A Market-segment Template for Public-sector Organizations:
Introducing a Client Stance Model

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ABSTRACT

What can government and nonprofit organizations do when different segments of the public respond differently to the same program? How can these programs operate efficiently – and effectively – with all segments of the target population? After all, public-sector organizations are often criticized for blind uniformity in dealing with the public. This discussion paper offers an intuitive, practical approach for defining important differences among population segments based on attitudes and behavior. Then, given this segmentation, it sets the stage for developing administrative and regulatory enforcement strategies that ease compliance and, when necessary, trigger sanctions for noncompliance.

Keywords: Market segmentation, public-sector clients, public sector innovation

Introduction

What can government and nonprofit organizations do when different segments of the public respond differently to the same program? How can these programs operate efficiently – and effectively – with all segments of the target population? After all, public-sector organizations are often criticized (Dvorin and Simmons, 1972; Goodsell, 2004) for blind uniformity in dealing with the public. This discussion paper offers an intuitive, practical approach, first, for defining important differences among population segments and, second, for developing administrative and regulatory enforcement strategies that allow ease of compliance and, when necessary, sanctions for noncompliance.

Definitions and Context

For purposes of this study, these terms carry the following definitions:

Market segmentation – The "practice of dividing markets up into homogenous 'segments' of consumers or customers. The members of any given segment are assumed to respond to communication or to behave in the same way" (Barnett and Mahoney, 2011, p. 9).

Program administrators – Nonprofit and government officials or organizations responsible for public-sector undertakings including such activities as enforcing regulations and providing public services. For convenience in this paper, these are frequently referred to as programs.

Program clients – The targeted population of individuals or organizations subject to a public-sector program or other activity. The relationship may be voluntary (such as a city park user) or involuntary (such as a regulated business) and may range in frequency from occasional to continual (Hyde, 1992).

Public sector – Governmental and nonprofit entities. Includes levels of government, bureaus and agencies, and other organizational labels. An organization can be a part of the public sector or the private sector; however, this paper focuses on organizations in the public sector.

These terms and variants of these terms are used throughout this paper.

Public-sector organizations encompass governmental entities and nonprofit entities. Their goal, broadly speaking, is to serve the public at large. Therein, they differ from private-sector organizations, which seek foremost to benefit their owners. But public and private organizations do their jobs by addressing a defined need through products and services – and through attention to target populations such as veterans, drivers, Medicare users, or residents of a given community.

Public-sector organizations differ from one another in size, complexity, and purpose. Nonprofit organizations might be set up to serve their own members (as with a labor union, homeowners association, or professional society) or to reach external clienteles (as with a hospice service, a philanthropic foundation, or an advocacy group). Government organizations might be set up to create and maintain infrastructure or provide public services (as with public works departments, emergency response, or school districts) or to assure compliance with a group of laws and regulations (as with workplace safety, insurance and banking, or the courts). These institutions serve us all by their focus on a particular mission and, almost always, on a target population.

All of which leads to the question at the heart of this paper: How can a public-sector organization shape the delivery of its programs to work with segments of the public responding differently to the same program?

The Client Stance Model: A Template

Commercial market segmentation for products and services is often based on demographic and socio-economic distinctions. At times, these distinctions play a similar role for public-sector organizations as they consider the portions of the public they serve. The model discussed in this paper is an alternative approach for market segmentation, dividing the targeted public into four segments based on shared attitudes and character: The segments are labeled Newbie, Good Faith, Aggressive, and Abusive (Gortner, Nichols, Ball, 2007: 264).

I. **Newbie.** The first market segment in this model is characterized by the term *Newbie*. A Newbie is a person or organization that has never before been a client of a particular public service activity. The relationship may be voluntary or involuntary. Examples:

- A high school student applying for her or his first driver's license.
- A family unexpectedly in need of social services.
- A politically displaced family from a part of the world having scant or corrupt legal systems and law enforcement.
- A first-time homeowner moving into a neighborhood with a comprehensive homeowners association.
- A budding business firm unfamiliar with employee health and safety regulations.

Newbies are likely to be unfamiliar with – or even unaware of – a public-agency program, service, or set of regulatory standards. Newbies may feel unsure, anxious, intimidated, fearful, or even angry. They may not know what is available to them, what is expected of them, or how to proceed.

