Effective Segmentation

Six steps to effective segmentation

Experian™
Integrated Marketing

Segmentation is a powerful tool to help achieve your business strategy and drive higher value to your brand. ‘Sure’, I hear you say, ‘we all know that’, and you’ll probably have some form of segmentation in your business today; but is it really effective? Has it been built the best way drawing together the power of data, analytics and market research to provide an actionable tool to drive product decisions, pricing strategy and targeting? Or is it just used for creative? Or worse still, is a set of profiles in a glossy report sitting unused in a file? We’ll take you through the six steps to creating effective segmentation.

So what is segmentation?

Even in the marketing press there is an inconsistency in what segmentation is and it is often not well understood. We like to work to a pretty simple definition:

“the grouping together of customers using behavioural data and statistical techniques”

Data and insight lie at its core with market research used to supplement this and add extra dimensions that simply do not exist in your data. Be warned, if you don’t use your customer data and database as the basis of your segmentation you will limit your ability to operationalise the segments, i.e. turn it into a tool that people in the business can use. Starting with, or just relying on, qualitative market research is only going to deliver limited actionable insight.

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1. Set a segmentation strategy

Before you embark on any segmentation work or research, ask yourself what you're hoping to achieve from segmentation; it could be for more than one thing:

- Identifying customer needs to make propositions more suitable for them?
- Improving customer profitability by driving up average pricing?
- Identifying new target customers?
- Improving customer retention?
- Identifying opportunities to grow or gain market share?

And if you already have segmentation in your business, is it working? Is it well structured? Does it reflect your product and service portfolio? Is it central to the business? Do you have implementation issues? Was it well received or met with scepticism?

Learn from these experiences.

Establish clear ownership within the business, set clear objectives, budgets, and goals and make sure that you bring the business along with you on this segmentation journey.

2. Start with your own customers

Sometimes, segmentation is focused on lifestyle rather than products or services. This can be very useful for a new company that needs to know every possible customer. But for existing companies, every customer base will have young, old, retired, business people, etc, so segmenting on lifestyle won't tell you why they choose your business. We all know that young people like entertainment, sport, and fashion, but that doesn't offer any insight into why they buy a certain yoghurt, drink, or mobile phone.

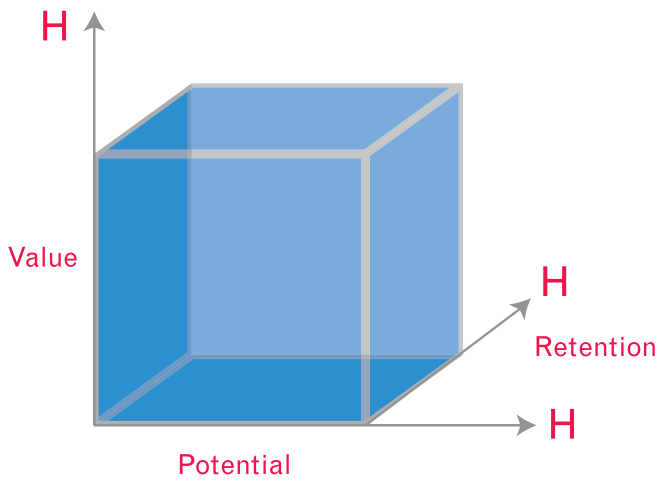
So start with your own customer data:

- Perform simple data analysis on each product and service, identifying your main types of customer and what they look like
- Use your transactional data and profile your customers by type, e.g. by product, channel that they buy through, longevity of relationship
- Cut and slice the data from different angles to see what patterns emerge at this transactional or behavioural level
- Once you have identified your main customer groups, append lifestyle data and national geo-demographic segmentations such as Mosaic
- This will add richness to your insights into your customer groups and will start to form the basis of your segments

3. Focus on value first

Building on your initial profiling, the next priority is to look at the value of your customers to your business. After all, this is why you're segmenting in the first place – to help your business generate more valuable returns.

Create an investment model, using two or three dimensions together. This can help you build a high level portfolio view of the customer base to enable you to identify differentiated value.



Value: the monthly or annual profit per individual customer (or revenue, if profit figures are not available). Average customer value won't help here.

