



Using Segmentation to Create “Winning” Brand Strategies

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October 18, 2005



What You Will Get Out of This Session

1. A deeper understanding of the important role that segmentation plays in driving enterprise value
2. A basic understanding of the different segmentation options available
3. The ability to recognize what good (and bad) segmentation looks like
4. A vision for the kind of impact that better segmentation could have in your business
5. Confidence to explore the role of a richer more integrated segmentation solutions for your business

Point of View: Segmentation

- ▶ Customer segmentation is most often used to do three things:
 - Provide a platform for decision making around identifying and serving your most **profitable customers**
 - Determine which customers offer the highest potential based on your ability to develop and deliver **tailored offers**
 - Create a mechanism to **identify** and to best **reach** current/potential customers in acquisition and marketing efforts
- ▶ Today, businesses that cast a wide net with their marketing initiatives, are not maximizing profitability or return on their marketing investments
- ▶ The ability to create a segmentation scheme that **balances** the ability to identify and target segments *with* an understanding of latent needs, relevant behaviours, and attitudes is what makes segmentation actionable...
 - for the sales force to more effectively find high profit targets and more efficiently close sales
 - to be able to judge which products or brands to develop and invest in (and which to reduce investment in)
 - to understand which channels to emphasize or de-emphasize
 - to determine ROI on marketing investments

Role of Segmentation



- What is the real **frame of reference** that we should be competing within?
- What **target customers** should we focus limited resources on – **today and in the future**?
- What are the real **benefit drivers** of choice with each segment, versus just the expected ones?
- How much **extra margin** are we leaving on the table by not pricing to the full value we create for each segment?
- What **segment specific “bottlenecks”** stand in the way of a higher value customer relationship?
- What **touch-points** would work best with each segment to erase their bottlenecks and **maximize ROI**?
- How do we deliver a **highly tailored experience** without blowing up our cost structure?
- How do we better identify and serve **“white space”** opportunities within each customer?
- How do we **link “cause and effect”** between our marketing programs and our customer groups?
- What are the most **meaningful metrics** to anchor on?
- What **2-3 critical skills** will define success or failure in the next 3-5 years?

Factors Effecting Segmentation Choices

Objectives

What The Segmentation Is Solving For

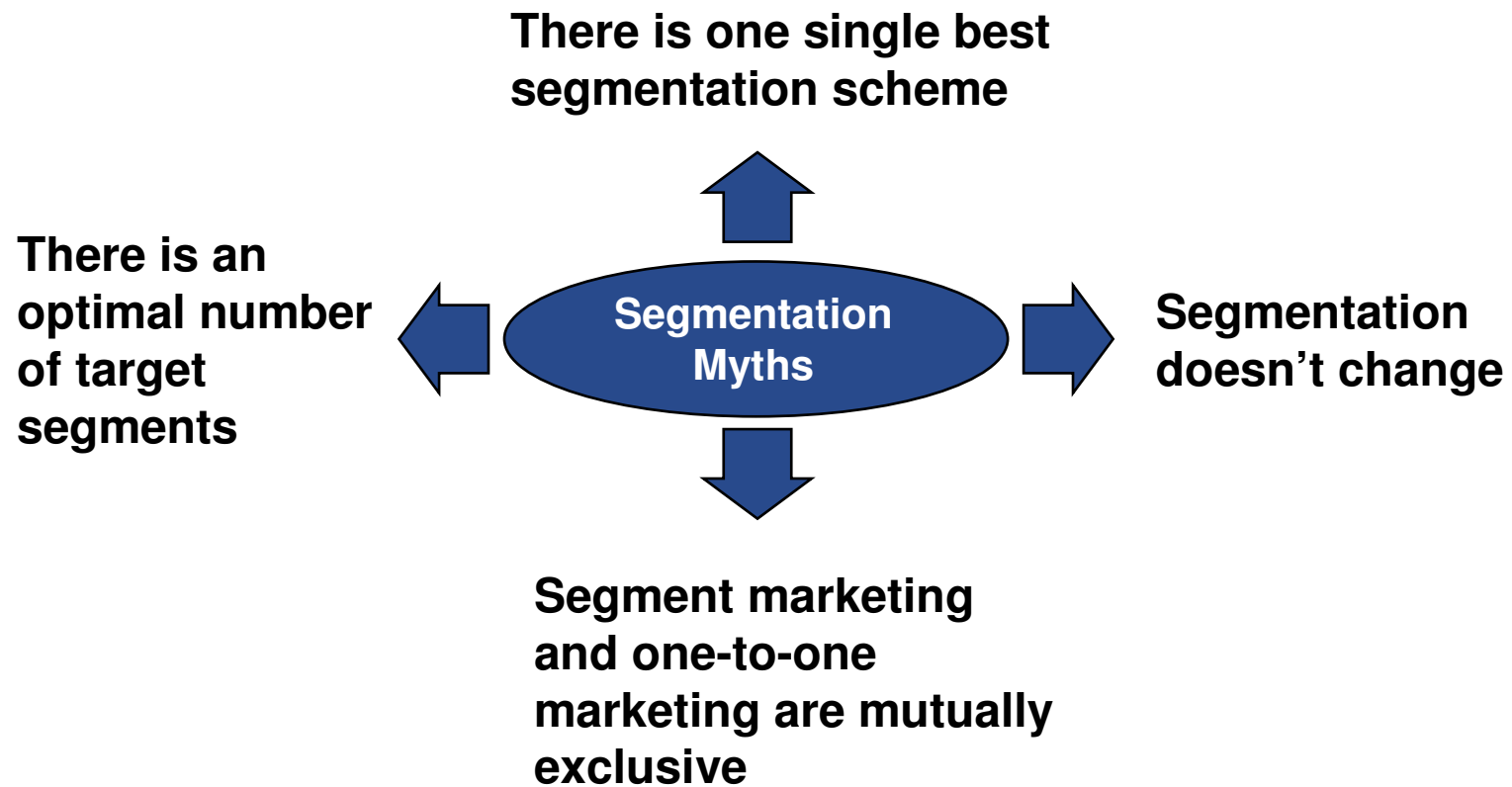
- Identifying white space
- Stretching to near-in categories
- Differentiating multiple brands in a portfolio
- Identifying latent needs
- Directing mass communications versus CRM or sales programs

Situation

The Business' Realities / Constraints

- Sector and business model needs
- Category involvement
- Sophistication of buyers
- Capabilities of the organization
- Organizational structure
- Availability and the right kinds of data

Segmentation Myths



What are the Different Approaches to Segmentation?

Segmentation approach

Good for...

Not so good for...

Demographics/ Firmographics

- Directing marketing and sales actions to visible audiences

- Developing meaningfully differentiated offers or marketing programs

Attitudes/ Psychographics

- Identifying new “white space” or unmet needs for growth

- Targeting programs at the most valuable customers

Needs

- Developing winning value propositions and compelling messaging

- Again, targeting programs beyond mass communications

Value / Behavior

- Focusing resources on the most attractive customers and differentiating service levels

- Winning the customer, as value rarely correlates to homogeneous needs

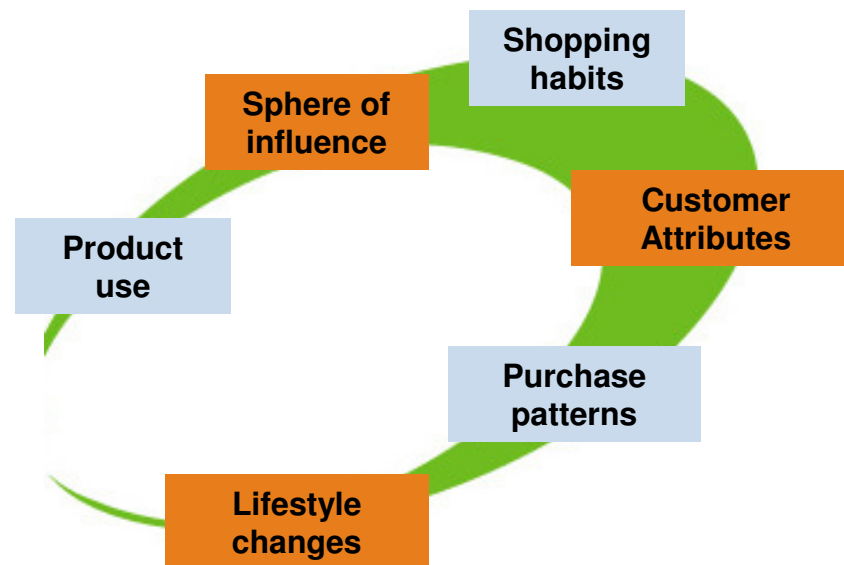
Channel / Geography

- Ensuring delivery across complex sales organizations and intermediaries

- Winning in categories that are not commoditized

What is the Marketing Objective of Data Mining?

