

Why You Need Segmentation: Make Your Marketing Targeted and Relevant

Your market is made up of lots of people - customers, prospects, users - call them what you will. The bottom line is that they're not all the same. They have different needs, different behaviors, different attitudes, different demographic profiles, etc. If you don't understand these differences, you are left with a one size fits all approach to marketing to them, which we can all agree wastes time and money and does not yield the results you need. Call it a *Market Segmentation*, a *Customer Segmentation*, *Segmentation Analysis*, or *Segmentation Modeling*; all these techniques are similar in that they define targetable groups to help you better market your product or service.

Clustering, Factoring, Modeling?

The reality is that segmentation analysis is one of the more stats-heavy techniques in marketing research. Here are a few definitions to help you wade through the terminology.

Clustering: Cluster Analysis identifies relatively homogeneous groups of subjects based on selected characteristics; subjects in clusters are like each other, and they are different from subjects in other clusters. Think about the rows in a spreadsheet being 'cases' or 'people' and the columns being 'variables' or 'fields' that describe the people. Clustering groups together the *people* in the *rows*. After clustering, one often gets those famously named groups such as "soccer moms" or "double income no kids" or "project management users".

Factoring: Factor Analysis looks at the *variables* in the *columns* and tries to reduce them to a more manageable number of 'factors' that hold together because they have a central theme, such as "satisfaction variables" or "performance variables". One often reduces the variables before clustering the cases (people).

Modeling: If there is an 'outcome' that you wish to predict based on other information, then you are 'modeling'. Various forms of regression, CHAID, discriminant function analysis, etc. fall into this category. It differs from clustering and factoring in that you aren't just grouping things, you are setting up a model to help you predict something. For example, "Which of my customers are the highest utilizers of my service?" Modeling helps you determine the most important variables that predict high utilization.

Behaviors vs Attitudes

Behaviors are things that people in your market *do*. For example, their transactions with your or other companies. The key thing to remember about behaviors is that they often change.

Attitudes and beliefs are the ways that people relate to and think about the world around them. These things are more stable than behaviors.

Why should you care? It is important to incorporate an attitudinal component into your segmentation analysis. Don't solely rely on your transactional database.

[There's more on the next page]

How to Conduct a Segmentation Analysis

1. **Determine your objective.** Common objectives for segmentation analysis include: Define the segments in our market so that we can better allocate resources; determine the make-up of our best customers so that we can target more people like them. Are you interested in your current customers, or the broader market?
2. **Determine what data you already have?** Do you have a transactional database? Do you have any basic demographic or firmographic information? Data must be linked to individual people.
3. **Append or enrich your data.** Oftentimes, you will not have enough information about your market. Use primary research to add in additional demographic or attitudinal information. Make sure that the targeting information you choose to collect directly related back to how you will reach people (e.g., use variables that you know you can access through a prospect database or list buys).
4. **Use statistical techniques to segment or model.** At the end of this phase, you will have targetable segments. Understand the key components of each segment. Understand the key drivers of your outcome of interest. Understand the messages that will best resonate with each segment.
5. **Do a reality check.** Are the segments large enough to target? Are they relevant? Which are the most valuable/profitable?
6. **Fine tune the segments and model.** Take the highest priority segments or predictive drivers and set up an algorithm that you can use to place future cases into a segment.
7. **Track the segments over time.** Use the segments in future research and see how they behave. Do you find that those future cases classified into certain segment actually *do* produce more profit?

Conclusions and Recommendations

We have found great frustration among clients with the inability of classic segmentation model to yield segments that are both attitudinally or behaviorally unique *and* uniquely targetable. Be assured that there are now better techniques specifically designed to address this long-standing issue. Please see our paper called "Segmentation Analysis that Works" and "A Semi-Technical Description of Reverse Segmentation Analysis" for the latest information available in this area.