

# Effective Segmentation

## Five ways to effective segmentation

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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 purposes or, worse still, is it 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. to turn them 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.

### 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 purpose:

- 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.

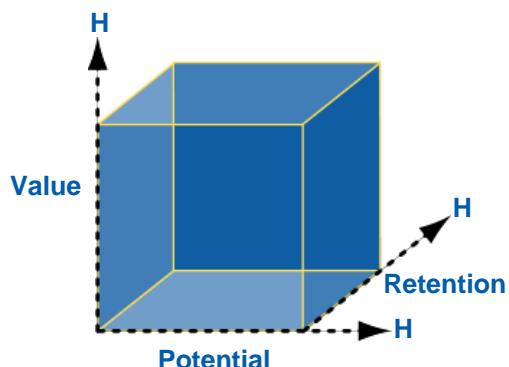
*“Mosaic has added value to our segmentation by using more variables including lifestyle, living standards and consumer behaviour”.*

Allianz-Tiriac, Romania

- 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.

*“Segmentation isn't about building one tool or about 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”.*

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 of the population 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.

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.

Segment	Example Strategy
High value, high retention, high potential	Protect and grow
High value, high retention, low potential	Protect
High value, low retention, high potential	Intervene, retain and grow
Low value, low retention, low potential	Avoid
and so on...	

## 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.

The best segmentation framework in the world will still not deliver a return if a business can not conceive

and execute worthwhile strategies. After all, what's the point of 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.

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

### 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 Euro you spend you have to make more than one Euro 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.

***“So next time someone tells you that you need to be acquiring ‘Educated Professionals’ and Corporate High Flyers’, ask them why you can’t just go and get more of the same profitable customers you already have”***

### 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.

### Mosaic®

Mosaic is the world's leading global consumer classification and is used by over 10,000 organisations and classifies over a billion consumers worldwide. It provides organisations with a rich and detailed understanding of consumers and helps them develop more profitable relationships.

**Mosaic Romania®** is a national, geo-demographic segmentation that classifies consumers according to the type of neighbourhood in which they live and is based on the well-established principle that when people are deciding where to live, they naturally prefer to live amongst people of similar demographics, lifestyles, and aspirations to their own.

Mosaic Romania classifies consumers into 45 neighbourhood Types aggregated into 10 Groups. It was built by a team of over 40 researchers, geographers, surveyors, demographers, analysts and consultants to a well-proven Experian methodology. The result is a classification that provides a comprehensive understanding of socio-demographics, lifestyles, culture and behaviour of the population of Romania.

It is equally of value when trying to understand an organisation's existing customers, or when making a fresh start e.g. to assist a retailer understand the demographics and spending power around his target location and where else they can expand based on similar or desired characteristics.

### About Geo Strategies and Experian

Geo Strategies and Experian have teamed up to provide information, analytical and marketing services to organisations in Romania to help manage the risk and reward of commercial and financial decisions. Combining their unique information tools and with an understanding of individuals, markets and economies, our teams of consultants work with organisations across industries to establish and strengthen customer relationships and provide their businesses with competitive advantage.

From services in contact strategies, customer journey, CRM and data strategies, to Mosaic consumer segmentation, Micromarketer area analysis and profiling, to the application of customer driven insight and targeting, channel mix - we can assist.

This Paper has been adapted by Geo Strategies from 'Avoid the Segmentation Trap' by Tony Mooney of Experian Integrated Marketing. Edited and updated by Marie Myles and Daniela Florea.

Contact us at [mosaic@geo-strategies.com](mailto:mosaic@geo-strategies.com) or call us (+44 1223 205080 or +40 722 940).

To find out more about what Geo Strategies could do for your business in Romania go to [www.mosaic.geo-strategies.com](http://www.mosaic.geo-strategies.com)