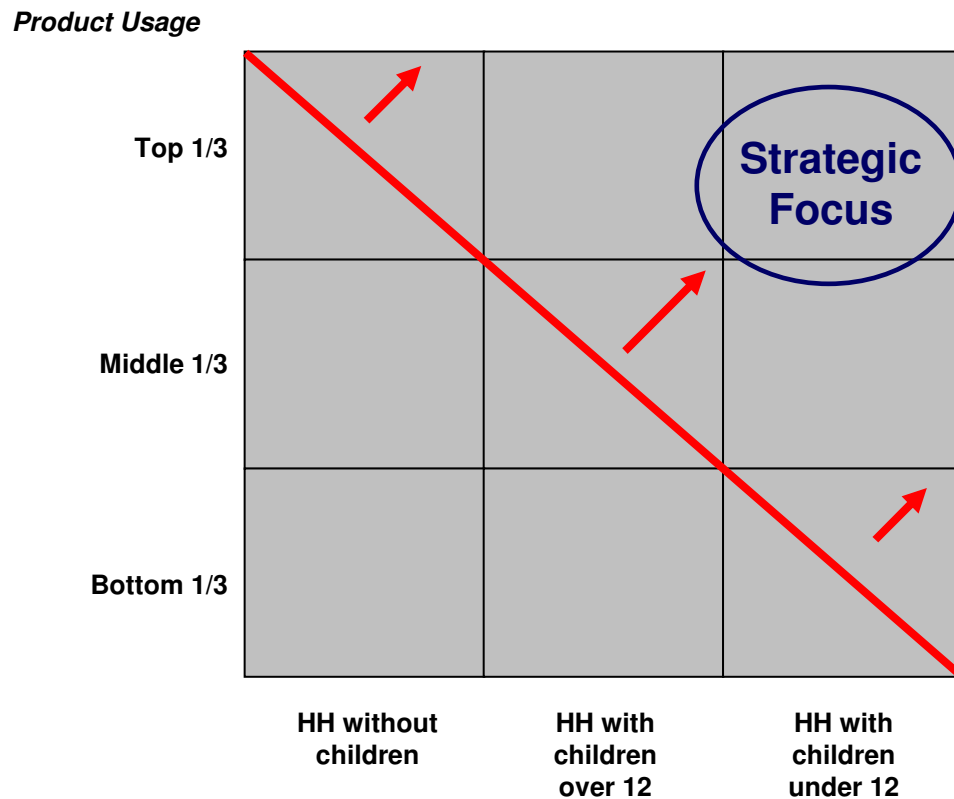
- ▶ The marketing objective of data mining is to gain a rich, dimensional view of the Brand's consumer and enable an optimized contact strategy to increase that consumer's value



**This process supports moving a consumer from
“customer” to “advocate”**

Demographics / Usage Segmentation

Example: Retail Client



Segmentation Rationale

- Correlates to **meaningful differences in value** (basket size, frequency, categories shopped, and price paid)
- Correlates to **meaningful differences in needs** (as determined by calculating derived importance of needs from existing brand tracker data)
- Could be **constructed immediately** with existing demographic and usage data from Brand Health Tracker and internal transaction database

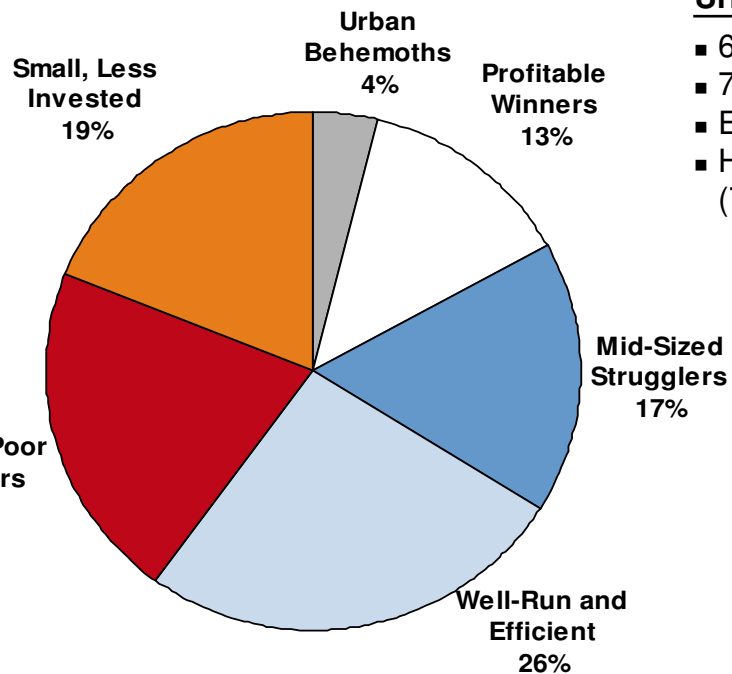
Firmagraphic Segmentation

Small and Less Invested (19%)

- 52 beds
- Predominantly rural (84%)
- Very weak financials
- “Substantial” investment in 0.5 H-R product segments
- Low mix of commercial days to Medicaid days
- Small endowment

Limited Services, Poor Performers (21%)

- 63 beds
- Rural / urban mix (64% rural)
- 23 services
- Poor operating margin (-3.3%)



Well-Run and Efficient (26%)

- 115 beds
- Highest % in for-profit GPO (15%)
- Efficient utilization of assets

Urban Behemoths (4%)

- 643 beds
- 71% teaching hospitals
- Expensive case mix
- High occupancy rate (70%)

Profitable Winners (13%)

