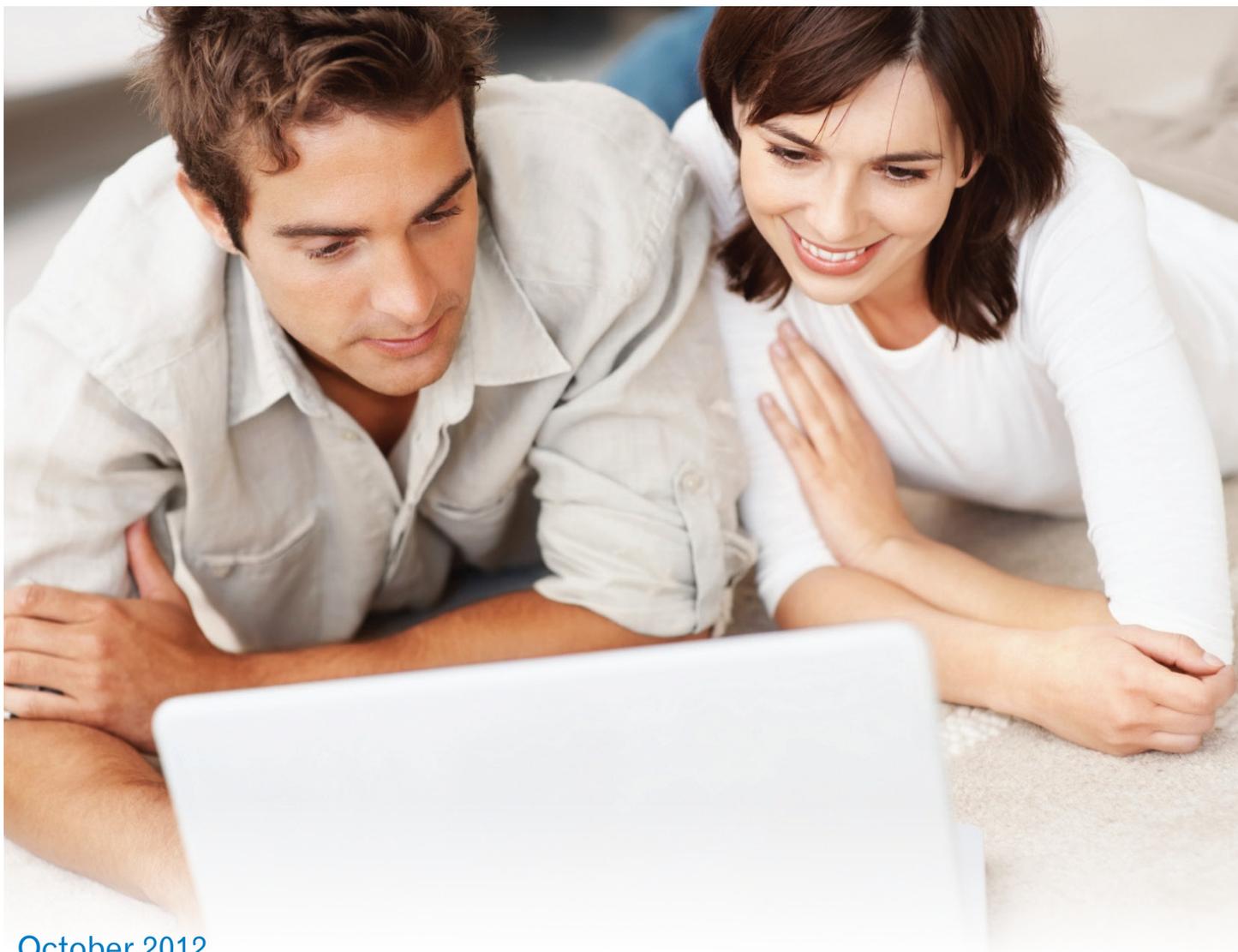


# Digital Segmentation

Basic principles of effective customer segmentation

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October 2012

# Introduction

This paper is an introduction to customer segmentation. It goes through the basics of segmentation, explaining what it is, why you should use segmentation in your digital marketing and in the wider context of multi-channel marketing. It will describe the types of segmentation you can use with your data and some of the practical applications of segmenting your audiences.

