

THE LOST CULTURE OF MARKETING

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**PART 2**

**6 STEPS TO  
EFFECTIVE  
SEGMENTATION**



## INTRODUCTION

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 is a key tool that can help you achieve your business goals.

*Put simply, segmentation is the grouping together of customers using behavioural data and statistical techniques.*



### Step 1. Set a segmentation strategy

Before you embark on any segmentation work or research, ask yourself what you want to get from segmentation:

- 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.

### Step 2. Start with your own customers

Sometimes segmentation is focused on lifestyle rather than products or services. 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 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

### Step 3. Focus on value first

The next priority is to look at the value of your customers. You can do this by creating an investment model to help you build a high level portfolio view of the customer base.

**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.

### Step 4. Identify market research requirements

Many companies rush into segmentation by starting with market research. Our approach uses 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, making sure that the outputs will be actionable at each stage.

### Step 5. Build a range of segmentation tools

The next stage is to mix and match analytical profiles and market research to create a range of segmentation tools. The list below highlights 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.

*Segmentation isn't about building one tool or one set of segments. It's about building a multi dimensional range of segmentation tools that can be mixed and matched to address a specific business challenge.*



*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, like the ones you already have?*



### Step 6. Actions from segmentation

True segmentation means different propositions for different customer groups, not just different coloured envelopes for your direct mail. And depending on what your objective is, you'll probably combine different segmentations. For example:

OBJECTIVE	SEGMENTATION TECHNIQUE
<b>Business and Marketing Strategy</b>	Value, needs behaviour, customer state
<b>Organisation</b>	Functional (marketing, sales, service) or fixed segment (product, sector, geography)
<b>Product, service, tariff and offering development</b>	Value, needs and attitudes, behaviour, demographics, customer state
<b>Broadcast marketing &amp; brand development</b>	Value, needs and attitudes
<b>Acquisition</b>	Socio-demographics and targeting based on predictive models
<b>Retention</b>	Customer state, including targeting based on specific customer behaviour and / or predictive models, some use of attitudinal
<b>Adoption / cross &amp; up sell</b>	Customer state and ephemeral, including targeting based on specific customer behaviour and / or predictive models

So, as segmentation evolves make sure 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.

To find out what type of segmentation could work for your business go to [www.experian.co.uk/lost-culture](http://www.experian.co.uk/lost-culture) or call **0844 481 0019**