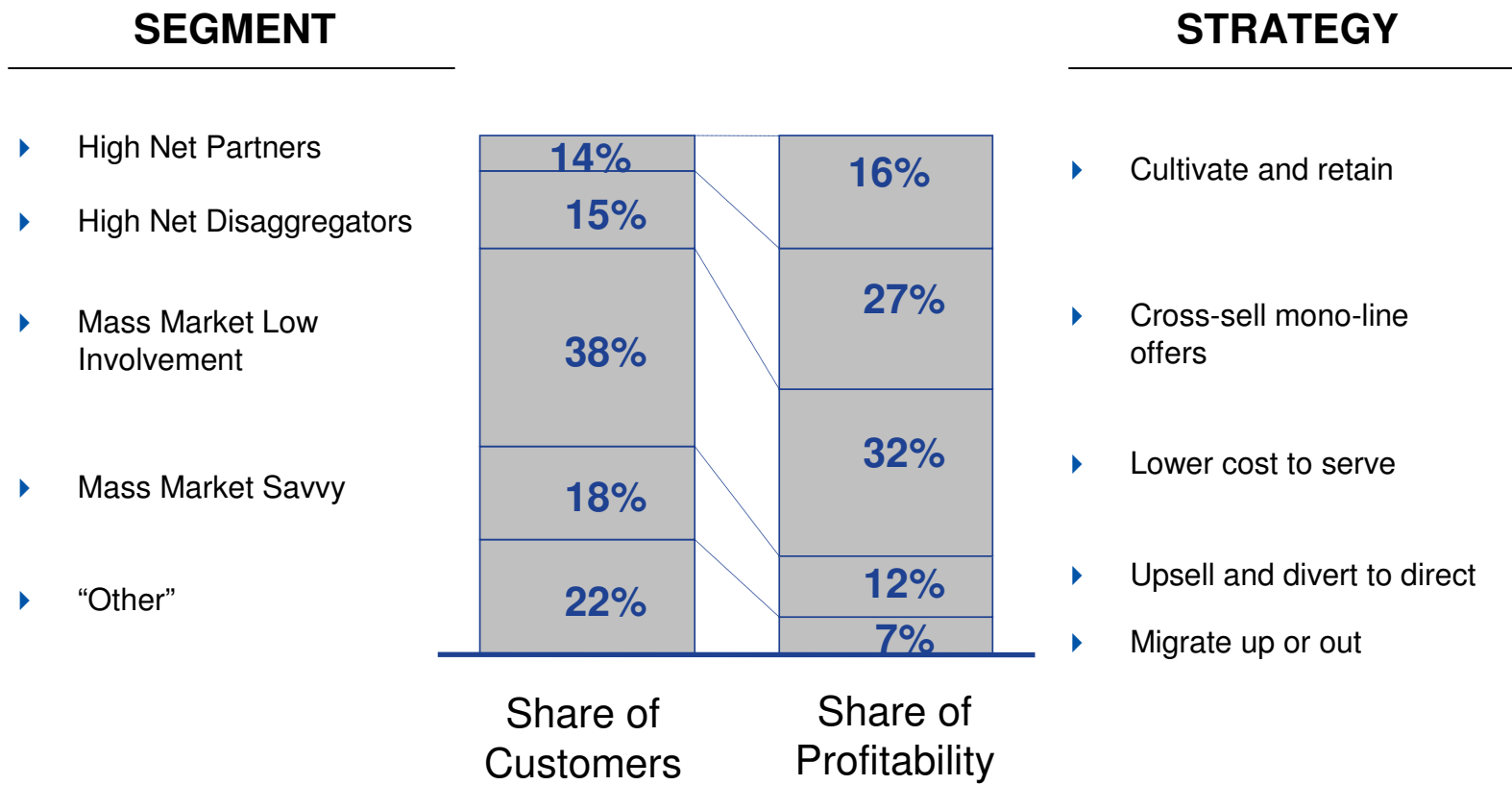
- 363 beds
- Case mix tilted toward commercial days
- Strong financials

Mid-Sized Strugglers (17%)

- 218 beds
- Mostly urban (18% rural)
- Losing money
- High revenue growth (96-99)

