Getting the most out of segmentation:

How to plan, develop, and evaluate
a segmentation study

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what is segmentation?

the definition of segmentation is broad — essentially, it just means dividing a target (i.e. people, objects, needs, etc.) into groups (called "segments"). But what are segments, really? Some companies will split up groups by demographic features, such as gender and age and call these segments. Other companies will split up groups by a value metric like loyalty points, past product purchase, etc. And while the resulting groups are technically "segments," these indicators alone may not be enough for your marketing endeavors to be effective.

A meaningful segmentation that uses statistical modeling to divide your target into groups that have similar needs, attitudes, and/or behaviors will provide deeper insight into your current and potential consumers, providing information on how to create messaging, products, and services that will resonate with them.

However, segmentations are not one-size-fits-all. In order to choose the segmentation technique that best fits your needs, you first have to decide what you are looking to achieve with the segmentation, and what business decisions you are hoping to inform.

what can segmentation do for you?

Segmentation can help answer several important business questions:

- **Who** is your current target?
- **Who** is your potential target?
- **How** can you connect with your target most effectively?
- **What** products/brands does your target buy?
- **What** needs does your target seek to fulfill with these products/services?
- **What** gaps exist in your current product/brand portfolio?

first step: who do you talk to?

Business objectives should drive your decision about which consumers to include in your segmentation study. **For example, if you want to focus on increasing sales by either upselling or increasing purchase frequency, concentrating on your current customer base makes sense. If you are trying to grow your customer base, adding potential customers to the mix is important.** Essentially, the key decision is how widely you want to "cast the net."

Some examples of sample breadth:
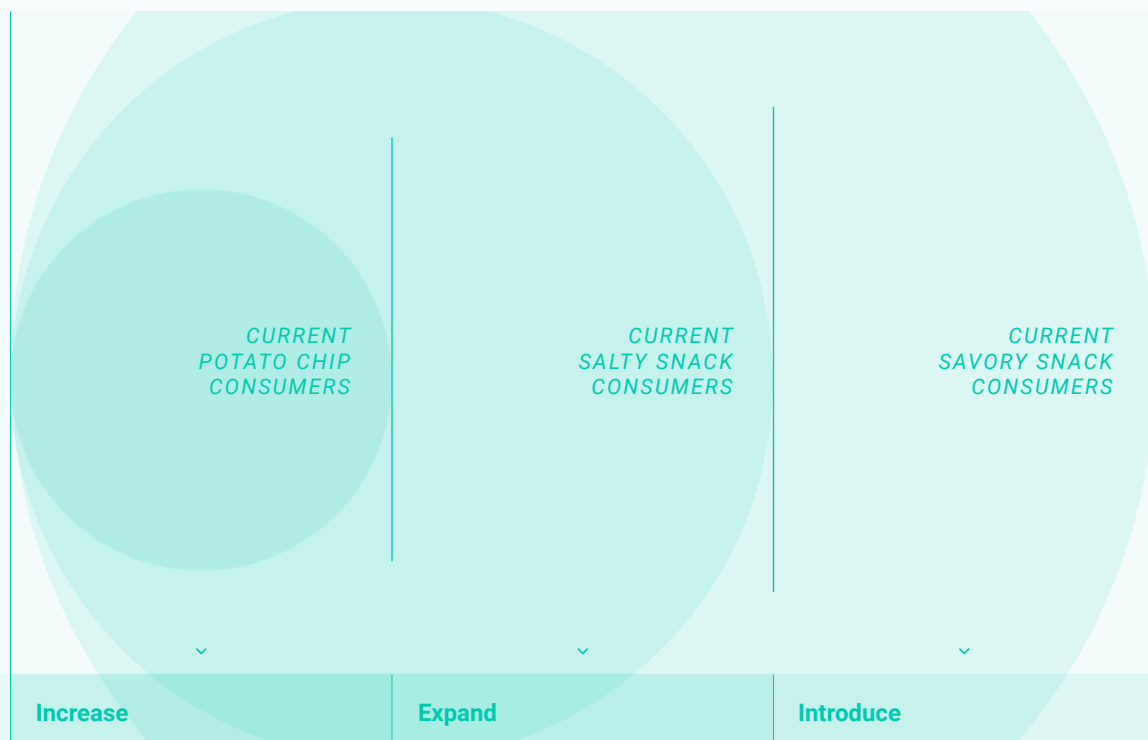
⌄ Customers only:

Produces a detailed understanding of your current customer base in order to tailor messages and products to trigger a repeat purchase, increase purchase frequency, or upsell to next level of product/service. If you're a potato chip brand, you might only want to include people who currently eat/buy potato chips (or even just those who purchase your specific brand of potato chips).

⌄ Category users/intenders:

Provides a detailed understanding of both current and potential customers. Allows you to go beyond the specific product/service — for example, if we consider potato chips, the expanded audience could be current salty snack consumers (pretzels, tortilla chips, popcorn, etc.). Expanding to this level may provide insight into how to expand your customer base among those who have an affinity for type of product/service. (Usually intenders are included for more expensive products, such as a car.)

⌄ Consumers in adjacent categories:

Lets you range even further afield — using the potato chip example again, the further expanded audience might be savory snack consumers (including crackers, nuts, seeds, trail mixes, etc.).

