of its consumers, which in turn hopefully can create a word-of-mouth marketing communication.

Internal marketing was something that the interviewee in each company agreed to yield value. However, in contrast to Arla, Electrolux and Swedish Match utilizes internal marketing with the segmentation as a basis. Their efforts were mainly concerned with internal communication and workshops to create a common ground and educate the employees about the resulting segments, their characteristics and future actions. Swedish Match has a plan to increase the level of internal marketing with regards to its segmentations in the future since it perceived this to create great value. Inga-Lena Fridheimer (personal communication, 2011-03-03) said that Arla on the other hand does not perform any internal marketing directly linked to its segmentations. The reason for this is that Arla has worked with segmentation for a long time so the perception is that the employees in the organization already know its segments and what Arla's position should be on the market (Inga-Lena Fridheimer, personal communication, 2011-03-03). If true, this is a good thing that companies that are new to segmentation should strive for by using internal marketing. It seems like all interviewees perceive that having a consistent

⁴ External information-seeking can be defined as "...scanning our own memory banks to assemble information about different product alternatives" (Solomon, 2009, p. 356).

⁵ Top-of-mind awareness can be defined as how high the position of the brand is in the mind of the consumer measured by unaided recall (Wilson, 1981).

⁶ Internal information-seeking can be defined as the acquisition of information from sources outside of memory, such as friends, packages or other in-store displays, advertisements, magazines such as Consumer Reports, reviews and so forth (Bettman, 1979).

organization, in terms of common language and culture with regards to the performed segmentation, creates value for the company. However, during the interviews it seemed like increasing this through internal marketing had a low priority. None of the companies measure the changes in employee perceptions to see if their attempts of diffusing information have had a positive effect or not. Thus, since no estimations of the effects have been made it is hard to determine the value of such actions in these cases. On the other hand, since previously mentioned studies (see p.42) and the agreement among the interviewees suggest that this is something that does create value; the authors believe that this is something that should be measured to estimate potential value of a segmentation process. This can be done using e.g. the staffing index explained earlier where market research is performed internally before and after the segmentation to check possible changes in the perceptions of the employees.

Regarding brand activation all three companies are working towards involving the targeted consumers in different business activities in order to create a consumer relationship and hence create business value. Both Electrolux and Swedish Match are using design labs where the consumers are involved in the development of new products and Arla has used marketing communication to encourage the consumers in target segments to interact with the company on its website. Furthermore, they are all active in social media where representatives of the companies actively converse with the consumers. The concept of brand activation implies an ongoing process that includes activating both the employees and the consumers, where the employees can be activated by the use of internal marketing. Employees that are more educated and informed are usually more engaged in a relationship with their employer, resulting in an increased willingness to help out and generate ideas. To better capture these ideas, an intranet that facilitates employee interaction and idea generation could be beneficial.

When trying to get the consumers involved, a good way seem to be through traditional one-way business-to-consumer market communication where the consumers are encouraged to e.g. log on to the company website and take part in a design competition. A segmentation often gives the company an indication to what triggers the emotions of their target segments. By creating a message which is emotional rather than rational, and relevant to the consumers, a conversation is more likely to occur resulting in active consumers. As higher brand activation leads to increased consumer buying intentions this is something to strive for. This interaction exposes the consumers to the brand, initiates a buzz and hopefully in extension creates a business-customer relationship, which is preferable since the cost of getting new customers is much higher than keeping existing ones. For example, the design competition can then aid in developing a product which is based on the needs and wants of the consumers, which then can be adapted to the different segments, which is something that Electrolux and Swedish Match tries to do.

In terms of measuring value Electrolux is the only company that tries to link success directly to segmentation. By the use of segment-specific brand-tracking it can track consistencies between the success of the launch of new segment-specific products, the perception of the market communication for those products and market data. Swedish Match has a similar brand-tracking but the difference is that its brand-tracking tool is not grounded in the market segmentation. Arla also use brand-tracking but it has a more holistic approach where results and changes cannot be connected to specific segments but instead to the different product categories. Consequently Arla can detect perception changes connected to specific products and advertising campaigns but not the representation of these changes in each segment. If a company believe that it is important

to evaluate a segmentation process to see if it has generated any value the authors believe it is preferable to use a brand-tracking that show results on a segment-specific level. In contrast to Arla's brand-tracking, Electrolux can link the changes in e.g. perceptions, effectiveness of an advertising campaign, customer loyalty and customer retention to specific segments. This should facilitate future decision-making regarding e.g. new product development, market communication for each of the segments and thus both estimate the value of the previous segmentation process but also facilitate future value-creation.