# What is segmentation?

Segmentation is the process of dividing your database into groups based on a single or multiple criteria. As individuals your customers have many characteristics that define them; segmentation allows you to group these people by similar characteristics. This could be as simple as separating your male and female customers; or it could be more complicated, such as using search data to isolate a group of people who specifically express an interest in your product. Grouping your customers into different segments gives you greater flexibility with your digital marketing and allows you to target your most profitable customers effectively.

## Why segment?

The core goal of any marketing campaign or activity is to be relevant. If you can deliver the right message, to the right people at the right time then your chance of converting a sale will improve significantly. Conversely, sending the wrong message will at best irritate your customers and at worst turn them away from your brand in search of something else.

As Internet usage and penetration continues to grow, online experiences are becoming more sophisticated. In turn, customers are demanding more from their user experiences not just online but across all channels. Customers expect a seamless and consistent user experience regardless of the way they interact with a brand; companies that are unable to deliver on those ever-expanding expectations are quickly left behind by the competition. As customers become more savvy, more fickle and more demanding, understanding exactly who your audience is and how you can speak to them as a marketer has never been more important.

Segmentation allows you to be more relevant by understanding the core characteristics and behaviours of your customers and then delivering marketing messages which are likely to resonate with them. Increased relevance is going to lead to higher conversion rates which ultimately will lead to more sales and greater contribution to your company's bottom line.

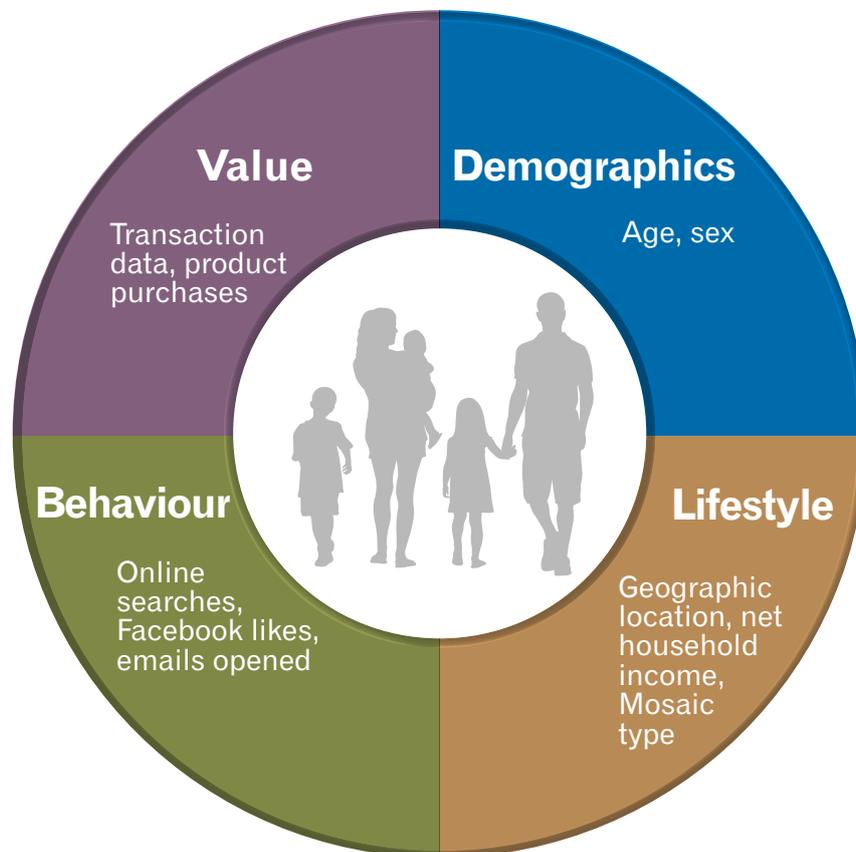
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# Types of segmentation

There are no limits to the ways in which you can segment your customers, it is all a matter of how niche you want each segment to be. Broadly speaking though there are four key types of data that can be used to segment your customers: Demographics, Lifestyle, Behaviour and Value.



