

Micro Segmentation – Segments Creation and Business Implementation

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1. Background

"How many different data fields do you have for each customer?"

The answer is that in most of the large service organizations keep hundreds or even thousands of data fields per customer.

***"How well do you know these hundreds of thousands of customers?
How efficiently do you segment these customers into homogeneous groups according to their usage of your services and products?"***

Most organizations intuitively divide their customers into groups, but have no way of actually defining and characterizing each customer group.

"Would you like to be able to segment your customers into homogeneous groups according to their product usage behavior?"

Most organization want to, since a better understanding of customer usage behavior (determining not only which products are used, but the manner in which they are used), is a critical asset for enhancing revenues generated from existing customers.

2. The Business Need

Many companies segment their customers into classic segments. Those are usually based on customer value, length of relationship with the company, product loyalty, etc. Some organizations add another tier of various subdivisions of the customer base, for tactical purposes. Synergy's consulting services assists the organization to correctly segment its customer base on different levels. For example:

- Identifying customers who have purchased one product and have not purchased another, for the purpose of Cross Sell activities.
- Identifying paired products (corresponding products), and issuing a list of customers who have purchased only one of those products.
- Determining usage frequency of a certain service, and issuing a list of customer who have yet to reuse this service.
- And more....

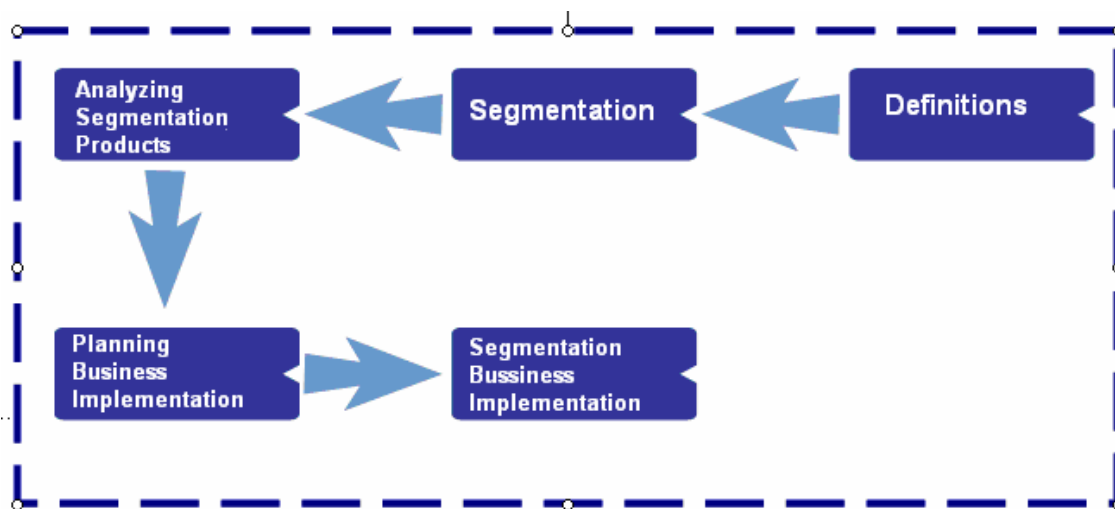
These segmentations are meant for tactical, Ad Hoc activities, with various customer groups. However, these segmentations are not methodical, nor are they recurring, which mean that organizations activating such segmentations find it extremely difficult to manage those groups as far as the individual customer is concerned; e.g. filtering customers in a certain group from a newly created segment, deciding which customers to refer to with which campaign, etc.

Tactical segmentation is another layer, on top of the classic segmentation layer. The former is not meant to replace the latter. It is meant to provide the organization with the following benefits:

- Improved relationship with the customers
- Focused marketing campaigns
- Enhancing the effectiveness of marketing activities
- Improving customer satisfaction

3. The Work Process

The chart below illustrates the generic work process, representing the progression of similar projects:



i. Definitions

Segmentation begins with basic definitions:

- Defining segmentation objectives: different objectives can be set for each segmentation process. Each objective requires the use of different fields out of the existing customer data fields. The segmentation objectives can be Up Sell, Cross Sell, increasing loyalty, learning more about the customer's lifestyle in order to better personalize marketing campaigns, etc.
- Defining the target audience: the organization should decide whether to divide the customers into subgroups and use the different data fields suitable for each group. An example of group distribution is active vs. non active customers, have purchased vs. have not purchased a certain product, customers of high value vs. others, etc.
- Establishing the number of segments: the number or range of segments the organization is capable of handling should be established in advance. Too many segments will overburden the marketing activities, whereas too few segments will not produce the required differentiation.