II. **Good Faith.** The second market segment is characterized by the term *Good Faith*. A good-faith client is beyond the newbie stage and generally understands the program or service; nevertheless, the client has limited confidence and incomplete knowledge. This client struggles to "do the right thing" insofar as the client understands what that might be. Examples:

- A low- or moderate-income taxpayer preparing her/his individual income tax return.
- A military veteran with permanent disabilities whose medical needs are evolving.
- A homeowner or independent contractor applying for permits to raze and replace a garage.
- A client phoning an agency to obtain information or clarification he or she knows is available.

Although such clients try hard, they are typically concerned – often correctly – that they insufficiently understand technical aspects of what they want and need to do.

III. **Aggressive.** The third market segment is characterized by the term *Aggressive*. These clients understand the public program or service with which they are involved and are actively determined to maximize their advantage. Examples:

- A large corporation with a substantial legal staff
- An investment firm dealing in tax-sheltered investments
- A private attorney specializing in trusts and estates
- A seasoned venture philanthropist

Aggressive clients seek and take advantage of loopholes and ambiguous elements in the law, regulations, and application of those regulations – doing so as long as their behavior remains legal. The aggressive character of this cohort can be healthy or unhealthy, depending on intensity. Extreme aggressiveness may tempt clients into questionable decisions not in keeping with the spirit of the program and, possibly, not within the letter of the program's rules. Within reason, however, aggressiveness helps clients assure themselves of all intended benefits of a program. Oliver Wendell Holmes underscored this point in a 1930 U.S. Supreme Court decision, "The very meaning of a line in the law is that you may go as close to it as you can if you do not pass it" (Sowell, 2003).

IV. **Abusive.** The fourth and final market segment is characterized by the term *Abusive*. As with aggressive clients, clients in the abusive market segment understand the law and their responsibilities. However, unlike the aggressive segment, clients in the abusive segment willfully evade legal responsibilities or improperly obtain public service, while disguising their actual behavior. Examples:

- Organizations that practice dumping of environmentally destructive materials.
- Individuals and organizations that intentionally falsify their qualifications for receiving public benefits.
- Income tax filers who willfully claim false credits and deductions or who knowingly hide taxable income.
- Medical facilities that overbill Medicare and Medicaid.

The intentional behavior of individuals and organizations populating this market segment would likely qualify them for criminal sanctions, if caught.

The four segments – Newbie, Good Faith, Aggressive, Abusive – fold into two groups based on attitude: *Defensive* and *Offensive*. The defensive/offensive distinction is crucial because attitude on the part of a regulated individual or organization largely defines the nature of the regulator-regulatee relationship. Within the envelope of attitude, each market segment's needs differ; as a consequence, how the public organization approaches each segment differs accordingly. Hence, Table 1.

Table 1: Defensive and Offensive Segment

Attitude	Character
Defensive	
	I. Newbie II. Good Faith
Offensive	
	III. Aggressive IV. Abusive

Thus, attitude and character define the four market segments of this Client Stance Model. This does not imply that a quarter of a public program's clientele falls into each segment; in practice, the majority of the public is likely to be in the Good Faith segment, with the

Abusive segment holding only a fraction of the clientele. Also, a given member of the target population shifts among the segments as the member's experience with a program, the member's attitude, and the member's character evolve.

How the Template Operates

By recognizing this quartet of market segments, public-sector organizations position themselves to deal more effectively with each cohort. This has the dual effect of (a) better serving a program's target population while (b) advancing the public organization's mission, whether that may be providing services, enforcing compliance, or both.

In a way, it is the difference between treating everyone alike (justice is blind) versus treating everyone fairly (each according to need). But how does this distinction between identical treatment versus fair treatment operate using the Newbie/Good-Faith/Aggressive/Abusive template? Let's look at each group.

To begin with the Newbie cohort, the first step is to alert members of the public who may be subject to the public-purpose program that such a program exists and may apply to them. Once aware, the next step is to explain, in a simple and clear way, the purpose of the program, the impact on the individual or enterprise, what processes are involved (the red tape), and what the individual's responsibilities are – then guide the individual in that process.

