A Practical Guide to Market Segmentation for Technology and Service Providers

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Initiatives: Technology Marketing Effectiveness

Identification of ideal groups of customers for your product or service is at the heart of market segmentation efforts. To win in competitive markets, technology and service providers should use this research to more effectively define target segments and focus their sales and marketing efforts.

Overview

Key Findings

- Many providers shy away from detailed definitions of their target market due to concerns that they will limit their opportunities, when in fact a lack of focus leads to an inefficient go-to-market strategy.

- Developing realistic projections of the opportunities in your target segment depends on an understanding of the conditions that drive your market and the motivations of a target buyer.

- When too many distinct segments are targeted, resources to effectively support marketing and sales efforts including people, programs and technology often go underfunded, resulting in the inability to reach target buyers effectively.

- Segmentation requires a combination of intuition and data analysis. Data validates market segmentation assumptions and enables more effective development of unified customer data profiles to aid in targeting, engagement, improving the customer journey and increasing ROI.

Recommendations

To improve technology marketing effectiveness, technology and service providers should:
Introduction

For as long as products and services have been sold, a generally accepted path to success has been to segment the market of potential buyers to focus on those most likely — and most able — to buy. Despite this general acceptance, during inquiry Gartner still sees providers attempting to market to, for example, large enterprises or any company that needs to manage content, performing little, if any, segmentation. Note: For the remainder of this research, the term “product” will be used to represent a technology offering of any type — product, service or a combination thereof.

This research provides technology and service providers with rationale for why a structured approach for developing more detailed definitions of target segments is necessary and worthwhile versus taking a more opportunistic approach to growth. Market segmentation is a critical element of marketing success that is growing even more important with the increased emphasis on personalization and account-based marketing (ABM) approaches. For example, 53% of technology marketers surveyed by Gartner have used data targeting methodologies to personalize marketing messaging through various channels, while 37% are using data to personalize website buyer journeys. Yet, technology marketers should consider their organization’s data readiness when architecting segmentation strategies (see Optimize Your Segmentation Strategies With Target Audience Data Profiles).

- Identify where to prioritize investments toward their target market using Gartner’s Segmentation Target Model while applying careful consideration to allow selective pursuit of adjacent opportunities that sales uncovers or from buyers who find the marketed solutions on their own.
- Ensure awareness of other factors driving purchases in their market by using inputs like market forecasts, trends and analysis such as those available from Gartner, including Gartner’s Forecast Analysis, Market Trends and Hype Cycle reports.
- Balance the number of target segments with availability of resources to develop and manage campaign messaging, content and channels needed to effectively reach target buyer personas.
- Establish consistent processes to collect and manage customer profile data by supporting definition of new segments and ongoing refinement and activation of target segment profiles across marketing and sales efforts.

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In this research, Gartner defines a “target segment” as a group of companies that have similar attributes in terms of their need, desire and fit to buy your product.

Analysis

Benefits of More Detailed Target Segment Definition

The many benefits of having a well-defined target segment for marketing and sales impact the efficiency and effectiveness of efforts. Ultimately, this improves performance in many dimensions — including revenue, cost of sale and sales cycle time.

Benefits for technology marketing:

- **Differentiation gets easier**: A tighter focus on a specific segment improves your ability to understand and address the needs of that target segment, as well as the most common competitive alternatives those buyers may be considering as alternative solutions or approaches (see *Positioning Revisited*). As success grows, making a leadership claim in the segment is also more credible. Clear differentiation is key to effective thought leadership marketing, where the focus is on leading your buyer to a new way of thinking that differentiates you from the competition, increases awareness and paves the way for future buying interactions.