During the interviews all three interviewees mentioned that segmentation is an established continuous process in their company, where large segmentation projects are performed within more or less fixed time intervals. Electrolux has a time interval of approximately four years between its market segmentations and Arla had a slightly narrower interval of three years. Swedish Match has not yet performed its second large segmentation project after the one made in 2009, but the plan is to do one soon to incorporate the segmentation process as a regular element in the company agenda. To see to that the company stays on track with new trends and change in consumer perceptions, all three companies perform check-ups between the segmentations. This is done using e.g. brand tracking, focus groups and concept tests to ensure that the results found in the segmentation are still valid. This is also important so that the companies can make adjustments in their value propositions if consumer attitudes and perceptions do change. If changes are found, the companies can also use this information to update elements in their segmentation process (such as their brand-tracking) and to improve the foundation for their next segmentation.

5.8 Summary of analysis

The three case studies have been able to answer the research questions that we stated. They have provided us with a clear understanding of how they have used market segmentation to create value in their companies. This was primarily done using e.g. product development, market communication and internal branding. Furthermore they have presented us with ways of measuring the value of a market segmentation process, however no specific method or process for evaluation was found. This information has been processed by the authors that, in turn, have been able to create a general evaluation model which is presented in the next section.

5.9 Market segmentation evaluation process

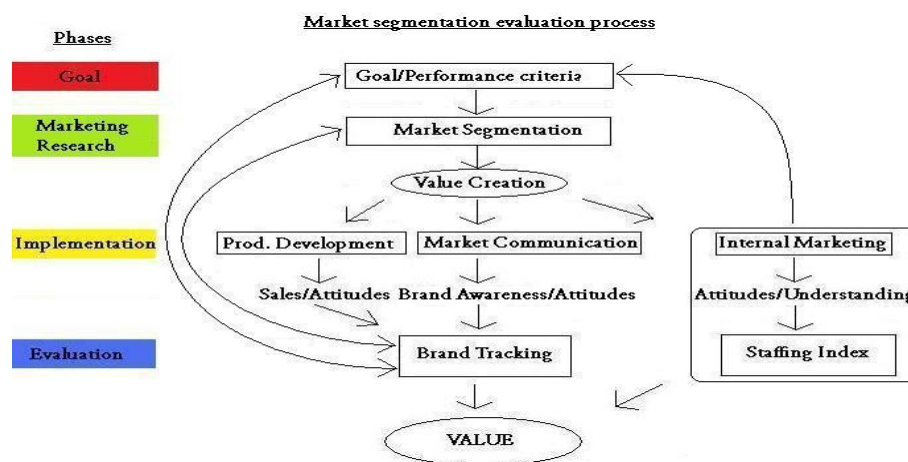


Figure 5.2 Market segmentation evaluation process - Developed by the authors.

From the findings in this thesis the authors have developed a market segmentation evaluation process (Figure 5.2) which is explained in this chapter.

Once a company has chosen to perform a market segmentation the project usually starts with defining the goals. There should be both internal and external goals since a segmentation process should result in e.g. increased customer value (external) and internal consistency (internal). It is very important that these goals are measurable to facilitate the last phase of the model which is evaluation. Examples of measurable goals are: to 'increased consumer interactions and involvement' which can be used to evaluate brand activation, 'improved staffing index' to evaluate internal consistency, and 'increased brand awareness/top-of-mind awareness' to evaluate market communications.

When realistic and measurable goals have been defined the actual market segmentation study in the form of market research is made. At this phase it is up to each company to determine which segmentation approach to use. However, to better predict the future behaviour and to be more accurate in e.g. product development and market communication, the authors believe that an approach using variables such as at least consumer needs and benefits sought e.g. need segmentation. When the market segmentation is finished, including selecting target segments, the value-creation process starts. It is the decisions in the implementation phase of the model that determines whether the segmentation project is going to be successful and create value. The empirical findings suggests that the main areas in which a company take decisions with the segmentation study as a basis are Product development, Market communication and Internal marketing. The box around 'Internal marketing' and 'Staffing index' indicates that this is only an internal process. Decisions regarding product development are perhaps the most crucial ones since the selling of the products is ultimately what generates profit for the company. New product launches then generate sales and affect consumer attitudes towards the company. Marketing communication is important to increase brand awareness and sales, but it also affects consumer perceptions about the company and specific brands. Internal marketing works in the same way as market communication where the segmentation process, the selected target segments and decisions are communicated to the employees in order to reach a common understanding, and this of course affects the perceptions and attitudes of the employees.

