Using Segmentation to Create “Winning” Brand Strategies

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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

**CUSTOMER SEGMENTATION**

- **Develop Business/Marketing Strategy**
  - 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?

- **Create Value Propositions**
  - What are the real benefit drivers of choice with each segment, versus just the expected anties?
  - How much extra margin are we leaving on the table by not pricing to the full value we create for each segment?

- **Build Go-To-Market Plans**
  - What segment specific “bottlenecks” stand in the way of a higher value customer relationship?
  - What touchpoints would work best with each segment to erase their bottlenecks and maximize ROI?

- **Improve Customer Experience**
  - 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?

- **Improve Organization Capabilities**
  - 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

- There is an optimal number of target segments
- There is one single best segmentation scheme
- Segment marketing and one-to-one marketing are mutually exclusive
- Segmentation doesn’t change
### What are the Different Approaches to Segmentation?

<table>
<thead>
<tr>
<th>Segmentation approach</th>
<th>Good for…</th>
<th>Not so good for…</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demographics/Firmographics</strong></td>
<td>• Directing marketing and sales actions to visible audiences</td>
<td>• Developing meaningfully differentiated offers or marketing programs</td>
</tr>
<tr>
<td><strong>Attitudes/Psychographics</strong></td>
<td>• Identifying new “white space” or unmet needs for growth</td>
<td>• Targeting programs at the most valuable customers</td>
</tr>
<tr>
<td><strong>Needs</strong></td>
<td>• Developing winning value propositions and compelling messaging</td>
<td>• Again, targeting programs beyond mass communications</td>
</tr>
<tr>
<td><strong>Value/Behavior</strong></td>
<td>• Focusing resources on the most attractive customers and differentiating service levels</td>
<td>• Winning the customer, as value rarely correlates to homogeneous needs</td>
</tr>
<tr>
<td><strong>Channel/Geography</strong></td>
<td>• Ensuring delivery across complex sales organizations and intermediaries</td>
<td>• Winning in categories that are not commoditized</td>
</tr>
</tbody>
</table>
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**

<table>
<thead>
<tr>
<th>Product Usage</th>
<th>HH without children</th>
<th>HH with children over 12</th>
<th>HH with children under 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1/3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle 1/3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bottom 1/3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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%)

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)

Well-Run and Efficient (26%)
- 115 beds
- Highest % in for-profit GPO (15%)
- Efficient utilization of assets

BUT: Why do customers behave the way they do? What can we sell them?
Customer Value Segmentation

<table>
<thead>
<tr>
<th>SEGMENT</th>
<th>SHARE OF CUSTOMERS</th>
<th>SHARE OF PROFITABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Net Partners</td>
<td>14%</td>
<td>16%</td>
</tr>
<tr>
<td>High Net Disaggregators</td>
<td>15%</td>
<td>27%</td>
</tr>
<tr>
<td>Mass Market Low Involvement</td>
<td>38%</td>
<td>32%</td>
</tr>
<tr>
<td>Mass Market Savvy</td>
<td>18%</td>
<td>12%</td>
</tr>
<tr>
<td>“Other”</td>
<td>22%</td>
<td>7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STRATEGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivate and retain</td>
</tr>
<tr>
<td>Cross-sell mono-line offers</td>
</tr>
<tr>
<td>Lower cost to serve</td>
</tr>
<tr>
<td>Upsell and divert to direct</td>
</tr>
<tr>
<td>Migrate up or out</td>
</tr>
</tbody>
</table>

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

### Customer Value Increases with Tenure

<table>
<thead>
<tr>
<th>Profit Per Month, Per Customer</th>
<th>Tenure (Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-100</td>
<td>1</td>
</tr>
<tr>
<td>-50</td>
<td>2</td>
</tr>
<tr>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>50</td>
<td>4</td>
</tr>
<tr>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td>150</td>
<td>6</td>
</tr>
<tr>
<td>200</td>
<td>7</td>
</tr>
</tbody>
</table>

**Loyalty Dimensions**

<table>
<thead>
<tr>
<th>Length</th>
<th>Customer stays longer</th>
<th>Increased retention</th>
<th>Lower churn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depth</td>
<td>Customers does more things online in more sophisticated manner</td>
<td>Increased usage stimulates advertising revenues</td>
<td>Lower cost to serve</td>
</tr>
<tr>
<td>Width</td>
<td>Customer introduces more people to service</td>
<td>Increased referral revenue</td>
<td>Lower acquisition costs</td>
</tr>
<tr>
<td>Breadth</td>
<td>Customer purchases more than one product/service from company or company partners</td>
<td>Increased alternative revenue streams</td>
<td></td>
</tr>
</tbody>
</table>
Psychographic Segmentation

Example: Retail Fashion Client

- **In Shape Spenders**
  - "Because I work hard to stay looking my best, I splurge on elegant clothing to be seen wearing when I am out and about."
  - "Because I know what looks best on me, I stick to the timeless, classic styles that will always be appropriate."

- **Sporty Shoppers**
  - "Because I have plenty of clothing options out there, I enjoy shopping for things that are just a little different to keep up with the fashion trends."

- **Staying a Stand-Out**
  - "Because I want to stay young looking and care a lot what others think of me, I wear clothing that is a little showy and take care of myself with a beauty regimen."

- **Finished with Fashion**
  - "Because I can make do with what’s in my closet and don’t enjoy shopping, I buy only what I need and focus on apparel items that aren’t too much of any style."