BUT: *Why do customers behave the way they do? What can we sell them?*

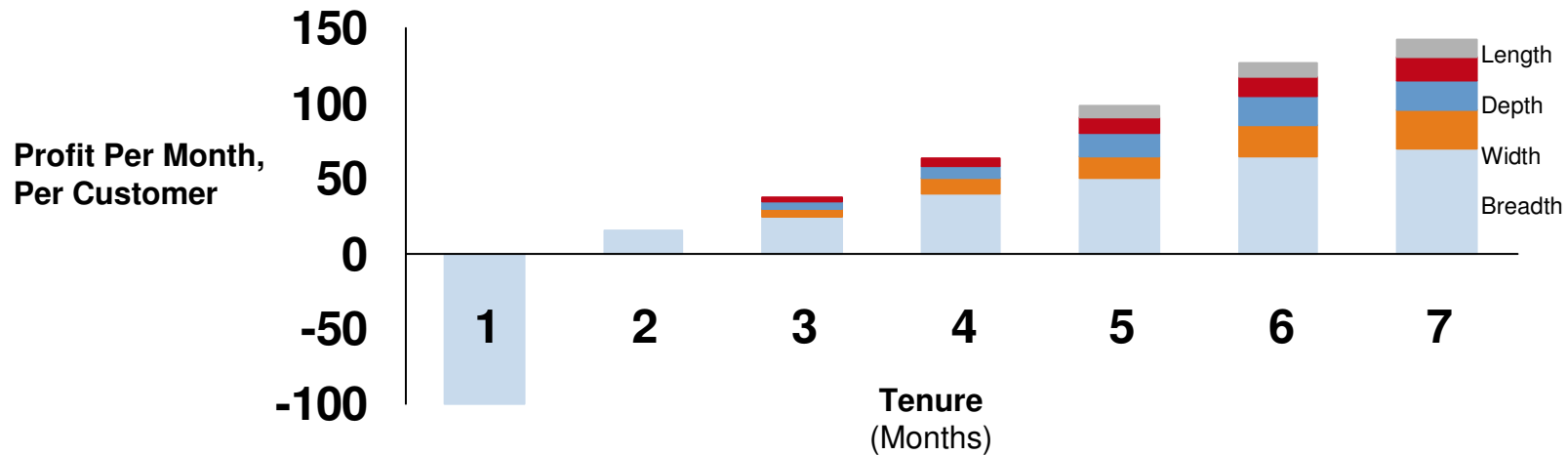
Customer Value Segmentation



BUT: *Why do customers behave the way they do? What can we sell them?*

Lifetime Value Segments

Customer Value Increases with Tenure

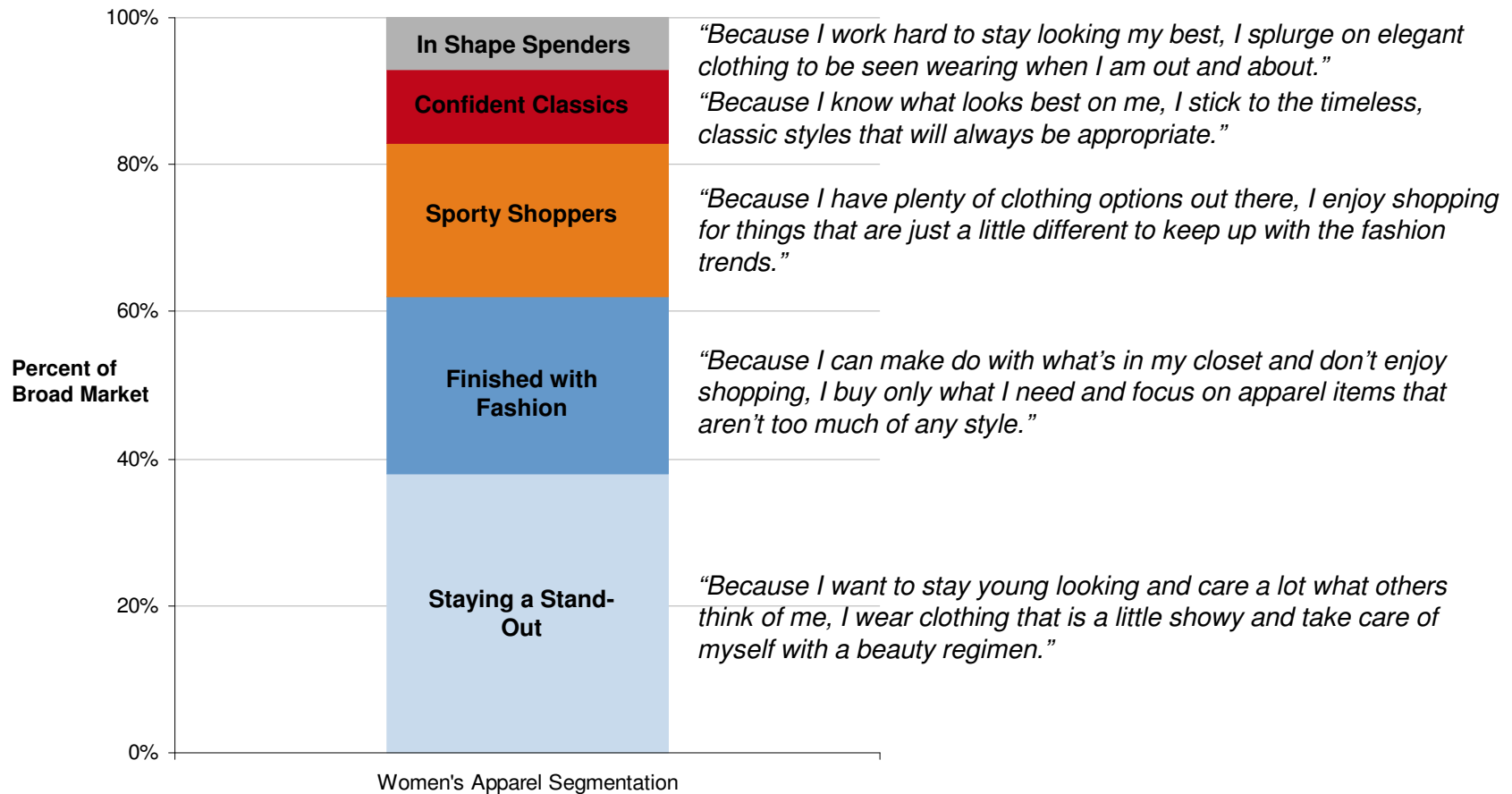


Loyalty Dimensions

Length	<ul style="list-style-type: none"> Customer stays longer 	<ul style="list-style-type: none"> Increased retention Lower churn
Depth	<ul style="list-style-type: none"> Customers does more things online in more sophisticated manner 	<ul style="list-style-type: none"> Increased usage stimulates advertising revenues Lower cost to serve
Width	<ul style="list-style-type: none"> Customer introduces more people to service 	<ul style="list-style-type: none"> Increased referral revenue Lower acquisition costs
Breadth	<ul style="list-style-type: none"> Customer purchases more than one product/service from company or company partners 	<ul style="list-style-type: none"> Increased alternative revenue streams