After all tactical actions have been implemented it is time for the final phase, the actual evaluation phase. The effects of Internal marketing efforts are here evaluated using a staffing index to see if they have generated any value. As mentioned, a staffing index is obtained by issuing an internal survey before the actual segmentation study and then handing out the same survey after the segmentation project is finished. The survey should preferably include questions regarding the employees' perceptions of the e.g. brand, decision-making process, current target segments, corporate culture and language (regarding e.g. segments), which are all related to the segmentation process. They should also be linked to the initial internal goals/performance criteria of the segmentation so that the company can measure performance in relation to previously set goals. An improvement in the staffing index, i.e. a higher consistency, is a strong indication that the efforts have created value for the company and if the internal goals are met. However, it is hard to estimate the value of perceptions in monetary terms. As previously explained, to evaluate product development and market communication related to the segmentation process, one can look at brand-tracking results. Though, for the evaluation to be more precise it is important that both market communication and product development are closely linked to the segmentation study. If so, the company can receive strong indications that their

segmentation process has been successful. Looking at variables in the brand-tracking such as the perceptions of the new product and the accompanying market communication, and then linking this information to market data of that new product, can give a strong indication about if value has been created. If for example the perceptions of the new product and the market communication is positive and the product is a success one can assume that the segmentation process, at least to some degree, has been successful and has created value for the company. However this value is also difficult to measure in monetary terms since it is partly consumers' perceptions that are measured, thus only strong indications can be made.

The analysis of the brand-tracking and the staffing index results can then be used as a decision-basis in the next market segmentation project on which goals and performance criteria are formulated. Newly discovered consumer perceptions or trends can also be used to improve the market research in the next segmentation project by asking more accurate questions. For internal marketing purposes, the staffing index can give indications on what needs to be improved internally. Segmentation is an ongoing process that requires an evaluation after each big segmentation study to make sure that the business is kept on track. So after the evaluation phase new goals and performance criteria needs to be set and an update of the market research may be required.

6 Conclusion

This research started with the ambition of exploring how segmentation can be used to create business value and also how/if companies are evaluating this value for future segmentations. The hope was that this, in turn, would lead to the development of a segmentation evaluation process. This exploratory research was initiated from a general frame of reference which was generated by reviewing relevant articles and textbooks on the subject. Then the authors interviewed three international companies within different business areas in order to detect differences or similarities between industries in dealing with this issue; AB Electrolux, Arla Foods AB and Swedish Match AB. The interviews showed that segmentation is used primary as a decision basis for three business areas in order to create business value, namely *product development*, *marketing communications* and *internal marketing*. By having consumer segmentation as a decision basis a company has something of value to work from, as it is the consumer who should be in focus. It is beneficial if the idea generation for both product development and marketing communication are grounded in consumer needs and wants. Also, by diffusing the segmentation results throughout the organization by performing internal marketing and thereby educating the employees about the target consumers, a stronger culture may be created which in turn increase the performance of the company. When evaluating these decisions the most common ways seems to be through looking at the total sales of new products, how successful these products are on the market together with perceptions of accompanying market communication. If one can link the different segments to the *brand tracking* in order to detect segment specific changes in behaviour one may be able to determine if the decisions based on the segmentation were successful. It is also important to not only link the brand tracking to the different segments, but also to the overall purpose of the segmentation. For example, if the goal of the segmentation was to increase the brand awareness, one can use the brand tracking in order to find out if the brand awareness has increased in a specific segment after the implementation of e.g. a marketing communication. When it comes to the internal marketing the value can be measured by performing surveys both before the implementation of the internal marketing and afterwards. Thus by looking at the *staffing index* one can determine if the cultural environment and internal consistency have improved as a consequence of internal marketing based on a segmentation.

Finally, the case study companies in this study are working towards involving the targeted consumers in the product development and/or marketing communication. This involvement of consumers is commonly referred to as brand activation. Within product development the usage of design labs and design competitions seems to be the most common way of involving the consumers in the brand experience, while interaction through websites is most common concerning market communication. There is also an attempt from the companies of activating the employees by diffusing the segmentation knowledge to create a more competitive corporate culture.

Future research

The purpose of this thesis was to investigate how market segmentation can be used to create business value and also how one can evaluate this. Now that this process has been explored we would encourage other researchers to conduct a quantitative study in order to find out how many companies that are using consumer segmentations as a decision basis for creating business value within product development, marketing communications and internal marketing. It would also be interesting to find out if they have been able evaluate their market segmentation by linking their brand tracking to the segments and if so, how this evaluation has aided them in future decisions.