- **Demographics** - these are the characteristics of a person which the individual generally has no control over, including their age and sex.
- **Lifestyle** - these are the characteristics an individual can influence. These include geographic location, net household income, the number of holidays they take a year and so on.
- **Behaviour** - identifies customer intentions through their observed behaviours. This could be a propensity to search for a particular product, how often they check their email or the brands they 'like' on Facebook.
- **Value** - looks at the worth of a customer. This often uses previous transactional data to understand products purchased, lifetime value, how frequently the customer purchases and ultimately how profitable they are to your business.

# Pitfalls of segmentation

**Dirty data** – the success of any segmentation you do will ultimately depend on how well maintained your database is. Cleansing duplicate records and keeping your data up to date is essential to maintain relevance and accuracy and avoids the embarrassment of sending two different messages to the same recipient.

**Clear and consistent definitions** – accurate segmentation is only possible if the characteristics you use to define a segment are clearly laid out and applied consistently. What does a regular customer look like to your organisation? Is it someone who shops once a week or once a month? A lack of rigour in your segmentation will lead to inconsistent results and poor returns.

**Survival of the fittest** – segmentation is a process of dividing your customers into different groups. There is a temptation in this process to abandon some segments to focus solely on the most profitable groups. Segmentation should not be seen as an evolutionary system of 'survival of the fittest customers' rather it is a way to understand your customers better and how to maximise returns from each of those segments.

## Segmentation check list

Regardless of the aims of your segmentation whether to identify loyal, profitable or prospective customers each of your segments should encompass the following:

1. Have similar attributes - the whole point of the segment is that you can target groups of similar people who are likely to respond to an appropriate marketing message.
2. Be suitably different from other segments - each group must have something which separates it from the others. If groups are too similar the effect of targeted messaging will be marginal.
3. Be large enough to be viable - there is no point in having a highly bespoke segment that includes only a handful of individuals. Each new segment must be able to create significant additional value to your business.
4. Be reachable and targetable - too often segments are described in fluffy descriptive language without any form of substance behind them. What does it mean to be 'fun-loving and outgoing' and how can you target these types of people?
5. Be actionable - there has to be a product or service that can be sold to this segment otherwise they are not going to make the business any money.

# What makes Experian segmentation unique?

Experian has over 30 years of experience working as a data provider and has redefined excellence in segmentation. Experian Mosaic is the market leading segmentation product with the most comprehensive data set in the world. Mosaic divides the UK population into 15 core groups and 67 types which sit within those groups. If you want to understand your customers' online and offline habits Mosaic can show you what newspapers they read, how many holidays a year they take and what cars they drive. We can benchmark your audience against any one of 450 different data variables to give you the richest segmentation data available on the market.

One of the key benefits of using Experian is the wealth of data assets we have available. Within Experian Marketing Services we have other products which we can overlay Mosaic data to segment your audiences across all channels. Using Experian Hitwise data for example it's possible to segment online visits to websites by Mosaic groups or identify how different Mosaic types search for a specific product. With Experian Cheetahmail we can segment your email database by Mosaic group and show you what types of people are most likely to respond to a particular email offer. Mosaic is the common currency within segmentation across Experian products which gives you a joined up holistic approach to audience segmentation.



Experian data is all about helping you Know, Get and Keep your customers. Segmentation will help you know who your customers are by closely analysing their online and offline preferences and behaviours. It will then help you get more of those customers by identifying the up and coming acquisition channels they are most likely to respond to. Finally, once acquired segmentation can help you keep those customers that are so valuable to you by showing you what they want right now and anticipating what they will want in the future. Know, Get, Keep can be applied across all data channels and will help to optimise your multi-channel marketing, providing your customers with that seamless consistent experience that they demand.

# Five steps to implementing segmentation

Now that we have understood what segmentation is, the different types of segmenting available and the reasons why segmentation is important, it's time to go about implementing a segmentation process. There are five key stages to successfully implementing a segmentation system:

## 1. Set Clear Goals

Goal setting is a vital first step to implementing your segmentation. What are the objectives of the business? Do you want to identify cross-sell opportunities, increase your conversion rate or improve the average order value of your current customers? It may be that your business has multiple objectives it wants to achieve through segmentation but these need to be agreed and prioritised properly. Having clear goals will determine everything that follows in your approach to segmentation so is worth spending time getting it right.