CURRENT POTATO CHIP CONSUMERS	CURRENT SALTY SNACK CONSUMERS	CURRENT SAVORY SNACK CONSUMERS
⌄	⌄	⌄
Increase	**Expand**	**Introduce**

In general, we recommend something in the middle; **the most useful and actionable segmentations give direction on current customers as well as reasonably attainable new customers without going too far afield.**

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people - based segmentation: Getting at the "who"

the more traditional methods of segmentation are people-based — that is, the segmentation creates groups of people. This type of segmentation is typically used to better understand your target for positioning/messaging, etc. **At Ahzul, we recommend collecting a variety of attitudinal batteries to get a more complete picture of each segment. While we still collect general lifestyle and personality attitudes, the focus is on category and product-specific attitudes because these are what typically drive consumer behavior.** Using the potato-chip example, we would collect attitudes on snacking in general, as well as attitudes towards potato chips and other salty snacks.

In creating these attitudinal statements, it is important to leverage any existing research to help inform both the topic areas that should be covered as well as the actual language that consumers use to describe the attitudes.

If prior research is not available,you may wish to consider conducting a small qualitative study prior to thequantitative segmentation survey; these results can be used to ensure that the survey language and topics are consumer centric.

It is equally important to include a variety of demographic and behavioral questions, as well as questions to uncover the needs driving consumption or purchase (for larger items that are infrequently purchased, such as cars, or for frequent purchases where needs don't change, such as toilet paper). Brand usage, affinity and/or loyalty measures are also important to include — whether as model inputs or profiling variables. These non-attitudinal indicators — especially behavioral measures — should be included in the statistical models that construct the segments, otherwise you may end up with segments that are attitudinally distinct, but behaviorally irrelevant.

If you have a customer database and share database fields/variables with the analytical team, it's often possible to assign both current and future customers within the database to segments – without surveying all of them. To do this, existing CRM variables (or proxies) must be incorporated into the survey and some of the customers in the database must take the survey. Having those in your customer database take the survey allows our analysts to assess the accuracy of the segmentation algorithm using database-only variables rather than the survey inputs.

In sum, using a variety of psychographic, attitudinal, andbehavioral inputs for the segmentation produces more well-rounded, actionable segments.

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occasion - based segmentation: Getting at the "why"

Another type of segmentation we've found to be very valuable is occasion or situation -based segmentation, where **we seek to understand and illustrate the various needs consumers are trying to fulfill on a specific occasion when they are using or consuming the product or service.** At Ahzul, we call this a "need-state" segmentation.

This type of segmentation is most useful for frequently used services, such as TV/streaming, or smaller, more frequent purchases such as clothing, food, beverages, CPG, etc., where an individual's needs may change depending upon occasion.

For products or services where one person might have multiple needs — both functional and emotional — on any given usage/consumption occasion, it's important to understand the different types of occasions.

In a need-state or occasion-based segmentation, consumers are surveyed and asked about multiple usage /consumption occasions. The occasions are used in the segmentation modeling, and the segments that are produced are groupings of occasions. In keeping with the potato chip example, the same person might eat chips with their lunch (Sandwich Supplement), as a pick-me-up during the workday (Solo Slump-time Salt Craving), or as an easy late-night snack (Midnight Mindless Munchies).

As with people-based segmentations, **it is critical to include survey questions that will yield a well-rounded "profile" for the need-states,** including the attitudinal drivers and questions that contextualize the occasion, such as time of day, day of week, the specific product/brand used, whether consumed/used alone or with others, consumption/usage location, etc.

Because need-states vary by occasion, it is critical to have a detailed understanding of the occasion in order to help inform service/product develoment, refinement and growth strategy as well as marketing.

In particular, collecting brand information will allow you to understand on which types of occasions your brand tends to be used vs. competitors and which occasions are not owned by any brand. Understanding the context of these "un-owned" occasions and your brand's relative affinity for these occasions will help you discern whether one of your existing brands can be refined to move into that space or if there is an opportunity to create/acquire a brand that will fit into that space.

how to evaluate a segmentation solution

Once you have built your segmentation, how do you know if it's any good? Here are some questions to ask yourself:

FOR **PEOPLE-BASED SEGMENTATIONS:**

> ### Do you understand who each segment represents?

> - Each segment should make intuitive sense; you should be able to "picture" someone who fits into the segment.

> ### Can you find these segments easily in the population?

> - Can you identify them accurately using a short list of questions, which can be easily fed into an algorithm that assigns consumers/needs to each segment? (Usually, these are provided in an Excel "Typing Tool".)
> - If CRM variables are included in the segmentation, can a database-only algorithm be created to retroactively apply the segmentation to the existing database or to assign new customers to segments?

> ### Are the segments clearly differentiated from each other?

> - It's fine if some segments are similar — in fact, that might make it easier to craft messaging — but it must be easy to draw clear distinctions between the segments.

> ### And finally, are the segments actionable?

> - Can you assess the relative value of each segment?
> - Are the priority segments large enough to be viable/worthwhile?
> - Can you efficiently and effectively message to them?
> - Are there any similarities that can be leveraged among the priority segments (i.e. Is there any common positioning or messaging that might resonate among multiple segments)?
> - Can you get buy-in for the segments company-wide?

FOR **OCCASION-BASED SEGMENTATIONS:**

Occasion-based segmentations are judged slightly differently because they are more about services or products than people, and thus require a review of your portfolio-related objectives, but here are some things to consider:

> ### Does the segmentation have enough context to clearly differentiate the need-states?

> ### Can a message be crafted to address the need-state?

> ### Are there specific needs that fit in with your current strategy?

> - Does your current portfolio address the needs of interest, and if not, can existing products or services be tweaked to meet that need, or a new one be developed or acquired to meet that need?

putting your segmentation to work

Whether you are segmenting people or needs, the overall purpose of segmentation remains the same: to help the business make better decisions that will increase sales, decrease marketing costs, or improve relevance, loyalty and retention. Understanding the key elements of segmentation will help you improve the bottom line, both in the short- and long-term.

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