
Market Segmentation

A Fresh Look at a Familiar Topic

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Introduction

Although most marketing organizations have a stated segmentation of available markets, the rhetorical question to be asked is far from simply, “Do we have a viable segmentation strategy?” In fact, there is a spectrum of possibilities that can define where a given company is situated in terms of its “segmentation maturity.”

Rather than being merely a box to be checked, segmentation is close to the “heart and lungs” of any viable marketing strategy. It therefore warrants a careful and conscious effort, both in the development of a segmentation program as well as constant monitoring and adjustment in order to optimize marketing and sales efforts.

This White Paper explores the high-level business science of segmentation, as well as the range of maturity levels in which any given marketing organization may find itself. The intent is to provide a useful tool for the marketer who seeks to move the organization toward “best practice” with regard to this critical business discipline.

When you focus your efforts directly upon targeted audiences, your marketing dollar works more efficiently.

| Market Segmentation Defined

The basic idea is as powerful as it is simple. It is easier to serve and sell to a focused market than to a vague indistinct one. If you try to sell to everyone, you'll waste a huge part of your marketing dollar trying to reach people who are not good prospects. If, instead, you focus your efforts directly upon targeted audiences who are likely to take an interest in your offerings, your marketing dollar works more

efficiently to gain and maintain customers.

Markets are made up of many distinct groups of people or organizations with common characteristics. Some of those clusters of customers may not be immediately obvious. Each of them commands tremendous buying power. But they direct it toward products and services that address them as highly unique clusters or segments of the market. Delivering on those needed products, services, and experiences—and making a profit along the way—is the purpose of marketing. However, customers' needs differ and satisfying them often requires customized approaches for each market segment.

Markets can be segmented from a business (B2B) or a consumer (B2C) perspective. Regardless, organizing a market into distinct groups that behave in similar ways or have similar needs is at the heart of all segmentation. The process consists of segment identification, segment characterization, segment evaluation, and target segment selection. If each segment is fairly homogeneous in its needs and attitudes, the members of a specific segment are likely to respond similarly to a given marketing or sales strategy. Organizing customers into groups with similar traits, performance characteristics, or expectations into specific market segments indicates that the members of each segment be:

Identifiable: The differentiating attributes of the segments must be measurable so they can be identified.

Accessible: The segments must be reachable through communication and distribution channels.

Substantial: The segments should be sufficiently large to justify the resources required to target them.

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Unique: To justify separate offerings, the segments must respond differently to various marketing mixes or product offerings.

Durable: The segments should be relatively stable to minimize the cost of frequent changes.

Adapted from: EuPD Research (2008). Trends in market segments: Towards more solar parks or individual installations? *EPIA 2nd International Conference on Solar Photovoltaic Investments* (p. 4). Frankfurt, Germany.

Similarities can be obvious and simple at one extreme, or subtle and complex at the other. Information requirements and the “organizing tools” used to create the segments vary greatly as the nature and purpose of segmentation changes.

| Segmentation Purpose

The ultimate goal of segmentation is superior deployment and use of corporate resources in meeting the needs and expectations of customers. By doing so, your company can achieve more customer profit success with less investment. This is done by identifying groups of similar customers and prospects, prioritizing the groups to address, understanding their behavior, and responding with appropriate marketing strategies that satisfy the different preferences of each chosen segment.

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Following the identification of the segmentation variables and classification of market participants, you must decide which segments to respond to and frame your offerings specific to those customers. This is the basis of a differentiated positioning strategy. Not every offering will be right for every customer; nor will every customer be equally responsive to your efforts. It is as important to know which customers to avoid as it is to know which ones to pursue. Knowing the difference and executing a targeted market approach can have a significant impact on your bottom line.

| Segmentation Benefits

The benefits of market segmentation are not challenging to grasp. After all, the top 20% of customers in a business may generate as much as 80% of the company’s profit, half of which is then lost serving the bottom 30% of unprofitable customers.

Market segmentation is a proven way of improving profitability.

Market segmentation is a proven way of improving profitability. By focusing your offerings to different groups, you are better able to meet the needs of those customers who bring the most value and align the appropriate resources to meet those needs.