## 2. Gather

Data is at the heart of all good segmentation processes so it is essential to gather as much data as you can on your customers. Ideally this should be a combination of your own internal data sources and external market research. Bringing together data from multiple sources adds to the layers of detail you can drill down to with your segmentation and creates a much fuller picture of what your customers look like in your chosen segments.

## 3. Analyse

Once you've set your goals and gathered your data it's time to analyse what you've got and identify the key variables that are going to define your segments. This can be quite simple and led by your goals. For example if your goal is to target young people who you want to nurture as long term customers, then grouping your segments by age and targeting people between 18-25 is a strong start. On the other hand if your goal is to increase the average order value then you might want to analyse those customers that visit your website more than three times a month. What are the behaviours of this segment that you could identify to inform your digital marketing strategy to encourage more sales?

## 4. Test

Segmentation strategies need to be tested to prove the worth of each segment and to refine the digital strategy as time goes on. The more you test the more data you have available to make informed decisions on improving your segmentation and your marketing campaigns. Proving the benefit of incremental sales generated by using a good segmentation process shows that all important ROI.

## 5. Improve

Using the results of your testing you can change your segmentation and strategy to deliver the optimum results. Segmentation is not a static process, rather it is one that is continually evolving. It's important that you go through a thorough review of your segmentation regularly to make sure it is working to its peak efficiency. Have your goals changed? Is your database cleansed and up to date? Has the market focus shifted recently? These are all questions you need to bear in mind to improve your segmentation and constantly refine it.

# The future of segmentation

In this paper we have talked about the basics of segmentation, the whats, whys and hows of understanding your customers. But what does the future hold for segmentation? Companies are going to find themselves continually squeezed in an ever more competitive landscape. Basic age and gender differentiation although useful as a foundation for companies that are new to segmentation are not going to be enough to stay ahead of the competition. As markets become more saturated, the need for smarter and more advanced segmentation will become more of an imperative and data will be at the heart of this evolution. Great data that will help you Know, Get and Keep your customers will be the deciding factor that gives you the edge over the competition.

The next level of segmentation will be understanding audiences on a more granular level and combining data sets to be able to target niche groups more effectively. Experian is already leading the next wave of segmentation innovation with a state of the art segmentation tool that allows you to create bespoke audiences based on virtually any criteria and can then dive into the online habits and behaviours of those audiences.

With greater insight into customers behaviours both online and offline, marketers will have the ability to create accurate forecasts and predictive modelling for their campaigns. With the combination of seasonal trend data and granular segmentation the right customers will be targeted with a perfectly tailored message at the right time. A deep understanding of the travel market for example might lead to sending an email to affluent luxury travellers on a Sunday with an offer for a weekend break to Rome, whereas an entirely different email can be sent on a Monday to a family traveller for a package holiday to Tenerife. Each segment receives the marketing message that is most likely to resonate with them. The result is better targeted, more personalised and more relevant campaigns which will lead to higher conversions and ultimately a greater ROI.

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# Appendix

To find out more about segmentation and how Experian Marketing Services can help you, please contact us using the details below.

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## **About Experian Marketing Services**

Experian Marketing Services delivers best-in-breed customer data and insight, digital marketing technologies and data management services into multiple regions around the globe. By helping marketers more effectively target and engage their best customers with meaningful communications across both traditional and digital media, Experian Marketing Services enables organisations to encourage brand advocacy while creating measurable return on marketing investment.

For more information, visit [www.experian.co.uk/marketingservices](http://www.experian.co.uk/marketingservices)

## **About Experian**

Experian is the leading global information services company, providing data and analytical tools to clients in more than 80 countries. The company helps businesses to manage credit risk, prevent fraud, target marketing offers and automate decision making. Experian also helps individuals to check their credit report and credit score, and protect against identity theft.

Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Total revenue for the year ended 31 March 2011 was US\$4.2 billion. Experian employs approximately 15,000 people in 41 countries and has its corporate headquarters in Dublin, Ireland, with operational headquarters in Nottingham, UK; California, US; and São Paulo, Brazil.

For more information, visit <http://www.experianplc.com>.

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