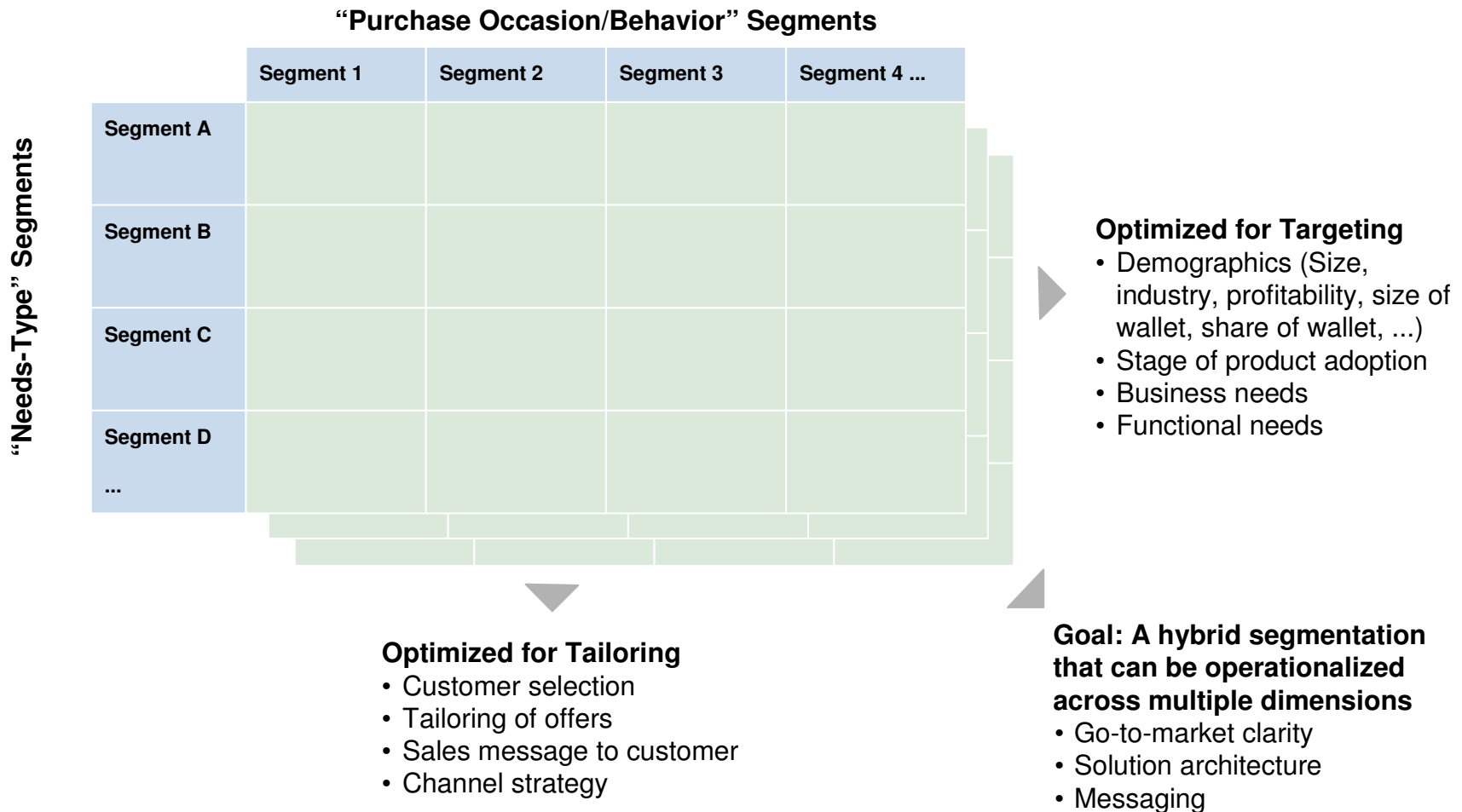
Psychographic Segmentation

Example: Retail Fashion Client

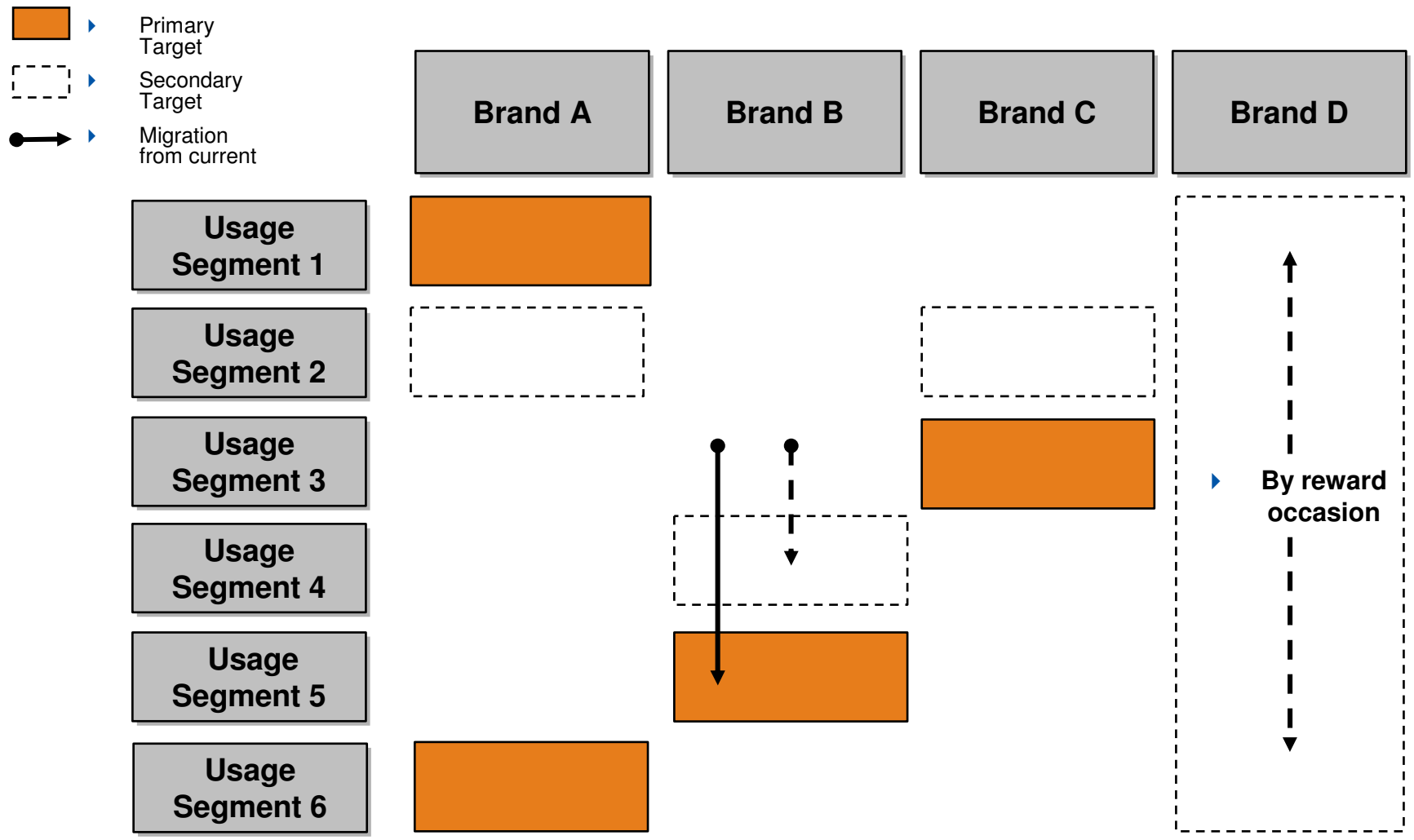


BUT: *What do customers want? How do we find them?*

Balancing Objectives in CPG

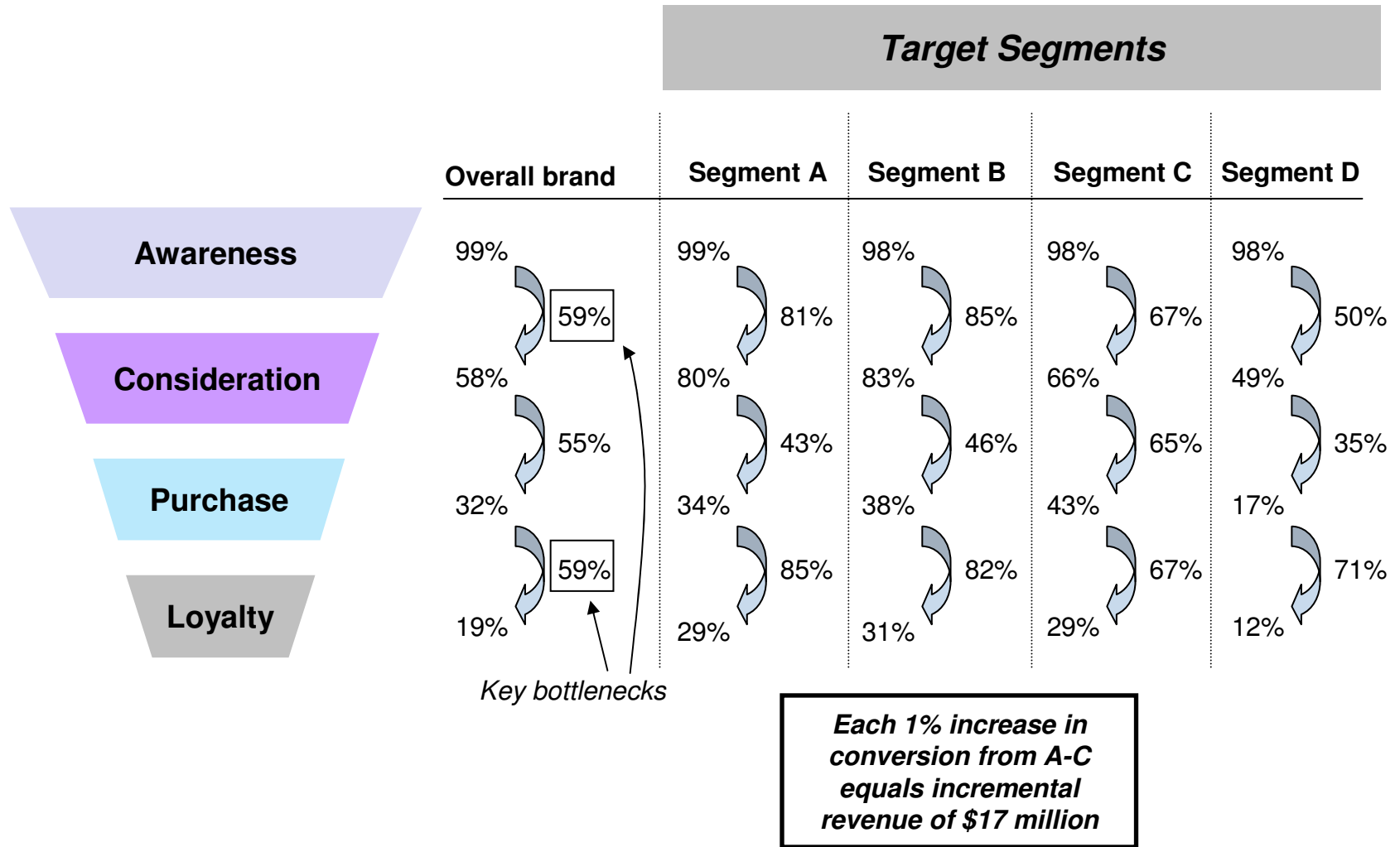


Usage/Brand Segmentation



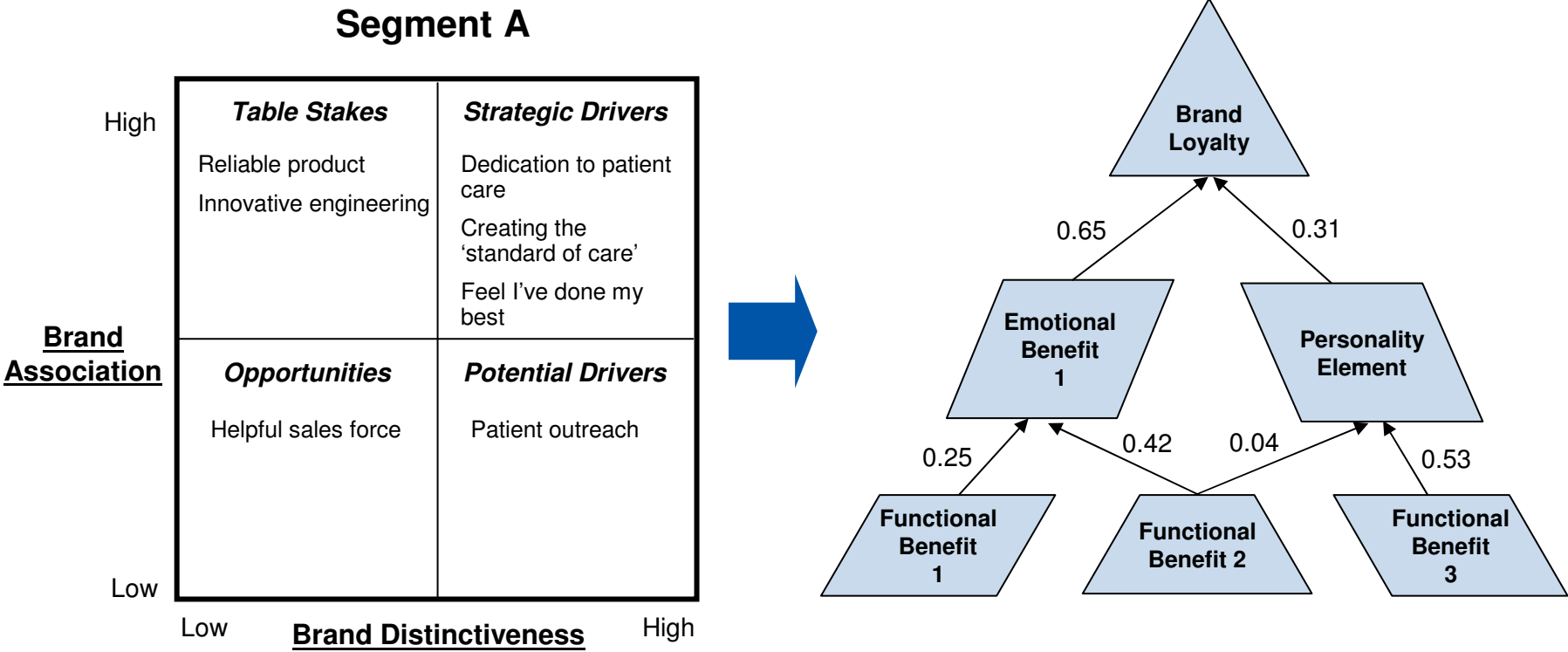
Identifying Bottlenecks and Allocating Marketing Investment