Segmenting the market provides fresh perspectives for increased customer identification, selection, profitability, and retention. Market analysis and a deeper understanding of customers can be developed into an organizational response that yields sustainable competitive advantage that will be difficult for competitors to replicate. These benefits are achieved through a variety of marketing and operational efficiencies including: enhanced prospect identification, better matching of customer needs, improved targeted communications, enhanced customization and customer service, improved innovation, and increased market segment share.

| Consumer vs. Business Segmentation

It's not enough to segment customers based on geographics and demographics (firmographics for B2B segmentation)—these characteristics are easily accessed by the competition. Rather, it is important to move past these simple techniques to find sustainable differentiation. Needs-based segmentation that incorporates attitudes, interests, and opinions (AIO) does that with variables that will inform of customer motivations, drivers of behavior, and expected responses to marketing stimuli. Combining AIO questions, demographic data, and behavioral data creates significant competitive advantage by presenting targeted product features and benefits wrapped in meaningful communications that resonate with each audience and clear knowledge about what each customer is likely to deliver in benefits. Generally, segmentation is conducted using one or a combination of four categories of characteristics:

[Consumer Variables -----]
[Business Variables-----]

Demo- graphics	Psycho- graphics	Behavioral	Geographics	Firm Culture	Firmo- graphics
Age, race, gender	Lifestyle	Occasions	Nation or country	Operating variables - Technology, usage status, customer capabilities	Industry, company size, location
Income, education	Activities	Benefits	State or region	Purchasing practices	Revenues, costs, profitability
Family life cycle, family size	Interests	User status	City or metro size	Situational factors	Number and types of employees
Occupation	Opinions	Usage rate	Density	Personal characteristics	Number and types of locations
Religion, nationality	Personality	Loyalty status	Climate	Brand/reputation value	Business structure
Generation	Core values	Buyer readiness		Market position	Industry position
Social class		Attitude			

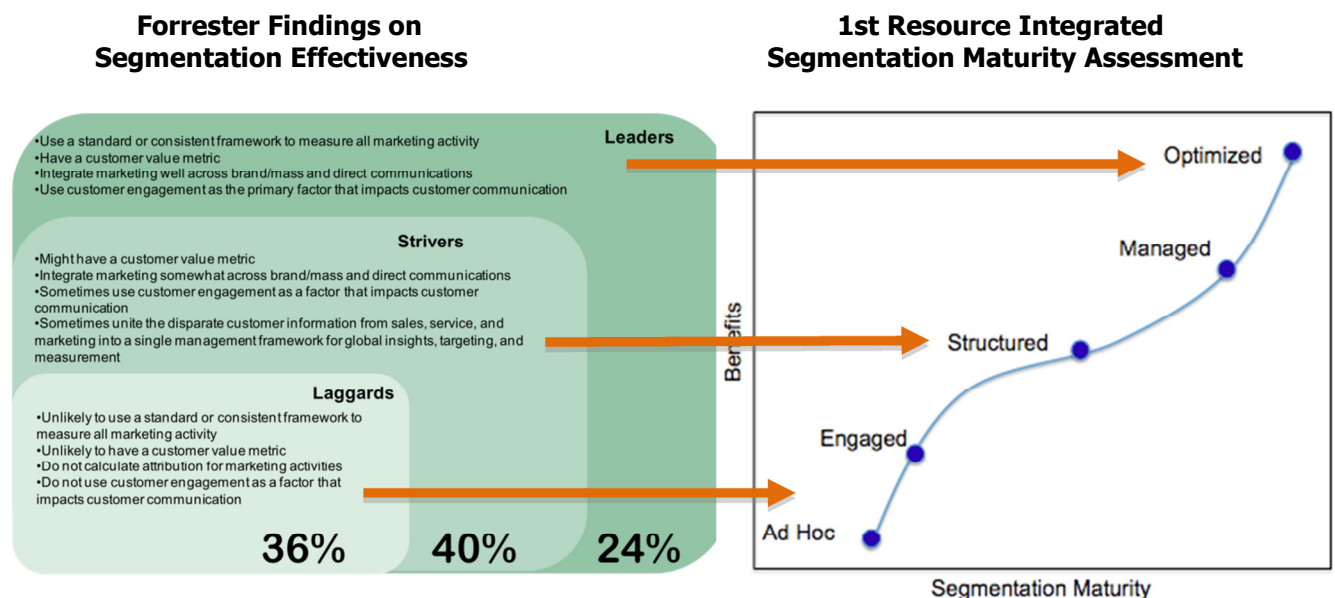
While consumer and business segmentation have similar objectives: better targeting, marketing, and profitability, the segmentation variables and assessment approaches are different. However, in either case, market segmentation requires selecting the characteristics that determine inclusion and exclusion from specific segments. The first step in the segmentation process is to choose the variables that are likely to provide the ability to identify, describe, explain, and predict behaviors of segment participants.

| Segmentation Maturity

Companies are at various stages of segmentation maturity: from the very simple, perhaps unconscious segmenting of customers, to highly developed, data-driven segmentation schemes that enable them to achieve market leadership and insights that drive new innovation in product and service approaches. The highest stage of segmentation, *Optimized*, can enable proprietary processes and unique supplier chain models, depending on the industry and segments targeted. This well-defined maturity model can offer business leaders a clear view of a company's capabilities and a shared language for moving to higher stages of maturity.

Most companies have not conducted an audit of their segmentation maturity.