7 Recommendations to SCA

This section first provides SCA with recommendations based on the process explained in the previous section (Figure 5.2), and also on how SCA could work towards activating their brand.

Looking at the goal/performance criteria phase, the aim and ambition of SCA's segmentation is basically two-folded. Internally they want to establish a common language and mindset within the company for describing the target groups and also to be more precise when making decisions concerning e.g. the strategy, product development and communication development. Externally the ambition is to increase brand activation, strengthen the brand and grow the business. Thus a strategic marketing decision was taken to perform a multi-cultural segmentation with local relevance, where the Censydiam Model was used. This segmentation was used to discover the customer attitudes, needs, motivations, behaviour and demographics, where the main focus is to find the relationships between these factors. Once the segmentation study has been done, the next step in which SCA currently is, is to create value through actions such as Product development, Market communication and Internal marketing.

Product development

SCA has already started taking decisions based on the segmentation to realize the previously mentioned goals. In terms of product development they have a near future product design project which will be based on the segmentation study. One suggestion for further using the consumer knowledge in product development is to involve the consumers themselves in the development process, so called co-development. An example of this is the design labs at Electrolux where students from all over the world are included in the idea generation process of new products. SCA has something similar in *Liberoklubben* where consumers can participate in various competitions, among them design competitions, a decision which is encouraged by the authors. A company should not only validate internally-generated concepts through e.g. focus groups or surveys, but rather harness the creativity of the consumers to generate ideas. Market segmentation together with co-development of products and market communication increase the chance of delivering a high customer value more than the sole use of market segmentation. One thing that SCA should look at when evaluating a market segmentation process is the success of new products (or updates of existing products, such as package design) that are either created for specific segments or co-developed together with consumers in certain segments, or a combination of them. Agreeing with the interviewees, the authors perceive product development to be the most important element in the value-creation process of market segmentation. Hence, looking at the performance of segment-specific products can give a good indication on how well SCA has understood the consumers.

Marketing communications

By working closely together with each of the markets in the study SCA is aligning and sharpening their market communications and brand expressions, which are based on the segmentation but also adapted to the local differences in the markets. Examples of this are the two ongoing communication projects which will be implemented in Eastern Europe and Northern Africa. In present day it is becoming more and more important to evoke the interest of the consumers when performing marketing campaigns. Instead of the traditional one-way business-to-consumer communications, a more interactive two-way communication is required in order to create an attractive offer. By having a good

segmentation basis, where this information is diffused among the employees, the company can create suitable messages which evoke interest in the consumers. Using social media increases business-consumer interaction which, if used appropriately, can lead to brand activation and stronger relationships between the brand(s) and the consumers. In addition, using traditional business-to-consumer communication SCA can inspire the consumers to interact with the company by e.g. promoting design competitions, asking them to join SCA's group on Facebook, market forums where consumers can interact with each other or creating a webpage where consumers can design their own products to further facilitate interaction. At the moment SCA is currently using social media to create such two-way communications through e.g. Facebook and *Liberoklubben*. This shows that SCA is on the right track towards interacting with their consumers. However, more attempts to interact with the consumer can be made by e.g. encouraging interaction by the use of market communication.

Internal marketing

As mentioned, SCA has the ambition of establishing a common language and understanding of the segments within the organization. They plan on achieving this in part by popularizing the discovered segments by using Id cards of the segments, i.e. giving each of the segments an identity and diffusing these within the company in order to educate the employees. In this thesis the authors have come across several interesting methods for using internal marketing in order to diffuse the segmentation results within the organization. As suggested by Swedish Match, one method SCA could use is creating a segmentation booklet where a summary of the whole segmentation process is written down i.e. how the segmentation was performed, what are the different segments, what decisions were taken with the segmentation as a basis and what where the results. If used, this booklet could then be distributed to the SCA employees in order to create a common understanding of the segments, and it could also be used to improve future segmentation studies. For SCA a segmentation booklet can prove to be especially valuable as an internal marketing tool since this is a new segmentation project where a continuous segmentation process is established. In addition, there is an opportunity for SCA to implement a form of 'staffing index' before the Id cards are issued. By performing a survey of the employees before implementing internal marketing SCA can find out how the employees are experiencing the current decision making process, what their perceptions are about the current target groups and finally, what the brand(s) stands for. This survey could include questions such as if they are comfortable when taking decisions, what do they know about the consumers in the target segments, do they find it easy to talk about the consumers with their peer workers, what do they perceive the brand values to be etc.