Potential: following propensity modelling at the planning level, this assesses a customer's potential value from up-selling or cross-selling.

Retention: again using propensity modelling, this maps the likelihood of each customer staying with your business.

This lets you cluster customers and create a high-level investment planning strategy.

4. Identify market research requirements

As noted earlier, many companies rush into segmentation by starting with market research. Customers and prospective customers are asked what they want, need and do, and the research project then builds segmentation models.

In our approach market research still has a key role to play; just a different one and at a later stage in the process. Use the initial analysis to define the customer segments to be researched and the reasons why. Then brief and build in the differentiated research into the profiles ensuring at each stage that the outputs will be actionable.

5. Build up a range of segmentation tools

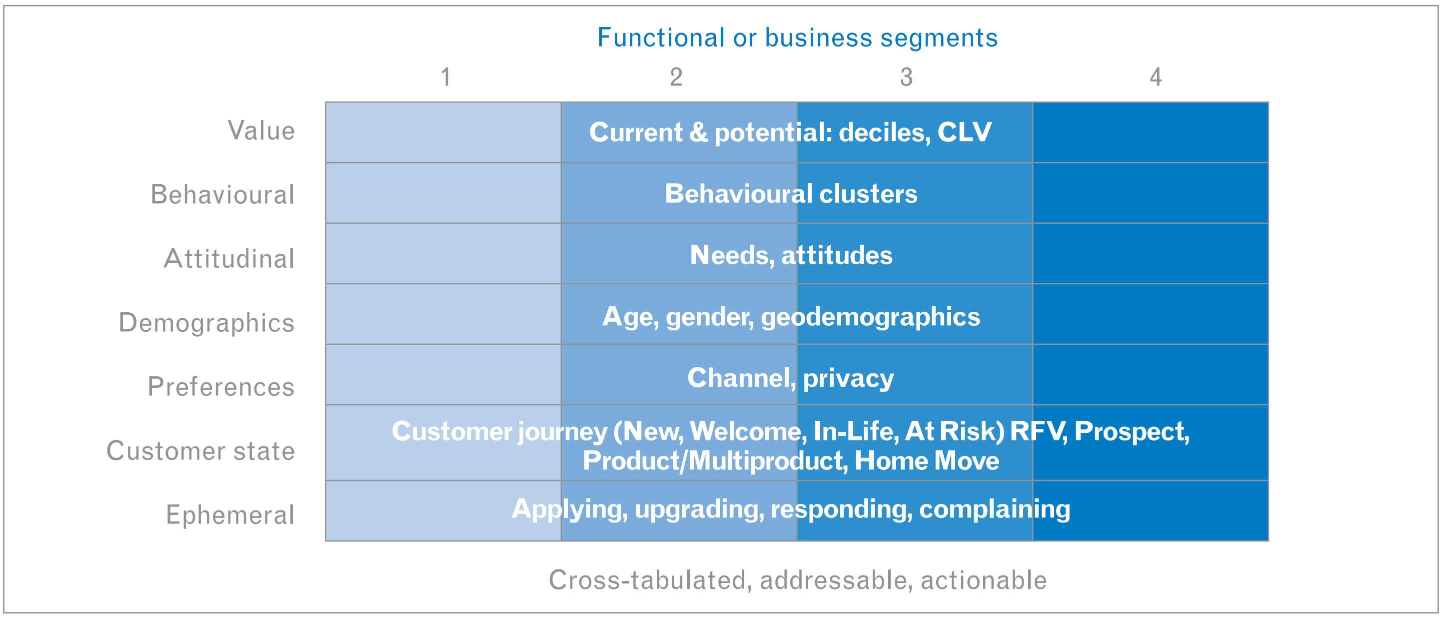
Having built up a range of analytical profiles and market research, the next stage is to mix and match these to create a range of segmentation tools. Our approach delivers a range of segmentations; not just one to meet all business needs. There will be several depending on your needs; and there may be a need to supplement and develop these further as new opportunities arise.

“Segmentation isn’t about building one tool or one set of segments; it is about building a multi dimensional range of segmentation tools that can be mixed and matched to address a specific business challenge.”

