Summary Brief

Advancing Market Segmentation By Competition Analysis – A New Method to Measure and Compare Competitive Advantages

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In this paper, we explain and empirically illustrate a new method that combines market segmentation and competition analysis. To this end, we first perform a cluster analysis to determine segments. We then use several marketing mix variables and investigate the effect on retailer's market share in the segments that result from cluster analysis. For analysis, we use a mixed model approach. Our database is extensive German grocery stores including four product groups from 2016 to 2022 with around 5.5 billion purchases. We compare two exemplary retail chains and analyze as well as illustrate their competitive (dis)advantages. The new method introduced in this research can be used by researchers and practitioners to continuously uncover competitive advantages and disadvantages with respect to both entire markets and specific market segments. The method allows firms to compare themselves to the overall market, isolated competitors and groups of competitors.

1. Introduction

Both market segmentation and competition analysis are highly relevant in many research areas, e.g., in management and marketing (Porter 1980; Smith 1956). The use of market segmentation allows practitioners to target certain groups of customers by focusing on their specific needs to exploit market potential (Smith 1956). Competition analysis, on the other hand, is a widely used tool in practice to detect the own position in a market in relation to competitors. Here, firms can figure out how to improve their performance (West 1989) or where it is auspicious to enter new markets (Bresnahan and Reiss 1991). Kotler (1980) already pointed out the necessity of a concept that satisfy the needs of consumers in relation to the competitors. This is driven by the aspect that one main goal of performing market segmentation is to reach a competitive advantage (Hunt and Arnett 2004). Surprisingly, there is no approach that indicates how to measure the competitive advantage in certain segments by using marketing activities.

Previous research addresses the two practices of market segmentation and competition analysis primarily isolated (e.g., Foedermayr and Diamantopoulos 2008; Hatzijordanou et al., 2019). Accordingly, there is hardly any research that focuses on a combination, although it would allow a deeper analysis of strategic implications (e.g., Segal and Giacobbe 1994). This is underlined by the fact that competitive advantages foster the success of market segmentation (Weinstein 2014). On the one hand, market segmentation allows the analysis of submarkets from firms' perspective. Using this micro level approach, firms can build their strategy in terms of market segmentation from a micro-level perspective (Hassan and Craft 2004). On the other hand, competition analysis allows the consideration of the (competitive) market environment and the firm's position in the market (Chen 1996). Consequently, competition analysis takes place on a macro level.

So far, however, it is not known if or how these two approaches can be combined in a feasible way. We expect that the combination of the two approaches will add value, as it will allow researchers and practitioners to analyze not only different segments (micro level) and competition (macro level) isolated, but also the competitive advantage or disadvantage in the respective segments (micro and macro level). While only analyzing the inner micro perspective (i.e., market segmentation) without competition there is a lack of strategic positioning which allows just a limited evaluation of segment attractiveness (Abratt 1993). Consequently, with a combined approach, we aim to overcome this existing and highly meaningful gap for practitioners and academics (Dibb 1998). To do so, we develop a method for market segmentation that can be used in practice and can be adopted by researchers in many fields of management and marketing.

Against this background, we present in the following sections a new method to combine market segmentation and competition analysis. For this purpose, we use extensive household panel data including about 5.5 billion purchases using a mixed model approach. To adequately explain our idea and to demonstrate the advantages, we exemplarily dive into the relationship between several marketing mix variables and retailers' market shares. We chose the set of independent variables from Brüggemann (2023a). Moreover, we use the method to decompose market shares, introduced by Brüggemann and Olbrich (2022). This method allows to decompose dependent variables, e.g., in regression analysis.

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