Example Of Customer Adoption Funnel



Developing More Relevant Brands

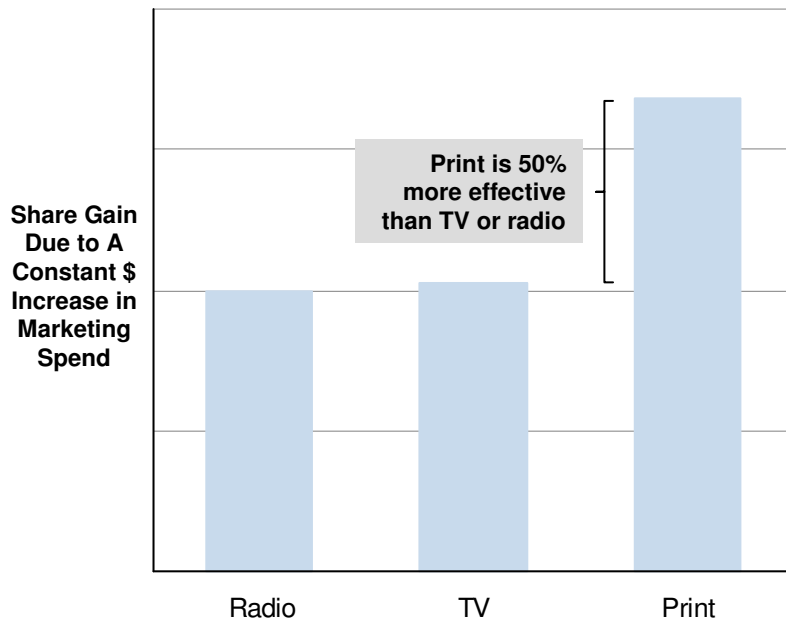
Example of Creating Segment-Specific Positionings



Optimizing Marketing Spend

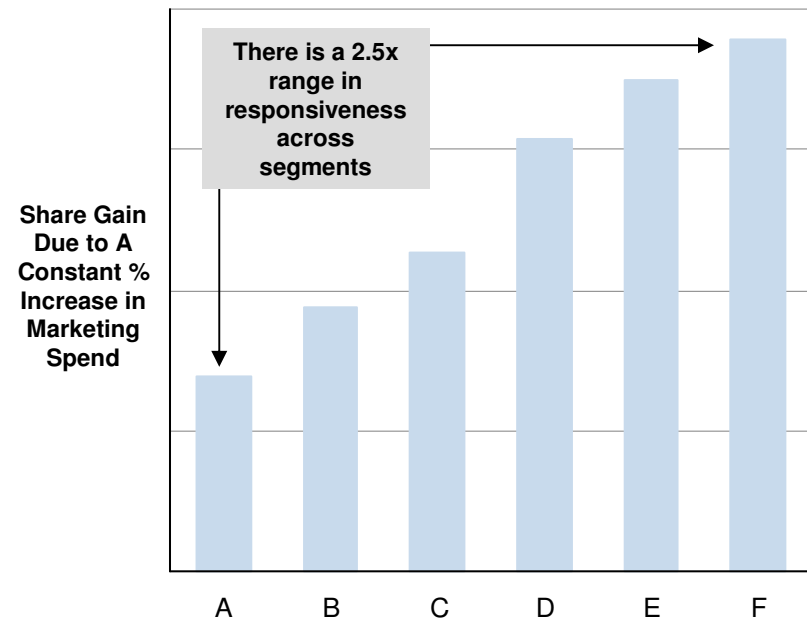
Creating Segment-Specific Marketing Mix Models

Media Type Responsiveness for Segment A



\$30M of TV/radio advertising could be replaced by \$20M of print advertising to achieve the same share gain (a savings of \$10M)

Geographic Responsiveness



\$30M of marketing communication in Segments A,B,C could be replaced by \$15M in Segments D,E,F to achieve the same share gain (a savings of \$15M)

What Does Good Segmentation Look Like?

Meaningful

1. **Differentiated needs:** Segments that are homogeneous within and heterogeneous across in terms of the needs that drive brand choice
2. **Well understood value:** Clear view into the current value created by each segment (net of cost to serve) and the future value in terms of growth and margin trends
3. **Concentrated value:** Clear differences between segment population size and segment value that will allow more meaningful targeting

Focused

4. **Choiceful:** A small number of meaningful segments, rather than as many segments as could be “created” but never “acted on”
5. **Prioritized:** Clear alignment around target segments and which segments will not receive organizational focus

Practical

6. **Durable:** Segments (and segment members) are relatively stable over time, relieving the need to refresh frequently
7. **Actionable:** Marketing and sales programs can be targeted effectively and delivered profitably to the segments through the channels they desire

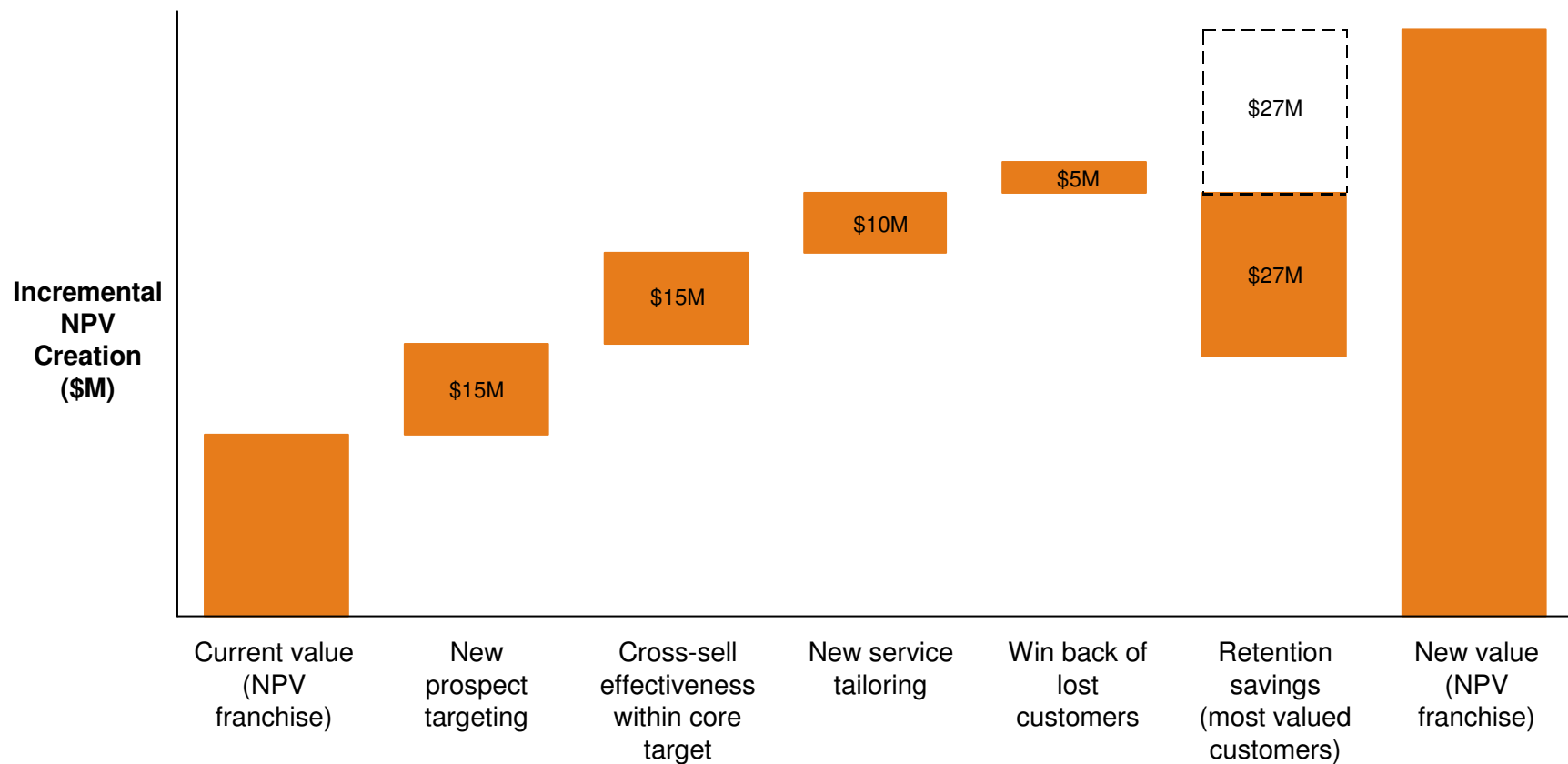
Embedded

8. **Integrated:** Segmentation that does not just sit in one part of the organization and is leveraged across organizational silos and business processes
9. **Aligned:** Segmentation sophistication that fits well with the cross-functional capabilities of the organization
10. **Monitored:** Segmentation that is baked into brand tracking, performance scorecarding and incentive plans