- **Campaigns and messaging are more effective**: Segmentation makes it easier to fine-tune messages to address the needs, interests and emotions of the target buyers. This enables marketing and sales to create communications and campaigns that feel more personalized to the buyer and clearly communicate the competitive advantage of your offering specifically for that segment. Higher response rates, improved inbound lead generation and better lead conversion from more focused, targeted campaigns are commonplace with well-defined segments (see *Improve Messaging and Communications Through Storytelling*).
Channel/partnering approaches gain clarity: Having clearly defined target segments makes it easier for technology marketers to focus on partnerships with companies that have experience and to focus on those segments and implement true market coverage plans. In addition, you may choose to engage with specific partners because they can address segments your organization is not equipped to cover directly, providing you with additional reach into new target market segments previously not possible.

Efficiency improves: By focusing on prospects that are more likely to buy, marketers can spend less per campaign because you are targeting a smaller set of buyers. This targeting reduces media spend and improves marketing effectiveness because messaging becomes more relevant and conversion rates improve as a result. The savings can be taken to the bottom line or applied to have more frequent campaigns to the target segment.

Benefits for technology marketing’s role in sales enablement:

Align to buying behaviors: Defined target segments enable you to provide sellers with a better understanding of the attributes that make a prospect within each given segment more likely to buy, and improve the ability to predict propensity to buy and readiness. For example, incorporating psychographic profiling in your targeting strategy can help sellers select the best approach to positioning relative to how organizations buy, such as budgeting cycles and balance of purchasing power between business and IT functions. The seller can also gain a deeper understanding of the buying process, more easily understand how to socialize the sale across the account and guide the buyer through key decisions along the buying journey.

Increased credibility: Buyers today expect that sellers will have a deep understanding of their market and their business. Segmentation enables sellers to focus on fewer market categories, building knowledge that increases their credibility with buyers, which is critical in the current market environment. This is particularly important when selling to buyers outside IT — such as in the C-suite or line of business.

More focus: By reducing the range of customers that sellers target, they can build up more expertise about their buyers and minimize distractions. This focus will improve client interactions and aid in building trust (see The B2B Customer Life Cycle for Technology Products and Services).
If all you need is a tailored message to support demand generation efforts for a specific set of buyers, then you may not need a different target market segment defined. You can support a variety of tailored campaign messages for different buyers who are part of the same market segment by using audience data to target buyer profiles within that segment. This best practice is covered in The Role of Data in Activating Target Market Segments section. Meeting this objective does not require a new go-to-market segment; however, you will need a net new segment defined when, in addition to unique messaging, you also need to support unique buying dynamics, marketing mix and owning experience.

**A Deliberate Approach to Communicating the Role of Target Segments Can Increase Acceptance Across Marketing and Sales**

Focusing on a single or even a few segments can raise concerns among senior leadership about missing opportunities outside the target segment, particularly when there is high pressure to "hit the numbers." To combat this perception, position your segmentation efforts as an archery target to show the relationships between the various parts of the market and how they will be prioritized (see Figure 1). The bullseye is your target segment — that is where marketing will put the bulk of its focus and resources. The next ring includes other prospects that sales may identify that have some similar characteristics to the core segment. Finally, the third ring represents buyers that find you.

- **Easier collaboration:** Great sellers share their experiences and learn from others. By focusing on specific segments, an environment is created for easier information sharing across the sales organization, which builds on the skills for qualification and credibility development listed above.

- **Advocacy development:** As you succeed in delivering value to clients in specific segments, you are also developing a community of people who can provide the advice that peers seek to help them along their buying journey. Happy, successful customers are an incredible resource for any provider, enabling the opportunity to execute advocacy marketing programs that promote information and experience sharing in social networks.
Include information about the size (the number of potential companies) of the target segment and other rings in your discussions to demonstrate that there are enough theoretical opportunities to meet revenue targets. As you move away from the bullseye, those will still be opportunities worth pursuing, but marketing needs to clearly articulate the opportunity cost of applying marketing resources to accounts that are outside of the target. Sales should understand that marketing will not be investing significant time and money in content and programs to proactively attract these customers as it has the opportunity to detract important resources from higher-value prospects. Marketing should support sales tactically in these pursuits as long as the level of effort does not impact the focus on the target segment. Another benefit of clear segmentation criteria: It will enable sales to better qualify and prioritize these leads.