Every business has a number of customer-based problems to address. Whether the concern is customer acquisition, customer retention, up-sell, cross-sell, churn or risk, a well thought-through approach to segmentation will yield benefits far beyond the investment involved.

The list below itemises some approaches:
Socio and geo-demographic segmentation – where people live, their age, culture, household composition, behaviour, employment, finances and lifestyle extrapolations.
Value segmentation – current value, potential value, lifetime value, value deciles, contribution.
Behavioural segmentation – transactional data collected on how customers use products and services, including credit risk.
Attitudinal & needs – core values, needs and reasons customers use products and services, usually identified through market research.
Preference segmentation – the channels, privacy and relationship people prefer.
Customer state segmentation – time-based segments, showing a customer’s position in an event, process or relationship cycle.
Ephemeral segmentation – segments in real-time to take advantage of fleeting opportunities.

The diagram below shows just what's possible:



6. Actions from segmentation

If you have built your segmentation up as recommended from individual data you should be able to reference each of these segments to individual customers making all segments actionable. This should be easily facilitated within your customer database. Ideally, your segmentation tools will also be cross tabulated giving you richer, multi layered segments that help to resolve specific problems.

For example, if your key objective is retention, then you would probably combine and use customer state, value, and maybe attitudinal segmentations whereas if your focus is acquisition you would major on socio-demographics and predictive models that have been built using value segmentation data.

Objective	Segmentation technique
Business & marketing strategy	Value, needs, behaviour, customer state
Organisation	Functional (marketing, sales, service) or fixed segment (product, sector, geography)
Broadcast marketing & brand development	Value, needs and attitudes
Product, service, tariff and offering development	Value, needs and attitudes, behaviour, demographics, customer state
Acquisition	Socio-demographics and targeting based on predictive models
Retention	Customer state, including targeting based on specific customer behaviour and / or predictive models, some use of attitudinal
Adoption / cross & up sell	Customer state and ephemeral, including targeting based on specific customer behaviour and / or predictive models

The best segmentation framework in the world will still not deliver a return if a business cannot conceive and execute worthwhile strategies. After all, what's the point in having segments if the customer experience is hardly different across each one?

All too often, businesses think the best use of segmentation is in creating different communications for different groups of people. Frankly, if that's your only reason for segmentation, it's not worth the expense. It creates minimal difference and won't justify the costs. True segmentation means different propositions for different customer groups, not just different coloured envelopes for your direct mail.

So, as segmentation evolves ensure that the end users – product managers, call centres, pricing and communications – are engaged and contributing to its development. Not only will they feel they own it (rather than having it dumped on them), they will actively implement it when it is delivered.

In summary

Meeting all these requirements demands a careful blend of 'art' and 'science.' If your organisation can achieve this, you will make segmentation really work for you.

For every pound you spend, you have to make more than one pound in return. To do this you have to target customers who are most likely to respond, with a product or service they are likely to buy, through a media they are likely to buy from.

Developed and used correctly, segmentation will be a key tool to help you achieve your business goals.

Some definitions

Segmentation: the grouping together of customers using behavioural data and statistical techniques.
Targeting and selection: identifying appropriate customers to achieve the best return from a specific business objective (measurable by value, product holding, scorecards or predictive models).
Optimisation: the simultaneous consideration of many variables and constraints to achieve the best possible result for a prescribed business goal.
Customer journey: a technique that maps, plans and manages the sequence of all the interactions that a customer has with a business, using appropriate targeting and segmentation at each point.

"So next time someone tells you that you need to be acquiring 'Sun Loving Beach Bums' or 'Fashion Conscious Trendies', ask them why you can't just go and get more of the same profitable customers you already have"

About the author

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Marie is a senior direct marketer with over 15 years practical experience managing and delivering large scale sales and marketing plans in the utilities and telco markets. As a senior planner in direct marketing agencies, Marie has also contributed both qualitative and quantitative insights to clients' businesses. Since joining Experian Integrated Marketing Marie has delivered insight driven change at a senior level across a range of sectors including credit cards, insurance and home shopping as well as driving change in Experian's own targeting marketing activities.

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