Benefits: Improved Targeting and Cross-sell

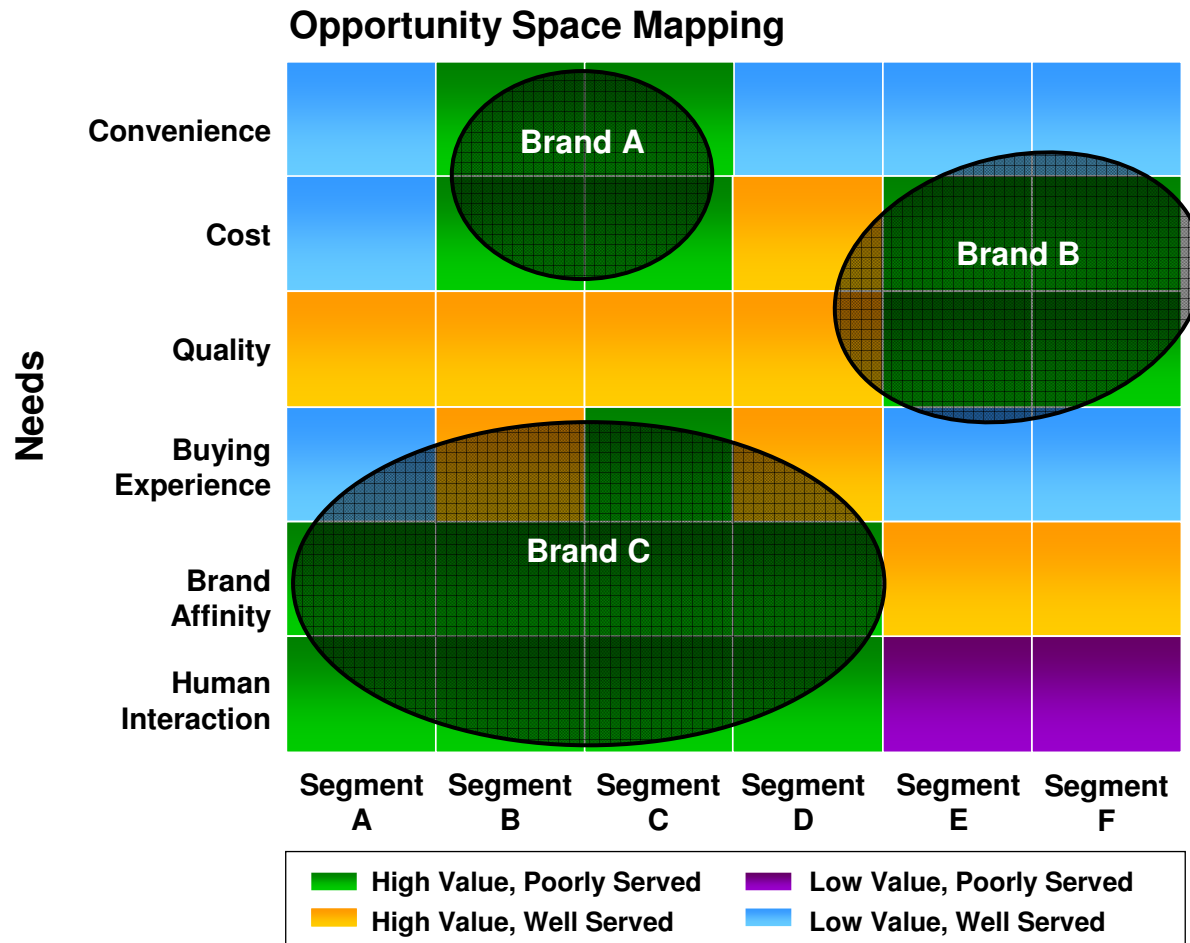
- ▶ Segmentation should help create business value by enabling development of segment-specific value propositions.

Value Creation Through Segmented Value Propositions



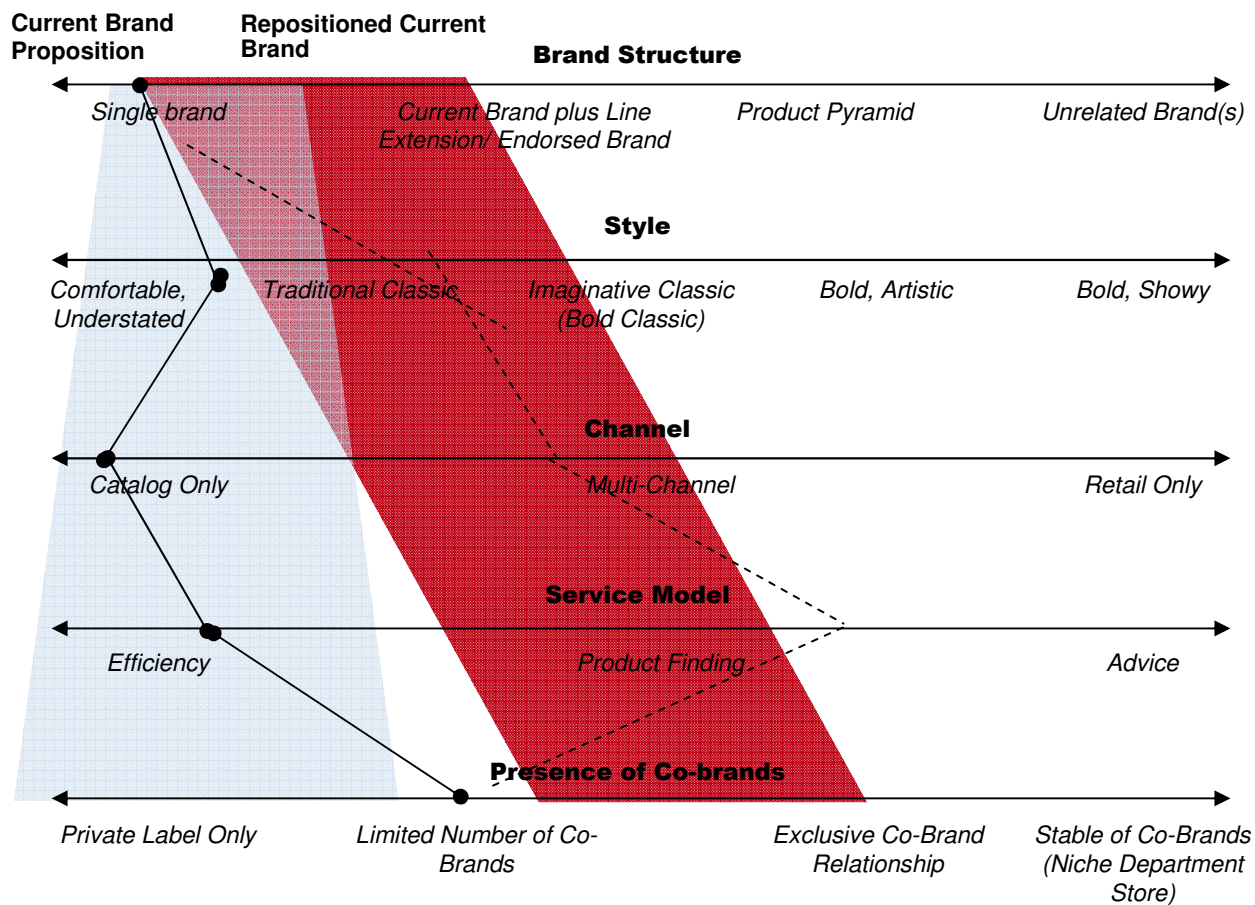
Benefits: New Opportunity Spaces

- ▶ Good segmentation should help identify new growth opportunities for brands in the portfolio.