Education is central for both the Newbie and Good Faith cohorts. For the Good Faith cohort, initial exposure to the program has already taken place but the individual still lacks both confidence and full knowledge about what the client needs to do. Consequently, the public organization needs to be sure that guidance is available, to provide assistance when sought, and to anticipate and inform the individual about typical problems and potential benefits. Members of the two Defensive market segments do their best to comply, so it is incumbent on the public-sector organization to provide the education, tools, access, and forbearance that enable the public to do so.

With the two Offensive market segments, monitoring (rather than education) becomes central. Members of the Aggressive cohort consider themselves knowledgeable in areas relevant to them and, commonly, seek to exploit loopholes and fuzzy program elements. Consequently, the public-sector organization can look for patterns of gray-area activity and source areas of that activity, then examine those areas to affirm compliance with the rules of the program. From that analysis and other sources, the organization is situated to identify and clarify fuzzy elements in the program's parameters, clearly defining appropriate and inappropriate behavior to share with all market segments.

To deal effectively with a program's Abusive cohort, the public-sector organization needs to identify, confirm intentional and possibly unlawful program violations, apply appropriate sanctions, and, where necessary, seek criminal prosecutions.

Publicizing successful prosecutions and summary information about imposed administrative sanctions can also be valuable as a way to discourage other clients of the program from venturing into this market segment.

Considering the overall template, the Newbie and Abusive cohorts likely need more intensive attention, per client, than do clients who are part of the Good Faith and Aggressive cohorts. Although members of Good Faith and Aggressive cohorts also benefit from individual attention, these two cohorts benefit from system-level access to clearly presented, detailed, practical information about navigating within the program; this includes not only policy and procedural materials but also queriable data about their own cases or accounts. Figure 1 illustrates how these factors interrelate.

Figure 1: Interrelation of Factors

Dominant Attention	**Market Category & Segment**	
	DEFENSIVE	***OFFENSIVE***
Individual-based	*I. Newbie*	*IV. Abusive*
System-based	*II. Good Faith*	*III. Aggressive*
Type of Attention:	Educating	Monitoring

This model is abstract and highly simplified. Examples below describe how the Client Stance Model operates in conjunction with other approaches to public-sector market segmentation and in different parts of the public sector.

In Different Parts of the Public Sector

The Client Stance Model can apply to the target clientele of a public-sector organization, either nonprofit or governmental. It can apply in law enforcement and regulation enforcement environments wherein a program's clientele has no choice about participating – what Hyde (1992) refers to as "captives" – such as a business subject to workforce safety, food sanitation, or traffic ordinances. It can apply to member-support organizations such as labor unions or homeowner associations. It can apply to philanthropic and social services organizations.

With Other Market Segmentation Approaches

Traditional models for market segmentation deal with demographic cleavages such as gender or age, socio-economic factors such as education or income, industry categories such as retail or transportation, size of client organization such as small business or large corporation, and client's record with the public-sector program such as no-infractions or recidivist, among other factors. The Client Stance Model augments rather than supplants such approaches.

Using tax administration as an example, the income tax filer market typically cleaves into individual filers and business filers. Each category subdivides in different ways from the other. Some are refunds; others, with remittance or balance due.Some involve large sums and complex information; others are small and simple. Each reflects a different type of taxpayer. Business filers include small firms, partnerships, mega-corporations. Each group has its distinct problems and procedural requirements; nonetheless, each group has its sets of Newbie, Good Faith, Aggressive, and Abusive income tax return filers. But to draw a contrast, it is safe to expectthat a higher percentage of large corporations fall into their Aggressive market segment thanin the case of middle-income individual filers, most of whom fall into their Good Faith market segment.

In practice, the U.S. Internal Revenue Service uses the term *tax avoidance* in referring to members of the Aggressive cohort and the term *evasion* (or *illegal tax evasion*) in referring to members of the Abusive cohort, both of which are monitored through IRS compliance operations. The IRS also provides extensive education operations through online and toll-free telephone access, publications, and volunteer income tax assistance.