**Figure 1. The Segmentation Target Model**

Although opportunities may come from outside the bullseye, we are not suggesting that you pursue every random opportunity that presents itself. You do not want to divert scarce resources for product development and service supporting a customer that is unique and unlike the rest of your customer base. It's much more expensive to support a customer like that, eroding your profits, and the client is less likely to be happy and referenceable when the project is over.
For deal opportunities outside the target segment, it is critical that sales uses qualification criteria to make sure a buyer does not have needs that are dramatically different from the target segment.

Gartner’s Segmentation Target Model will also provide guidance for how to expand into other segments (moving a new type of opportunity to the bullseye) as you grow. You may even need multiple target segments right from the start due to the size of the segment. For example, this can happen if you are covering global markets and each of the geographies requires a slightly different go-to-market strategy due to compliance or other regional requirements. If you determine that you need multiple segments, strive for similarity across them so that you aren’t pulled in multiple directions. And don’t establish too many targets.

Define your target market segments by identifying patterns of similar enterprise persona attributes across organizations. Where there is significant difference between a set of enterprise persona traits across organizations, a distinct segment should be defined (see Figure 2). Use any combination of attributes found in Tech Go-to-Market: The Enterprise Persona — Defining Your Ideal Customer Profile. You are not limited to segmentation based simply on firmographics, although segmenting based on industry, geography or size of company is common and can be valid.

Some examples of segmentation approaches using traits beyond firmographics include:

- **Technographics** — Prospects running workloads in Microsoft Azure vs. Amazon Web Services.
- **Psychographics** — Innovators that regard technology as a way to drive their digital business strategy vs. laggards that are seeking a way to catch up to the competition.
- **Business situation** — Industries where 2020 COVID-19 conditions made them busier than average vs. industries that were forced to go very quiet in 2020.
- **Business and operating model** — Companies that need help connecting internal systems vs. companies that have workflows that cross enterprise lines.
- **Resources** — In-house IT teams that have data science skills but no availability vs. IT teams that need both data science skills and bandwidth.
Keep your segmentation as simple as possible — a maximum of three or four segments is appropriate for most organizations. Consider that each segment targeted exponentially increases the number of enterprise and buyer personas that need to be supported by marketing and sales resources including messaging, content and channels (see Figure 3). Consequently, the number of segments you devise should be proportional to the time and money you can invest to properly target them.
Larger providers — with an established presence, customer base, and sufficient marketing and sales resources — could expand beyond this maximum of three or four segments. But in all cases, less is better to drive focus. Once you have established success in a few segments, then look to expand using the same model.

Effective segmentation should not be thought of as a limiting opportunity but as a means to prioritize and focus your finite marketing and sales resources on the segments that are most ready to buy from you now.
How to Identify Target Segments Effectively

The goal of a segmentation effort is not only to identify distinct segments in the market but also to choose which to target. To target effectively, you need to understand three aspects:

- The size and nature of buyer demand in the market segment and factors impacting buyers
- Competitive landscape and intensity
- Capacity to serve and compete

Lead segmentation strategy with extensive contribution from sales and other customer-facing functions regarding the three aspects above. These functions have valuable insight about customers and the market. Having executive sponsorship for the effort is also critical to remove roadblocks and encourage use of the Segmentation Target Model after the project is completed.

Start by Understanding the Demand-Side Dynamics of Your Market

Demand-side dynamics are critical to your understanding of the market, and indicate demand for goods and services where aggregate demand represents a driver of economic growth, spending and profits for business. Two areas to explore when evaluating the demand-side dynamics of a market are:

- Market analysis, forecasts and trends
- Enterprise psychographic profiles

Market Analysis, Forecasts and Trends

Market analysis helps you quantify the size of potential target segments and uncover characteristics and trends that either create or restrict your opportunity. For example, certain industries are experiencing a rise in regulatory requirements. If you have a solution that helps with compliance, then target those industries. Other sectors may have solutions that are rapidly moving toward a replacement cycle, increasing the opportunity for alternatives based on newer technologies. Use market forecasts and market guidance like those published by Gartner or other third-party sources, for example, to help identify market sizes, trends and purchase patterns for specific markets that you may consider as another point of reference. These forecasts can help you define and size your target segment.
Third-party marketing forecast reports, such as Gartner’s Forecast Analysis or Market Trends, can provide quantitative realities of the opportunity in your target segment and more confidence in go-to-market investments. You’ll also have better assessments of performance and an improved ability to determine how to prioritize investments to align to specific segments that represent growth opportunities in the broader addressable market, and when additional segments need to be targeted.

**Enterprise Psychographic Profiles**

Enterprise psychographic profiles are another dimension of demand-side market analysis that examine organizational behavior and attitudes toward technology buying cycles. One example of enterprise psychographic profiles is Gartner’s Enterprise Technology Adoption (ETA) Assessment profiles, which assess and group enterprise buyers into seven personalities based on how they approach technology decisions given their attitudes toward planning, control and pace of change. Gartner also groups these ETA profiles into four marketing clusters that can be applied to account-based marketing programs (see The Emergence of Marketing Clusters Within Gartner Enterprise Technology Adoption Profiles). Marketing clusters can be applied as a filter or segment strategy within account-based programs to identify accounts that fit into each cluster.

**Map Out Competitive Landscape and Intensity**

Understanding the total size of the specific segment you want to target is one key attribute, but you should also determine the competitive intensity. The number and nature of the competitors — or the lack of them — that are serving your ideal customers’ unique needs are important considerations when prioritizing target segments. If competitors are serving those customers well, then they may present a barrier to entry that is near impossible to overcome unless you have a clearly identifiable differentiated value proposition to that ideal customer. On the other hand, identifying areas with limited competition could unveil new segments that could be very attractive. Gartner resources such as Competitive Landscapes for your market segment (e.g., Competitive Landscape: IoT-Enabled Predictive Maintenance Solution Vendors), for example, would help you understand if and how your solution may be differentiated from your competitors’ offering. And, Market Share Analysis reports (e.g., Market Share Analysis: Security Consulting Services, Worldwide, 2020) can help in assessing whether you’ll have enough differentiation to break through the barrier to entry. Insights from market share reports can also provide visibility into how you might need to position your solution to make that point of difference clear to customers.

**Be Realistic About Your Internal Capability to Serve and Compete**
Another important consideration in determining the attractiveness of a target segment is your organizational capacity to reach and serve it in an economically viable fashion. This is especially true if you’re expanding into a new market segment that requires specialized resources, such as industry expertise or local distribution capabilities in a new geography. Additionally, if you have insufficient resources to develop tailored messaging or lack direct sellers or partners who understand the needs of buyers in an industry, then you are not well-placed to serve.

The Role of Data in Activating Target Market Segments

While defining your target market segment, you should have also identified the specific data attributes relevant to the targeting effort. You need to understand the data required to activate your target segmentation strategy, including where it is and how it can be accessed to activate your targeted sales and marketing efforts.

Relevant, Discrete Sets of Profile Data Are Key to Success

Firmographic data is typically the most readily available and searchable in CRM and sales force automation systems or from third-party sources. Alternatively, notes from conversations or customer interviews might be less structured, depending on how those interactions were recorded, but are very valuable when used in targeting buyers who are later in the marketing funnel.

The use of raw, unstructured data like this for insights and building segmentation models creates challenges. When establishing a plan to collect a new set of data, it is a good practice to either define a finite set of responses, or a categorization of responses, to be applied during the data capture process. Raw data can provide good insights for those organizations with more time or sophisticated data analytics and business intelligence tools. For less mature organizations, it is important to consider normalizing less structured data into a manageable set of discrete values, making it possible to consume easier and faster downstream.