Most companies believe they are segmenting their customers, but the reality is otherwise. According to recent Forrester research (2009), very few companies actually develop and use segmentation effectively. And many that do attempt to develop a segmentation strategy don't do enough to make an impact on business results. Most companies have not conducted an audit of their segmentation maturity to understand where they sit relative to practice leaders.



From: Forrester Research (August 2009). *Integrated, Customer-Centric Marketing: Exposing Marketing's Delusion* (<http://www.merkleinc.com/user-assets/Documents/Integrated%20Customer-Centric%20Marketing.pdf>).

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In reviewing the chart that follows, you might recognize where your company lies on the Segmentation Maturity Curve:

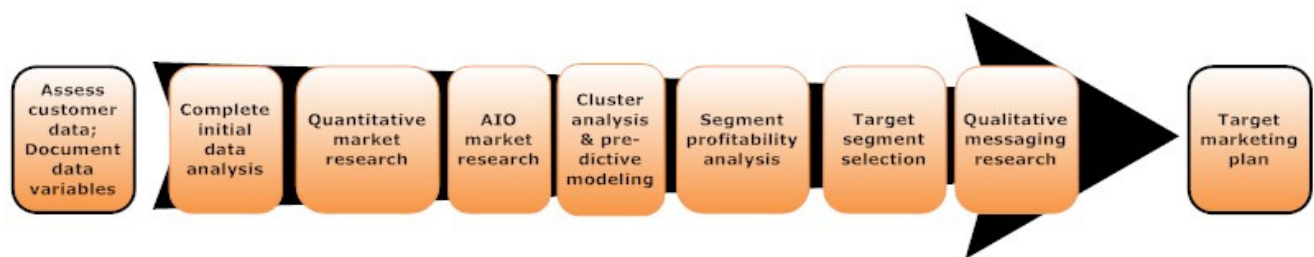
Segmentation Characteristics

Maturation	Description	Characterization	Next Steps
Ad Hoc	No sales or marketing differentiation No reaction to opportunities/threats	Simple Effective for organizations with limited salespeople	Identify customer data sources including revenues, billing information, and sales insights
Engaged	Historic revenues alter selling & marketing behavior Situation-based selling Reactive to opportunities/threats	Appropriate for situation-based sales when information for customers is easy to obtain	Access publicly available data on existing customers (demographic and geographic information) Assess organization's beliefs about customer behavior Initiate quantitative research
Structured	Firmographic data combined with historic customer information alter sales approach Opportunity-based selling Reactive to opportunities/threats	This early stage of customer prioritization will reduce service costs but stops short of predicting behavior	Conduct cluster analysis to aid in predictive characteristics used to identify segments
Managed	Customer segmentation includes descriptive and behavioral data used to drive sales and marketing efforts Prioritized sales and marketing Proactive to opportunities/threats	The organization can begin to align consistently across functions and be more aggressive against competitors	Obtain financial data (revenues and costs) to serve to develop lifetime values for each segment Prioritize segments against business strategies and objectives to identify ideal segments and target resources
Optimized	Customized segmentation Customer classification drives unique sales and marketing efforts Optimized-based selling and marketing Planned actions that lead the market and confound the competition	Business functions, product development, and customer facing groups specialize around the needs of each segment and are intimately educated on the drivers and total value of each customer and prospect	Develop unique sales and marketing approaches that resonate with each targeted segment Build sales support tools that enable sales staff to adjust to customer/prospect approach

| Integrated Segmentation Methodology

1st Resource's process is designed to benchmark (assess) where your company is on the Segmentation Maturity Curve and from there, develop a complete Segmentation Analysis that identifies profitable segments and targeted marketing strategies.

Deciding what to do depends where your organization falls within the Segmentation Characteristics table above and what analytical tools, resources, and data are already available. Assessment is the most critical step in our rigorous process. You have to know where you are before you can determine where to go. Additionally, we are concerned with efficiency and recycling existing resources—not starting from scratch.



True integrated segmentation requires discipline and a thorough, fact-based assessment of your organization's market dynamics and customers. The effort made to better understand customers and what motivates them is an essential business practice that improves success in the market.

True segmentation requires discipline and a thorough, fact-based assessment of market dynamics and customers.

| You'll Know You're Successful When...

- You have highly defined and prioritized target segments that have factored in all critical variables;
- Your targeted marketing communications successfully resonate with members of each target segment;
- Your sales activities are more effective and result in higher success (close rates) and increased sales;
- The company has a clear direction on servicing each customer to drive long-term loyalty and improved profitability.

1st Resource can help your company close the gap between being a laggard and being a leader. We know that some preliminary, ad hoc segmentation naturally occurs within an organization. However, those companies that take a methodical data-driven approach and do not succumb to gut instinct or segmenting around the most visibly obvious customer differences enjoy the benefits of sustainable market advantages.

Please contact us at **www.1st-Resource.com**, or call **303-750-1950** for a complimentary evaluation.