The next section of the evaluation model is the actual evaluation step, where a comprehensive brand-tracking tool evaluates external effects and a staffing index evaluates internal effects. So, after the internal marketing is implemented by creating e.g. the Id cards, a new survey can be issued to determine if the organizational culture has improved and if a higher employee consistency has been reached. This can then determine if the internal marketing was successful or not. If it can be concluded that the internal marketing efforts were successful this suggests that internal interactions between SCA employees and external interactions with consumers should be more consistent, thus creating value for the company. However, how much value that has been created is hard to say, meaning that the company can only look for improvements in consistency as an indication of value.

Brand tracking

SCA is working towards adapting the brand tracking according to the new direction of its brand platform. The results of this study show that it is important to link the company's brand tracking to the different segments in order to be able to evaluate and possibly measure the effects of the decisions taken with the segmentation as a basis. If not already done, this is something that the authors believe SCA should do. The brand tracking can then be used to detect changes in consumer attitudes and perceptions within each segment of interest. Variables that measure the perceptions of market communication, new products and the brand should be included as they are core areas of usage for segmentation. SCA can also include measures that reveal possible business-consumer interactions and measure customer loyalty between the consumer and the company. This kind of information facilitates comparisons between different variables that can be linked to market segmentation. For example, if a new diaper is launched on the market SCA can check the perception of this new product and the accompanying market communication. If these perceptions are positive, comparisons with market data such as sales should be made to look for potential correlations. Thus, if the perceptions of this new product and its market communication are positive and a correlation with market data of that product is found, this is a strong indication that the segmentation process has been successful. This is of course if the new diaper and the market communication are both based on the segmentation. So, to assume a strong indication this requires that the product development process of SCA is closely linked to the process of the segmentation.

To see if SCA has increased its level of brand activation it is important to link consumer interaction to specific value-creation activities, such as market communication. For example, if a new diaper design competition has been marketed in various media channels one can include variables in the brand-tracking that asks the consumers how they perceived the communication and if they have participated in the competition. This is to see whether SCA has managed to create a relationship with the consumers through market communication that has been based on the market segmentation study. Connecting consumer interactions over time with marketing activities can then show if SCA has managed to activate the brand, since strong two-way business-consumer relationships are the essence of brand activation.

When evaluating these variables it is also important for SCA to have the goals of the segmentation in mind, as this will ultimately determine if the segmentation has aided in creating the intended value. These goals should be stated in a way so that they can be measured. The evaluation of the segmentation process should then be used as a basis for future segmentations, where more clearly defined goals and decisions may be developed.

Brand Activation

The key for SCA to achieve brand activation is to both activate the employees and the consumers. At the moment SCA, like the case study companies, is active in social media which is one way to get the consumers involved and to interact with the company. Moreover, SCA is also using an emotional perspective in its advertising which, according to previously stated research, facilitates conversation between consumers which can lead to increased consumer buying intention if perceived relevant by the consumer. The segmentation by SCA should provide them with an understanding of how to trigger the emotions of its target segments, thus SCA should be able to develop a message which leads to conversation and brand activation. Internally, brand activation is partly achieved by involving the employees in the segmentation process. SCA already has a plan to develop so

called Id cards which are meant to inform the employees about the characteristics of the chosen target segments, which facilitates involvement of the employees. Other ways of doing this which were found in this study are: to make a segmentation booklet about the whole process, to make movies or create pictures of the chosen segments. To capture ideas of this more informed and involved work force, an intranet that facilitates employee interaction and idea generation could be beneficial for SCA. This is because employees that are more motivated and informed are usually more engaged in a relationship with their employer, resulting in an increased willingness to help out and generate ideas.

SCA should keep its emphasis on emotional advertising to facilitate brand activation together with creating internal brand activation through internal marketing efforts and increase two-way business-consumer interaction by e.g. involving consumers more in the creation of marketing communication or development of new products. When it comes to new products consumers can be used in focus groups, design tests, concept tests to activate and involve them more in the process.

Concluding remarks

To conclude, the authors have given SCA recommendations on how it can use a market segmentation to create business value and also how the decisions taken with a segmentation as a basis possibly can be evaluated. We would also like to suggest, if not thought of, that supplementary research is done continuously between the major segmentation projects to make sure that the findings of the current project are still valid.