Plan ahead for the time, technology and data governance requirements involved in data capture. Marketers often capture buyer profile data without consideration for how that data will be used in targeting buyers across a variety of marketing channels. Ensure you have a clear plan for how you will use any new customer profile data being captured. Understand the primary user stories so your sales and marketing efforts are optimized to drive growth in your target segments.
Keys to Success

As you embark on this journey toward more detailed segmentation, there are several keys to success:

- **Avoid the “zone of opportunism” trap.** For emerging providers in particular, you may think that your ideal segment is defined based on some early successes. If those successes are driven by other factors (for example, the acumen of a specific sales representative or relationship with the business leader), then it may not be the right segment to focus on. Make sure you analyze not only your existing customers, but also the market and the competition to get a complete view of the segmentation criteria.

- **Explore the buying team.** Once you have the segment defined, shift your focus to understanding the buying team. Identifying the various roles that will be involved in influencing or committing to a purchase is critical. As with segment efforts, developing buyer personas can be a very effective way of capturing information about individuals on the buying team regarding their personal and business motivations and preferences for buying decisions (see Tech Go-to-Market: Create B2B Personas in the Context of the Extended Buying Team).

- **Do not go overboard.** Be cognizant of your situation. If you have budget or resource constraints, do not try to get to levels of detail that you cannot afford to explore or use effectively for target identification or qualification. Instead, look to continuously improve. To start, add one or two key attributes to your segmentation criteria. Pick one or two high-value segments to start with, and experiment. As you use them and are successful, add a few more attributes. Over time, you will have a very deep segmentation profile that is based on progressive successes.

- **Understand your commitment level to vertical segments.** If your segmentation criteria include specific vertical industries, then you need to make decisions about how committed you are to that vertical segment. If your ideal customer truly values a strong vertical focus, then consider evolving your solution and your business approach to be more vertically focused (see Gartner’s Vertical Strategy Framework: Your Roadmap for Successful Industry Go-to-Market Strategies).
Leverage across the organization. Although segmentation is of the most value to marketing and sales, it is important to ensure all customer-facing departments in the organization contribute to and benefit from intelligence on the target market. An offhand comment by a prospect or a discussion by a customer in a postsales call could unlock invaluable information on the segment’s buying behaviors, preferences or dislikes of technology or vendors. Empower and encourage all in the organization to gather and share information to enhance the understanding of your ideal customer. This broad impact of segmentation makes executive sponsorship so critical.

Continuously monitor and adapt. Segmentation and targeting decisions should not be viewed as a one-time effort. Markets evolve quickly — as do provider capabilities — so what is true today may not be tomorrow. Marketing and sales must collaborate regularly to assess success and make minor or major adjustments. Also, look at your segmentation attributes and determine if they are correct. Collect more data and use that to fuel decision making.

Summary
The ability to have more clarity on your ideal target market is important for the success of any product or service. A focused approach to adding detail around a defined target market segment enables more effective marketing and sales, paying dividends in both reduced expenses and improved sales results. The impact of segmentation can also support a connected model of business where functional organizations, products, markets and routes to market are all aligned around your ideal customer.

Evidence
1 The results presented are based on the 2020 Gartner Product Marketing Benchmarks Study conducted online from April through June 2020 among 500 respondents in the U.S., Canada and the U.K.

Participating organizations were technology and services providers with annual revenue of $10 million or more and primary product offerings for software, services and (for the U.S. only) hardware.

Respondents were required to have one of the following primary job functions/roles:

- CEO/president/founder
- Demand/lead generation
Respondents were also required to have knowledge of the marketing budget and spend for the company or business unit and knowledge of the marketing campaign/programs tactics. At the country level, quotas were established to guarantee a good distribution in terms of product offering and company size (revenue).

The survey was developed collaboratively by a team of Gartner analysts, and it was reviewed, tested and administered by Gartner's Research Data and Analytics team.

**Document Revision History**

A Practical Guide to Market Segmentation - 8 January 2020  

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**Recommended by the Authors**

Some documents may not be available as part of your current Gartner subscription.

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