Limitations

Everett Rogers, a pioneer in the study of innovation, cautioned would-be change agents to examine potential consequences – positive and negative, intended and unintended – before instigating change:

> Change agents should recognize their responsibility for the consequences of innovations they introduce. They should be able to predict the advantages and disadvantages of an innovation before introducing it to their clients (Rogers and Shoemaker, 1971).

This template for market segmentation has weaknesses as well as the strengths discussed above. Prime among the segmentation tool's limitations – at least, in many situations – is the public-sector organizations' difficulty, in practice, to match up cohorts with their clients. Does Client X fit more closely with the Newbie or the Good Faith segment? Has Client Y crossed from the Aggressive to the Abusive segment? Do diverse cultural factors among client backgrounds diminish the template's utility? Is enough information available to classify a recent or silent client appropriately? In many instances, especially in the Defensive category, clients may self-identify. The smoothest course, however, is for the organization to make the education aspect available for all interested clients while creating triggers that initiate or intensify monitoring.

A second potential limitation is the model's one-dimensional structure. This limitation manifests itself in two ways. One way is that it may not be fully comprehensive; that is, in some markets, these four segmentations may not encompass all elements of the target population. For example, a pre-Newbie segment may be a significant, distinct slice of the population for one program though not for another. A second way is that, with respect to some public-sector programs, certain segments of the population may display a blend of characteristics from more than one of the four market segments posed in the Client Stance Model (such as Newbie-Abusive members of the target population or clients who display different stances with respect to different aspects of regulation).

A third limitation may be that the model is sufficiently intuitive that its market segments are already handled at the operational level of most public-sector organizations, either within another market segment model or, equally likely, without regard to conscious market segmentation. Arguably, in that case, the model would be bromidic.

This does not exhaust the list of the model's actual and potential limitations. It does, however, acknowledge and address likely vulnerabilities.

Conclusion: Diffusion and Adaptation Are Key

The Client Stance Model of market segmentation is simple but in no way simplistic. And, although the model is designed to look at the target clientele a public-sector organization serves, the model has potential for use with an organization's key vendors and subcontractors – and, in the nonprofit realm, with donors. However, such applications are beyond the scope of this paper.

This approach to market segmentation in the public realm is presented here with two audiences in mind. One audience is that of theorists and other scholars of public-sector innovation, who might be interested in critiquing and enriching aspects of the model. Another audience is that of public-sector practitioners, who might be interested in putting the model to use and who might also be positioned to detail – through anecdotes and case studies – examples of the model in actual operation.

Rogers and Shoemaker (1971, p. 319) alert us that "[a]n innovation is of little use until it is distributed to others and put to use by them." Consequently, this model has been presented here as a template – onethat can be applied in conjunction with a governmental or nonprofit organization's existing approach to dealing with segments of its target population. The external environment or context in which an organization operates is likely to affect the impact of the template; even more so, the public organization's internal culture is likely to determine the energy with which the template is introduced and routinized (Glor, 2003). But it is worth noting that the Client Stance Model can be used effectively – whether or not an organization consciously practices market segmentation– as long as officials within the organization recognize the differing attitudes, behaviors, and needs within the target population.

Diffusion of the defensive-offensive client concept along with the Newbie, Good Faith, Aggressive, and Abusive cohorts is important. Perhaps more important is an organization's creativity in adapting the model to its (and its clientele's) needs. Why? Because the Client Stance Model is valuable only when it helps a public-sector organization shape the delivery of its programs to work with segments of the public who respond differently to the same program.

One size – make that "one market segmentation model" – doesn't fit all, but it helps.

About the Author

Dr. Kenneth Nichols is Professor Emeritus of Public Administration with the University of Maine and teaches for the University of Southern Maine and Southern Utah University. A long-time pracademic, his first career was with the U.S. Internal Revenue Service. His research and teaching interests converge on improving public-sector organizations. He is co-editor, with Arie Halachmi, of *Enterprise Government: Franchising and Cross-servicing for Administrative Support* and co-author, with Harold Gortner and Carolyn Ball, of *Organization Theory: A Public and Nonprofit Perspective*. His series, "The Unreal Administrator's Case Studies: Lessons and Challenges from Poems, Novels, Movies, Television, and Other Stuff," appears in successive issues of the journal *Public Voices*.

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