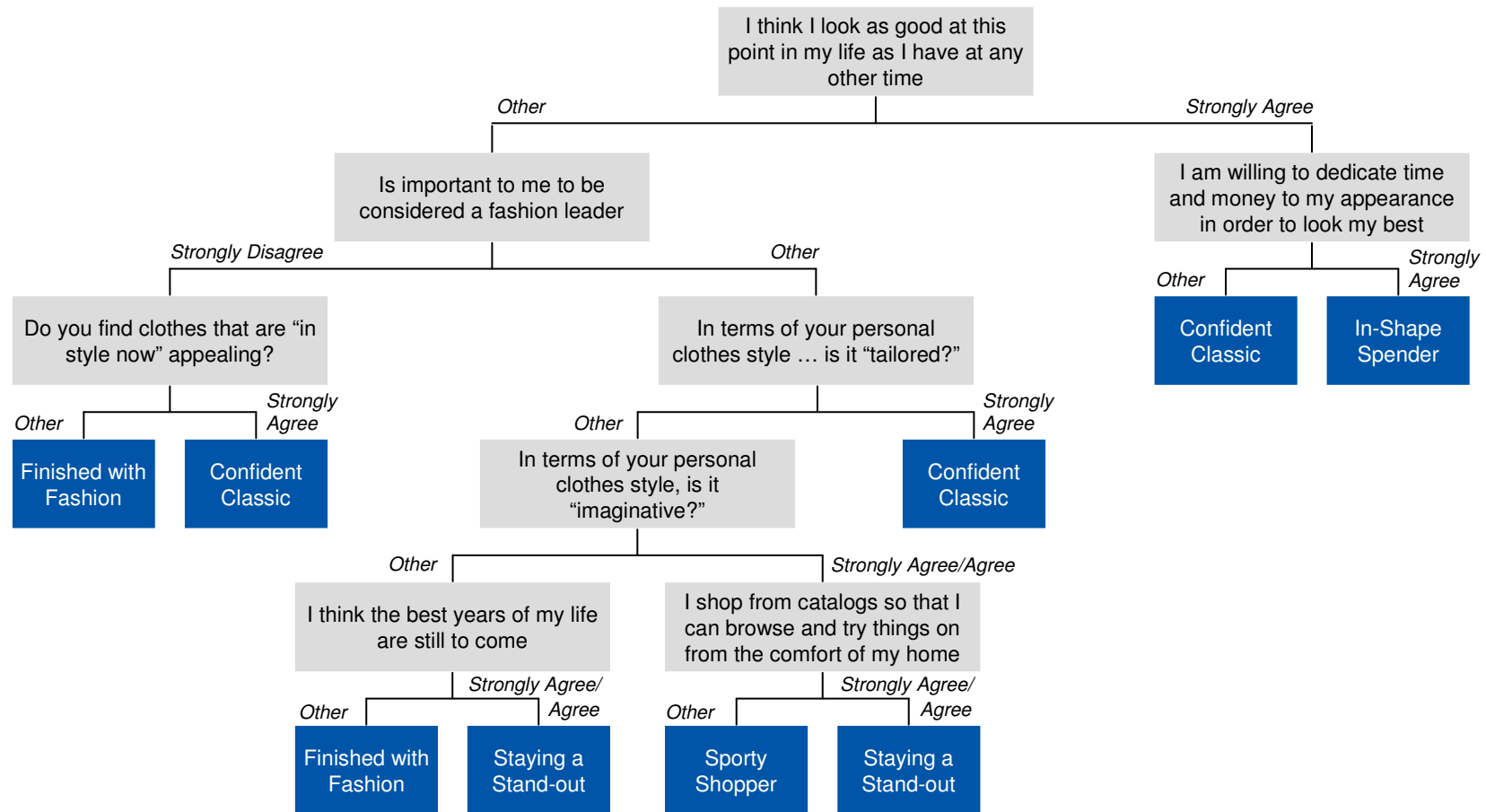
Benefits: Shifting Strategic Priorities

- ▶ Segmentation should highlight how far the business model must shift to access new segments or markets.



Benefits: Building Proprietary Knowledge

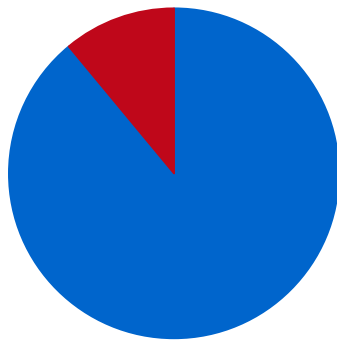
- Segmentation should enable you to develop unique knowledge of your customers.



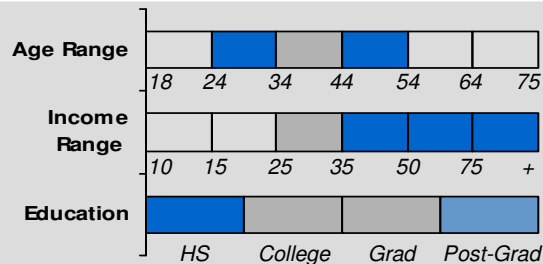
Benefits: Better Marketing

- ▶ Segmentation should improve marketing and communications through richer profiling.

Big Spending Moms



Who Are They?



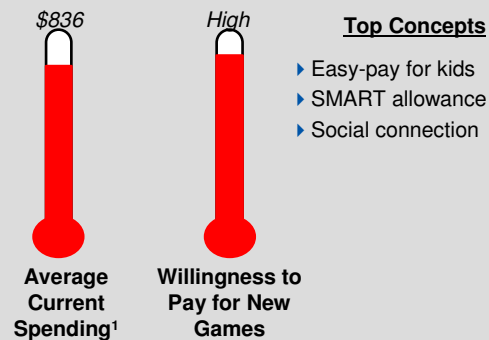
Occupation: FT Emp Gender: Female
 Status: Married (67%) Children: Yes

- Family takes care of children
- Most inclined to make changes in lifestyle to save for children's education

Who Are They Most Concerned About?

	Children	Self/Spouse	Older Adults
Home			
Community/School			
Workplace			

Willingness to Pay



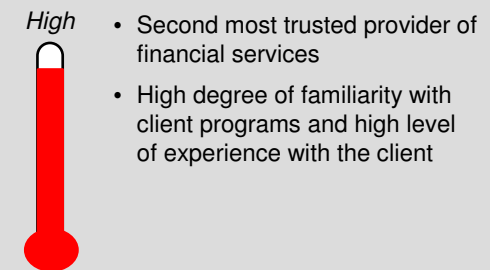
How Proactive Are They?

- ▶ Play electronic games themselves 86%
- ▶ Frequently read books on gaming 74%
- ▶ Frequently play electronic games with their children 69%
- ▶ Not likely to provide weekly allowance 65%

How Do You Reach Them?

- ▶ Regularly subscribe to Internet offers 80%
- ▶ Shop in music/video stores 76%
- ▶ Respond to 800# offers 52%
- ▶ Respond to mail offers 31%

Affinity for and Experience With Client



Basic Beliefs About Winning With Segmentation

- ▶ Segmentation is **foundational and pervasive...**
- ▶ ...But it is only a means to an end - the **real value comes in its application**
- ▶ Segmentation must be “**customer-in**” not “business-out”
- ▶ There truly is both an **art and science** to segmentation
- ▶ Rarely is **one single segmentation “all singing” and “all dancing”**
- ▶ **Internal stakeholder management** is the biggest segmentation challenge
- ▶ Segmentation approaches can and **must evolve** with the company