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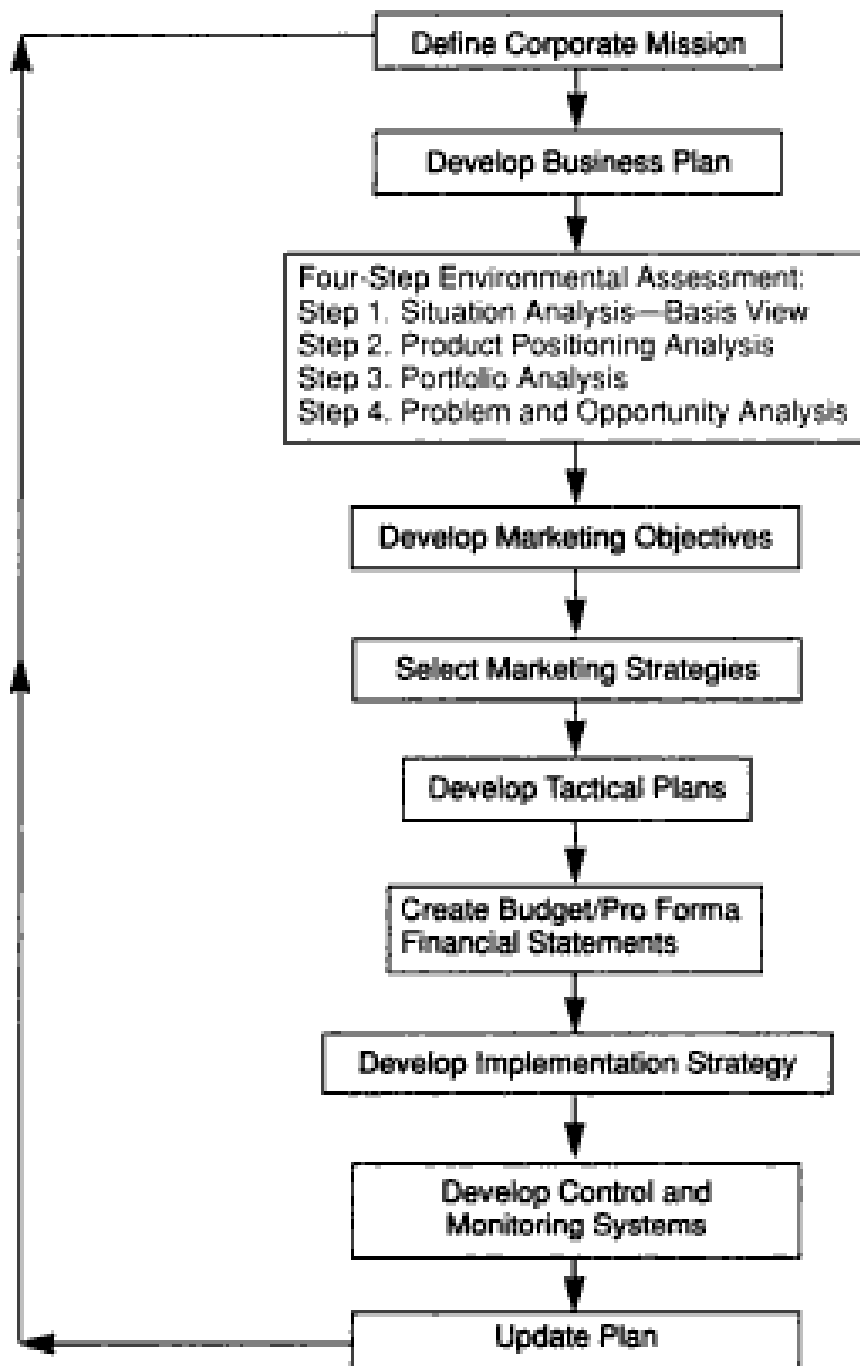
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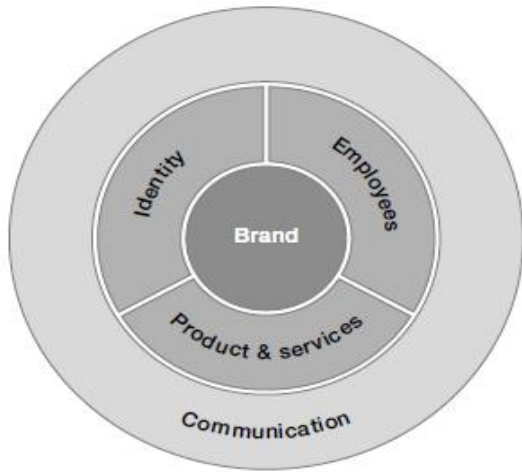
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Appendices

Appendix 1 – Strategic marketing planning process



Appendix 2 – Brand Activation Model



Brand activation Model (Morel et al., 2002, p.6)

Appendix 3 – Letter to companies (English)

Jönköping February 10th

Dear NN,

We are two students at Jönköping International Business School. At the moment we have just started out final semester on 'Civilekonomprogrammet' (with marketing as our orientation) which means that we are writing our master thesis this semester. The subject of the thesis can be shortly described as "How do you evaluate/measure the value of a market segmentation"? We plan to perform interviews with carefully selected companies within different industries to research how companies evaluate a segmentation process. The thesis will be performed in collaboration with a well-known Swedish company that, among other things, manufactures hygiene products.