ii. The Segmentation Process

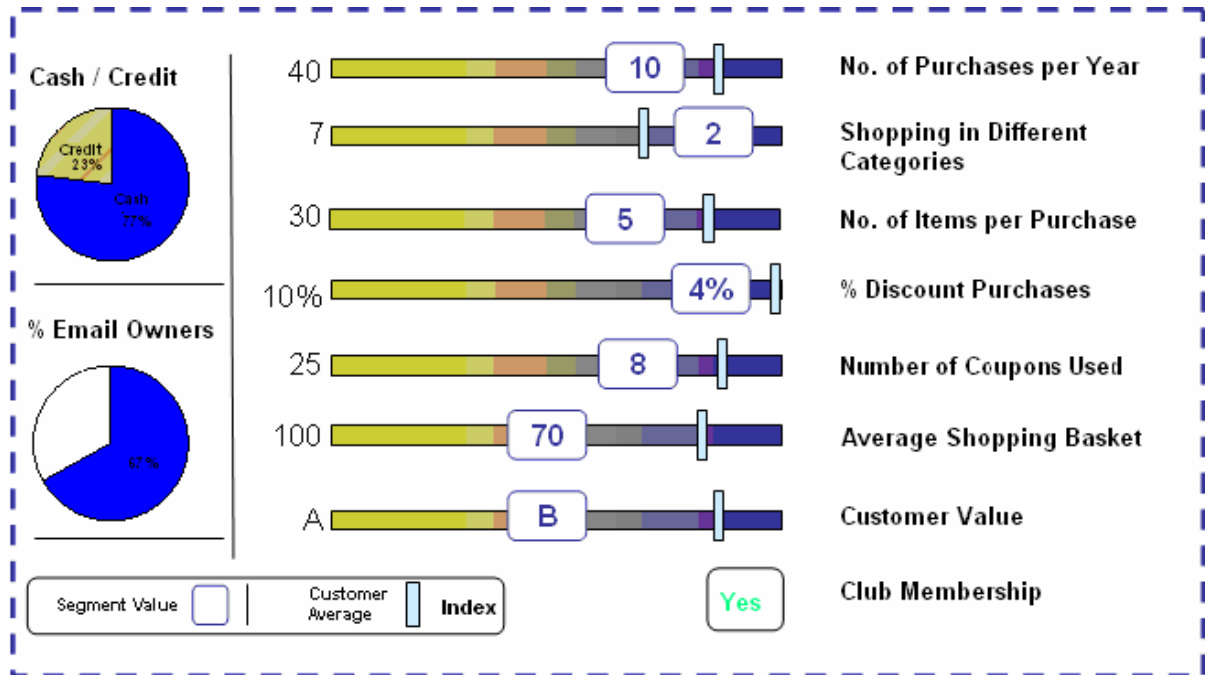
- Establishing the panel: the panel fields should be determined in advance. The organization should examine the number of fields being used, as this number directly affects the scope of the required data mining.
- Monitoring the formation of the panel.
- Data mining.

iii. Analyzing Segmentation Products

- Variable distribution: prior to the analysis of segmentation behavior, the variable distribution in the panel should be examined, in order to determine whether they correlate with the organization's perceptions. This way, the organization can examine, for example, the distribution of the age variable in the panel, in relation to the organization's perception of the age distribution of its customer base.
- Segment analysis: this stage includes a comprehensive analysis of the behavior of each segment measured by the dozens of panel variables. The influence of one parameter over the other is examined, and the characteristics of each segment are generally defined.
- Segment selection: the process of DM could produce a certain number of segments, but it would make good business sense to merge certain segments together or vice versa, re-analyze and divide a certain segments into several sub-segments. This is one of the greatest challenges of the segmentation process, and it requires making educated decisions of either unification or intersection.

iv. Planning the Business Implementation

- Tactical segmentation compels the organization to handle customer groups which may seem to be non homogeneous groups, at least in the classic definition. And so, for example, one segment can include customers of different ages and customer values. In order to learn more about each segment, the organization should examine the most significant parameters characterizing and differentiating each segment from the others. Below is an example illustrating a segment's characteristics:



- Establishing marketing strategy per segment: the strategy should include the value offer per each customer segment (provided that each segment should be presented with a suitable value offer, adapted according to the attributes of the specific product). Also, business focal points are established, as well as the Tone of Voice suitable for each segment.
- Establishing product selection per segment: this stage requires mapping all of the organization's products and deciding what are the suitable products per each segment established earlier.
- Designing a communications plan with each segment: the communications plan is designed to include all the activities planned for each segment in the near future (usually the coming quarter or the coming year), with emphasis on the volume of each segment, sales goals (or preservation/loyalty goals), and costs.

v. **Business Implementation**

- Establishing infrastructure: many organizations implementing tactical segmentation are required to develop appropriate infrastructure, such as sales/marketing channels, adapted templates per segment, new campaign launching processes, etc.
- Launching segmented campaigns: at this stage the organization launches segmented marketing activities. Initially, those activities are generically segmented, and later they are re-segmented more accurately, sometimes during the process tactical sub-segmentation into Ad Hoc groups.
- Evaluating campaign success: it is crucial to perform an evaluation of the effectiveness of marketing campaigns prior and post segment implementation. The organization should keep in mind that campaign effectiveness could grow increasingly, as the initial marketing activities may be aimed only at learning more about the segments and their requirements.

4. Conclusion

Different customers have different needs, different attributes and different purchasing behaviors. The classic segmentation techniques allow the organization to categorize its customers into large groups, according to generic attributes (age, gender, etc.). This type of segmentation is usually the easiest one to convey to the customers, in order to differentiate them from different segments.

The tactical segmentation technique enables the organization to conduct a more comprehensive analysis of its customer base, in order to better understand the customer's needs. It unveils additional characteristics more specific to each customer, such as spontaneous purchasing behavior, reasons for choosing one product over another (especially when the two are similar), sensitivity to costs, manner of service utilization, etc. This type of segmentation, in addition to classic segmentation, enables the organization to pinpoint its marketing activities, thus contributing to the enhancement of revenues generated from existing customers.

About Synergy

Synergy is an international consulting company, specializing in Analytical CRM solutions.

Synergy offers marketing oriented business ventures, formed by a team of leading local and international industry experts.

Synergy aims to provide its customers with the ability of acquiring commercial advantages by informative analysis of their customers' shopping data.

Synergy has vast experience in working with leading commercial organizations, both locally and internationally, and its clientele includes foremost industry leaders in the communications, financial and retail fields.

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