**BUT:** What do customers want? How do we find them?
Balancing Objectives in CPG

“Purchase Occasion/Behavior” Segments

Segment 1  Segment 2  Segment 3  Segment 4 ...

Segment A

Segment B

Segment C

Segment D

...

Optimized for Targeting
- Demographics (Size, industry, profitability, size of wallet, share of wallet, ...)
- Stage of product adoption
- Business needs
- Functional needs

Optimized for Tailoring
- Customer selection
- Tailoring of offers
- Sales message to customer
- Channel strategy

Goal: A hybrid segmentation that can be operationalized across multiple dimensions
- Go-to-market clarity
- Solution architecture
- Messaging
Identifying Bottlenecks and Allocating Marketing Investment

Example Of Customer Adoption Funnel

<table>
<thead>
<tr>
<th>Target Segments</th>
<th>Segment A</th>
<th>Segment B</th>
<th>Segment C</th>
<th>Segment D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall brand</td>
<td>99% 59% 81%</td>
<td>98% 85%</td>
<td>98% 67%</td>
<td>98% 50%</td>
</tr>
<tr>
<td>Segment A</td>
<td>99% 80% 34% 29%</td>
<td>81% 43% 85%</td>
<td>98% 83% 38% 31%</td>
<td>98% 66% 43% 29%</td>
</tr>
<tr>
<td>Segment B</td>
<td>80% 55% 43% 34%</td>
<td>83% 46% 46%</td>
<td>66% 65%</td>
<td>49% 35%</td>
</tr>
<tr>
<td>Segment C</td>
<td>34% 31% 85%</td>
<td>38% 82%</td>
<td>43% 67%</td>
<td>17% 71%</td>
</tr>
<tr>
<td>Segment D</td>
<td>29% 19% 59%</td>
<td>29% 17% 71%</td>
<td>29%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Each 1% increase in conversion from A-C equals incremental revenue of $17 million
Developing More Relevant Brands

Example of Creating Segment-Specific Positionings

### Segment A

<table>
<thead>
<tr>
<th><strong>Brand Distinctiveness</strong></th>
<th><strong>Table Stakes</strong></th>
<th><strong>Strategic Drivers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>High</td>
<td>Reliable product</td>
<td>Dedication to patient care</td>
</tr>
<tr>
<td></td>
<td>Innovative engineering</td>
<td>Creating the 'standard of care'</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Feel I've done my best</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Potential Drivers</strong></th>
<th><strong>Opportunities</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Helpful sales force</td>
</tr>
</tbody>
</table>

### Brand Loyalty

- Emotional Benefit 1: 0.65
- Personality Element: 0.31

### Functional Benefits

1. Functional Benefit 1: 0.25
2. Functional Benefit 2: 0.42
3. Functional Benefit 3: 0.53

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Optimizing Marketing Spend

Creating Segment-Specific Marketing Mix Models

Media Type Responsiveness for Segment A

- Radio
- TV
- Print

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

Print is 50% more effective than TV or radio

Geographic Responsiveness

- A
- B
- C
- D
- E
- F

$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)

There is a 2.5x range in responsiveness across segments

Share Gain Due to A
Constant $ Increase in Marketing Spend

Share Gain Due to A
Constant % Increase in Marketing Spend

Share Gain
Due to A
Constant
Increase in
Marketing
Spend

Share Gain
Due to A
Constant
% Increase in
Marketing
Spend
What Does Good Segmentation Look Like?

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

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

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

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

- Current value (NPV franchise) - $15M
- New prospect targeting - $15M
- Cross-sell effectiveness within core target - $10M
- New service tailoring - $5M
- Win back of lost customers - $27M
- Retention savings (most valued customers) - $27M
- New value (NPV franchise) - $27M
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.

I think I look as good at this point in my life as I have at any other time

Is important to me to be considered a fashion leader

Do you find clothes that are "in style now" appealing?

In terms of your personal clothes style … is it "tailored"?

In terms of your personal clothes style, is it "imaginative"?

I think the best years of my life are still to come

I am willing to dedicate time and money to my appearance in order to look my best

I shop from catalogs so that I can browse and try things on from the comfort of my home

Finished with Fashion

Strongly Disagree

Confident Classic

Other

Strongly Agree

In-Shape Spender

Other

Strongly Agree

Confident Classic

Other

Strongly Agree

Staying a Staid-Out

Other

Strongly Agree

Sporty Shopper

Other

Strongly Agree

Staying a Staid-Out

Other

Strongly Agree

Staying a Staid-Out

Other

Strongly Agree

Staying a Staid-Out

Other

Strongly Agree

Staying a Staid-Out

Other

Strongly Agree

Staying a Staid-Out

Other

Strongly Agree
Benefits: Better Marketing

- Segmentation should improve marketing and communications through richer profiling.

Big Spending Moms

Who Are They?
- Age Range: 18-24, 34-44, 54-64, 75+
- Income Range: 10, 15, 25, 35, 50, 75, 75+
- Education: HS, College, Grad, Post-Grad
- 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?
- Home: Children, Self/Spouse, Older Adults
- Community/School: Children, Self/Spouse
- Workplace: Children, Self/Spouse, Older Adults

Willingness to Pay
- Average Current Spending: $836
- Willingness to Pay for New Games: High

Top Concepts
- Easy-pay for kids
- SMART allowance
- Social connection

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%
- Not likely to save for children’s education: 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
- High
  - Second most trusted provider of financial services
  - High degree of familiarity with client programs and high level of experience with the 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