11 Proven Steps to Effective Segmentation

Essential learnings from over 1,500 studies

Introduction

Market segmentation is the process of grouping or dividing an audience into subgroups based on commonalities and shared characteristics. Understanding what makes your current and prospective customers tick allows you to tailor brands, products, pricing and communication to specific groups, so you can make best use of limited resources.

STRAT7 Bonamy Finch are recognised as the industry leader in segmentation, having carried out over 1,500 studies. Over the years, we've covered a huge range of categories from diesel ship engines to sex toys, and pretty much everything in between. Through these experiences we've discovered how to achieve best practice and practical steps to get there, as well as the pitfalls to avoid.

Now, we want to share our top tips with you...

About us

STRAT7 Bonamy Finch is an analytically-driven insights consultancy delivering a unique blend of advanced analytics, data science and research solutions to fuel better business decisions.

Dr. Leigh Morris
Strategy Director

Leigh Morris has been working in segmentation since 2001 when he founded the dedicated segmentation team at Kantar Research International. He was also the main segmentation manager at T-Mobile international before setting up Bonamy Finch in 2005.

Since then, Leigh has worked on high-profile segmentation projects for: Electrolux, DEFRA, TUI, BP, Which?, Department of Health, Highways England and many more.

Paul Carney
Managing Director

Paul has over 20 years experience in designing, creating and deploying segmentations in a huge range of markets and categories. Paul headed the Marketing Science Centre at Kantar Research International, responsible for all consumer understanding analytics.

Paul spends most of his time consulting with major global brands on how best to activate and communicate segmentation to deliver genuine competitive advantage.

By applying advanced analytics and data science, the STRAT7 Bonamy Finch team extracts maximum value from any data set and makes these insights as business ready as possible, so to allow you canto make better business decisions. STRAT7 + - Who create and deploy customer-centric strategies to drive business growth and transformation.

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Tip 01.

Start with the end-user in mind

"It's easy to start with the end-user in mind, but we've found that the throughout the project, throughout the programme, the needs of the end- user become a bit blurred and out of focus."

Paul Carney

Segmentation is a programme, not a project. While many insights projects have specific, targeted, tactical uses, segmentation rarely does. It's a big piece of work that requires a large amount of planning and preparation to be rolled out effectively to and have impact.

Brands should ask themselves, 'what would a good segmentation look like?' It's often hard for our clients to articulate an answer to this question, which isn't surprising given the wide range of workstreams it could impact.

In our experience an effective segmentation needs to be:

Measurable & Applicable - One of the most basic requirements from segmentation is that it should be quantifiable and reliable in its data and the information should be applicable to other market research, CRMs etc.

Accessible & Responsive - Target segments need to be responsive to marketing activity or there needs to be evidence that they will respond to new products and services.

Substantial - While segmentation is all about grouping consumers, a segment still needs to be large enough to warrant separate business activity.

Actionable - Segments need to tie into existing systems, workflows and processes. The insight needs to be used in a practically or it will quickly be abandoned.

Brands should spend their valuable time thinking about how key parts of the organisation will live with and use the information. It's easy to get lost in such a complex piece of research, so keep coming back to the end goal: who will use this, and in what specific ways? Let your agency sweat the small stuff. We guide our clients through this process by asking searching questions in stakeholder interviews during the immersion phase of the project.

Best Practice - For an external agency such as ourselves, it's important to find out what the company culture is at the start of the programme. What types of things have worked or bombed in the past? Is the company numbers-heavy, or should we leave them for the appendix, and instead concentrate on summarising insights? Every agency wants to immerse themselves in existing insights to identify knowledge gaps, but in our experience it's just as important to get to grips with the company culture and dynamics too. This can often make all the difference when it comes to delivery at the end.

Tip 02.

Link to your data assets

> "We're often asked how segmentation has changed over the last 20 years. The simple answer is that today more brands have databases that they need to implement segmentation."

It seems natural than every company should have a database in 2021. and yet It'sit is easy to forget that for alcohol brands, this is relatively new. Brands now have a large amount of customer data held internally and tagging those customers with segments opens up huge commercial opportunities.

Bonamy Finch have developed an approach, called Hybrid Segmentation, that fuses survey and customer data to create a single, linked view of the consumer. This creates a segmentation that is rich in motivations and needs, but can also be tagged to individual customers.

A few examples:
By tagging segments to an alcohol company's database they saw a **14% increase in click-through** and conversions from marketing emails targeted to specific segments.

Our Hybrid Segmentation for an international travel company allowed them to tailor the resort experience for individual travellers, decide who to send brochures to, and optimise online experience based on their segment. None of this would have been possible without a link to the database.