We have, together with our tutor Professor Helén Anderson, discussed which large well-known companies that would be able to give us valuable information and understanding in the subject. Some of the criteria for choosing companies were that they should be International, Successful and have a Strong brand. We believe that You (NN) fits this profile very well. So, we are now wondering if you have the possibility to meet us for an interview to discuss this topic? About one week from now we will call You to set a possible time and date.

Sincerely,

[SIGNATURE]

[SIGNATURE]

Alexander Unger

Johan Rubertsson

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Our tutor:

Helén Anderson
Jönköping International Business School
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SE-551 11 Jönköping

Appendix 4 – Letter to companies (Swedish)

Jönköping den 10 februari

Bäste/Bästa NN,

Vi är två studenter vid Internationella Handelshögskolan i Jönköping. Vi har precis inlett vår sista termin på Civilekonomprogrammet (inriktning marknadsföring) vilket innebär att vi skriver vårt examensarbete nu i vår. Uppsatsens ämne kan beskrivas kortfattat som ”Hur utvärderas/mäts värdet av kundsegmentering”? Vi avser göra intervjuer med utvalda företag inom olika branscher för att ta lära av hur företag värdesätter kundsegmentering som en process. Examensarbetet kommer att genomföras i samarbete med ett stort svenskt företag som tillverkar hygienartiklar.

Vi har tillsammans med vår handledare Professor Helén Anderson diskuterat vilka välkända företag som skulle kunna ge oss värdefull kunskap och förståelse. Några av kriterierna för val av företag har varit: Internationellt, Framgångsrikt och Starkt varumärke. Vi anser att Ni (XX) passar in mycket väl på denna profil. Vi undrar därför om Ni har möjlighet att träffa oss för ett samtal kring detta ämne? Om ca 1 vecka ringer vi för att komma överens om möjlig tid och plats.

Med förhoppning om ett samtal,

[UNDERSKRIFT]

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Vår handledare:

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Appendix 5 - Questions to selected case companies

General background information of the company

- What are some important decisions that have been made recently?
- How does the structure of the company look like?
- What is your business strategy?
- What are the key values of your company?
- What is the mission/vision of the company?

Decisions taken with regard to segmentation

- What type of segmentation method have you used?
- What were the goals of the segmentation?
- How many segmentations have you done, and which one was made most recently?
- Did you perform the segmentation in-house or did you hire someone to do it for you?
- Were you pleased with the results of the segmentation?
- How have you used the results from the segmentation to create value within the company?
- How do you use segmentation to involve the employees in the process?
- How have you used the results from the segmentation to create value towards consumers?
- How do you use segmentation in order to facilitate interaction with consumers?

- Have you tried to measure the value resulting from decisions taken with the segmentation as a basis?
- What are the different relevant components that you evaluate to determine the value of the segmentation process?
- Do you measure the value both internally and externally?
- Are you measuring the value of your brand (brand tracking)?
- Can you link the segments to your brand tracking?

Appendix 6 – Questions to consulting firms (English)

1. How can you utilize the information from a market segmentation to create value for the company?
 - Business value?
 - External value?
2. After taking decisions based on a market segmentation, how can you evaluate these decisions to see if they have created any value for the company?
 - Internally?
 - Externally?
 - Are there any specific methods/tools one can use?
3. Do you perform an evaluation in relation to the goals/performance criteria you have set for the segmentation?
4. What measurements can best represent the success or failure of a market segmentation? What should you preferably look at?
5. Are there any processes or decisions that are more closely linked to the performance of a market segmentation process?
 - Internal?
 - External?
6. Can ‘Brand tracking’ work as a sort of measurement/evaluation of a segmentation process?
7. How can a market segmentation process lead to brand activation and brand driven growth?
8. How far in the market segmentation process are you (Cap Gemini/Accenture) usually involved?
 - Are you involved in the process of evaluating the segmentation process?

Appendix 7 – Questions to consulting firms (Swedish)

9. Hur kan man använda informationen från en konsumentsegmentering till att **skapa värde** för företaget.
 - Skapa värde inom företaget?
 - Skapa värde utåt?