A major UK insurer wanted to align their brand portfolio against distinct consumer personas. Hybrid Segmentation was part of a wider marketing effort that resulted in the client winning an IPA Effectiveness Gold Award, for returning a key brand to growth.

Even where your CRM might not be a key use case for it might not be the right time to tag to customers, for logistical, legal, or cultural reasons, attributing segments to your database is something that every brand should consider. A lot that can be learnt from customer data and how it's stored. Your surveys should be harmonised alongside your existing business processes – from simple things like matching product lists, customer touchpoints, or even how demographics are used.

Tease, don't hype

> **"Segmentation has the power to be genuinely transformative for businesses. As such, it's tempting to present the findings in a huge launch event. However, in our experience, it's much better to focus on bringing people with you throughout the process , slowly build anticipatio, and demand."**
>
> **Paul Carney**

One of the key factors to a successful segmentation is having buy-in from senior stakeholders. When mapping out your stakeholders it is important not only to think about who has the biggest influence over your project in terms of approval or blocking, but also who has the biggest interest in your project. These are the individuals and teams who may be directly impacted by the implementation of insight.

When gathering your key stakeholders its crucial to clearly communicate what you want to achieve and the rationale behind your vision. People may find change uncomfortable, but they will accept it (or at least be more willing to accept it) if they if they can see the logic behind it. This can be greatly enhanced if you can point out how their own lives/jobs may directly improve as a result.

Segmentation is usually the first step in larger programmes for new products or services. By understanding the priorities and questions different departments may have, it becomes easier to think about the data you'll need to collect and the outputs of your work. Engage with your stakeholders throughout the programme. Be clear about when you'll need their input and why. Reinforce that you are on a collective journey .

Best Practice - We strongly recommend having a point person within the business, for whom segmentation is a key part of their remit. We are starting to see job titles reflecting the importance of segmentation as a full-time, specialised insights role, similar to business intelligence, CX and innovation. This shifts the mindset away from segmentation being a defined project with fixed start & finish points, to more of a continuous, dynamic consumer understanding programme.

Tip 04.

Speak to the right people

> **"This seems like an easy thing to get right, when in reality it's an easy thing to get wrong."**
>
> **Dr. Leigh Morris**

When conducting segmentation programmes, there's often a trade-off between breadth of audience and depth of understanding. You might start with a simple premise: let's engage with consumers who have making purchased in our category or are likely to have been thinking about doing so.

On paper this sounds like a straight-forward idea, but it actually raises an important issue around engagement. Many consumers who buy products in your category might not give the matter much thought and have low engagement. No doubt these low engaged people contribute a decent share of value to your category. Does this mean you have to find ways in which to engage them and - depending on your category, will the squeeze be worth the juice?

There are many circumstances in which a segmentation should ignore this low-engaged customer.

Real-Life example

We've been working for several years with a global fashion retailer. In 2017 they worked with a global agency partner to carry out a segmentation programme based on consumer's needs and motivations in relation to fashion. The ultimate goal of the programme was to help with brand portfolio strategy, giving a clearer definition of target consumers for their different brands.

What the agency found was that there were a large amount of consumers who had little interest in fashion, people who buy clothes for practical reasons, to keep warm for work etc. These consumers were not seen as desirable and so amongst the many segments that were created, only two were used in the final framework. This accomplished the exact opposite of what the brand wanted as it meant all the brands were focused on a small subset of consumers.

We stepped up and delivered a style-based segmentation that is designed to help avoid this engagement issue through a combination of needs-based data and brand perception. We were able to accomplish this while excluding the low engaged consumers from the sample and now the client is happy and able to use their segmentation for actual brand portfolio management.

Sometimes there's no harm in including those consumers who have low engagement but typically they use up a large part of the sample, which means you' are wasting the sample because you're not going to form actions around them. This group is often ignored and, even worse, they actually constrain your framework, meaning less obvious dimensions that can actually differentiate you from competitors are missed by the segmentation algorithms.

Tip 05.

Segment on the right things

> "Brands are always asking us, what they should segment on."
>
> **Paul Carney**

There are a number of different factors that determine what you should segment on. We've already talked about the importance of considering the outcome at the start and some of the key elements that make a segmentation programme effective. Here are some fundamental principles to consider when deciding.

What dimensions truly impact consumer behaviour in the market?

Segmenting on demographics, sector or geography are easy to do and the data is readily available. But do they really motivate consumers to act differently? Do they genuinely add more to your consumer understanding than your competitors? Do they deliver sustained competitive advantage? We would argue that understanding consumers' needs, pain points or category-specific attitudes will provide much richer insights than things like life values or broad-brush cohorts like Millennials.