10. Efter att tagit beslut utifrån segmenteringen, hur kan man utvärdera om dessa beslut givit någon effekt/skapat något värde?
 - Inom företaget?
 - Utanför företaget?
 - Finns det några specifika verktyg?

11. Gör man utvärderandet i relation till de mål man satt upp för segmenteringsprocessen?

12. Vilka komponenter/mått kan bäst representera resultatet av en segmenteringsprocess?

13. Finns det några komponenter som är mer länkade till resultatet av en segmentering än andra?
 - Internt?
 - Externt?
 - Produktutveckling?
 - Marknadskommunikation?
 - Kultur/språk/kommunikation inom ett företag?

14. Kan 'brand tracking' påvisa om en segmentering har gett resultat?

15. På vilka sätt kan segmentering användas för att aktivera ett varumärke?

16. Hur länge i en kundsegmenteringsprocess brukar ni (Cap Gemini/Accenture) vara involverade?
 - Är ni med och mäter eventuellt värde?

Appendix 8 – **Electrolux inventions**

1927: Floor polisher

1940: Food Processor “Assistant”

1951: First household washing machine

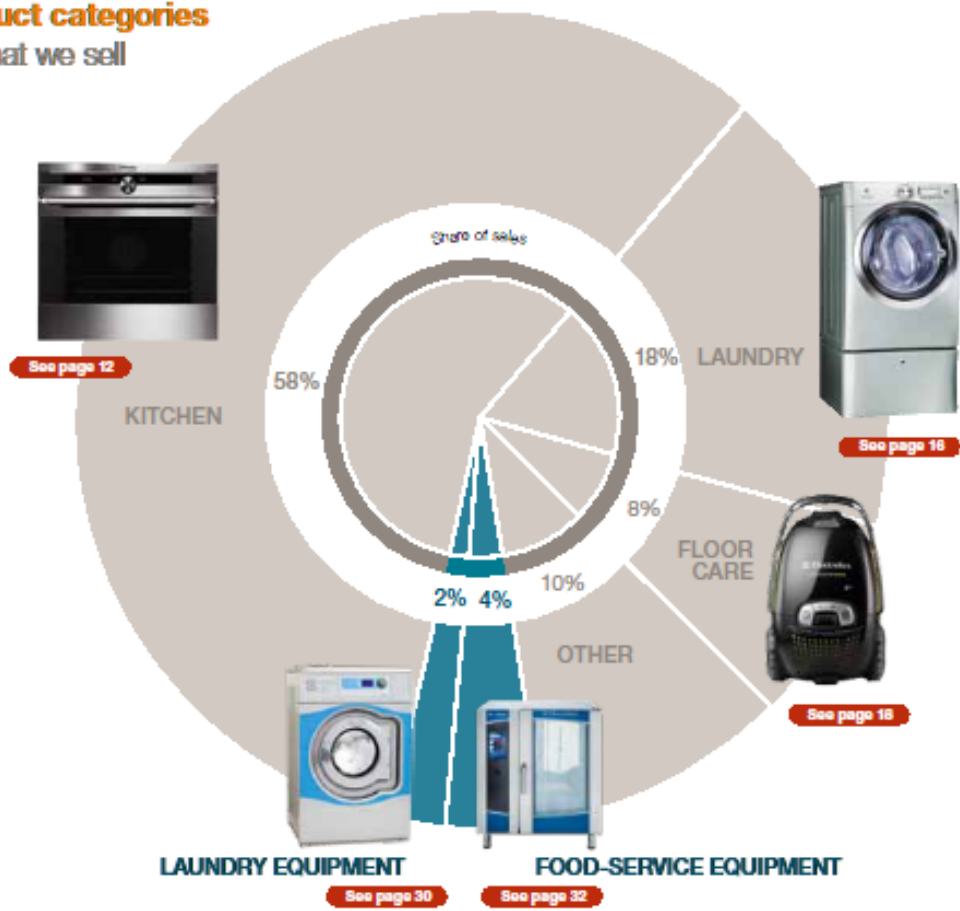
1956: First chest freezer

1959: First dishwasher

1962: Stoves and large-scale catering equipment (through the acquisition of ElektroHelios)

Appendix 9 – Product categories at Electrolux

Product categories — what we sell



Appendix 10 – **Cross-case analysis matrix**

	Segmentation	Decisions	Evaluation
AB Electrolux	Need Segmentation	Product Development Internal Marketing Market communication	Brand tracking linked to market data
Arla Foods AB	Need Segmentation	Market communication Product Development	NO (Indirect via Br. tracking)
Swedish Match AB	Need Segmentation	Product Development Internal Marketing	NO (Indirect via Br. tracking)