> "Demographic segments are easy for people to grasp, and yes, they're easy to buy media against. But if they don't help you optimise your marketing mix, then they have little use. And, of course, your competitors can apply exactly the same lens. So they're going to deliver no competitive advantage."
>
> **Dr. Leigh Morris**

Are consumer motivations pitched at the right level?

There's a quote by Finnish architect Eliel Saarinen, that says "Always design a thing by considering it in its next larger context – a chair in a room, a room in a house, a house in an environment, etc." Do the same thing with your segmentation. For example, a segmentation for a domestic appliance manufacturer would include attitudes to how people interact with and view their home; or a segmentation for a confectionery company would include understanding occasions in adjacent or competing categories. Make sure how you define your market and its context allows the segmentation, and therefore the company strategy, room to grow.

Take into account other market lenses

Apart from very specific situations, segmentations should try to complement existing ways of understanding consumers, rather than seeking to undermine or replace them. For example, if you are an insurance firm and you have just developed a product that is suitable for retirees, then no amount of fancy segmentation will stop you from targeting by age, which is fine. Add another layer of understanding onto this, another consumer lens, and you can tailor messaging, tonality and service benefits to specific consumer types within that demographic.

Less is More

As Einstein said "Everything should be as simple as possible, but no simpler." This applies to segmentations too. Although segmentation by definition seeks to simplify complex markets, we know that they also require an extra layer of understanding to end users.

So they should be as simple as possible – in execution, in communication, and in deployment.

Tip 06.

Get the best quality data (and analysis)

> **"Low differentiation, inconsistent responses and incomplete answers can all lead to poor segment solutions."**
>
> **Dr. Leigh Morris**

Good quality data is critical for segmentation programmes. Questionnaire design is critical. Ask balanced, useful, discriminating, sensible questions. Pilot the questionnaire with real people, in person. Make sure the questionnaire is as respondent friendly and as unambiguous as possible. Pay extra for back-translation of key questionnaire sections like needs and attitudes that are culturally consistent across the markets you are covering. Include a whole range of data quality checks.

As well as ensuring the quality and robustness of the data collected, you must also ensure a detailed analysis that will yield results.
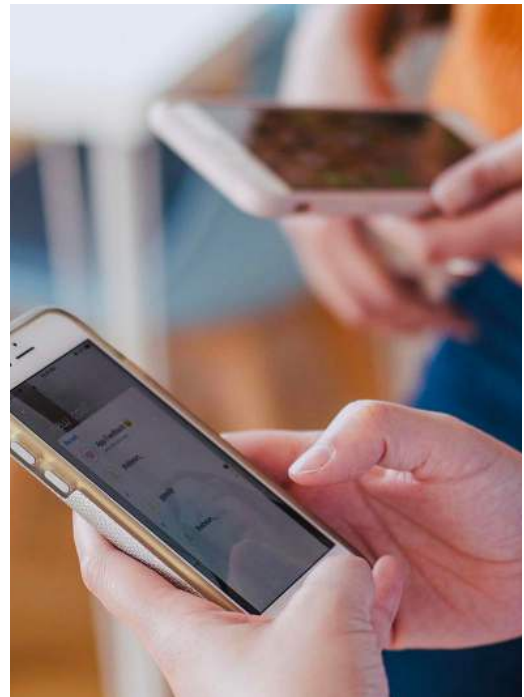
> **"Segmentation is a real specialism in the insight world, and we would advise that you tread with caution when selecting a partner in this area. Not only do we deliver for big brands but we often work through other agencies due to our expertise in this area."**
>
> **Dr. Leigh Morris**

Bonamy Finch runs about 100 segmentations a year using our own purpose-built software. We know which approaches are best suited to different situations, and which don't. We cut through all the data wrangling as quickly as possible, avoiding analytical dead-ends so we can focus on testing different hypotheses and tweaking different solutions.
We create outputs that are easy-to-use and automated, taking away all the heavy lifting from your team.
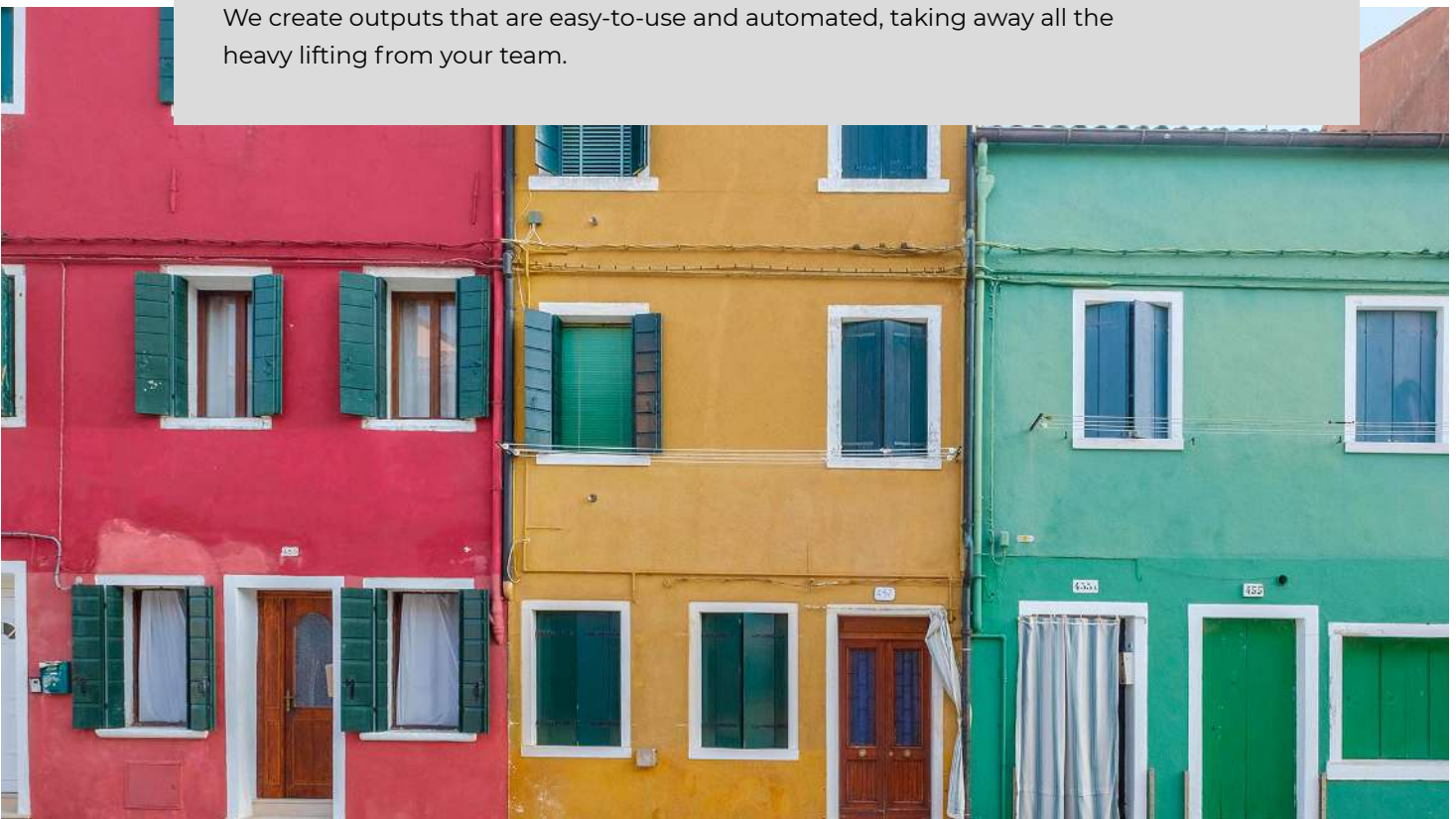
Squeeze your data

Segmentation studies typically involve large samples, and quite long surveys. This means they create an extremely rich data set that can be mined independently to the segmentation process. These simpler category-level insights are sometimes neglected or forgotten about amongst the excitement of new segments to play with. If there isn't a clear link between the data collected and internal needs, or resources in place to run and interpret this detailed analysis, then you'll be neglecting a huge source of competitive advantage.

We would encourage this dataset to be added into any existing data lakes (a repository of data stored in its natural/raw form) and in particular Usage and Attitude data should be brought out and made accessible to wider team members, through online dashboards, cross-tabbing tools, or via support contracts.

Real-Life Example

On one segmentation study we helped a client with over 90 separate data requests, almost none of which had anything to do with the segmentation itself. Our client mentioned in passing an internal project, to understand in more depth consumer's issues with the fit of their clothes.

We were reminded that we had a question in our segmentation data set on how easy people found it to find clothes that fit. Although this was only one question, we were then able to apply this as a lens over the whole dataset and create a short initial report on this key business priority. We certainly didn't answer all their questions, but it's provided a really good foundation and direction for that work stream.

One of the main things preventing brands from getting the full impact and value from their data, is internal resource or lack thereof. An Insight Director is usually already juggling many different projects and commitments. They don't have space in their day to review last year's questionnaire to decide what may be of use or to look at the data again. Segmentation framework shouldn't create more work, it should create sufficiency within your organisation. But analysis will always require time. This time is an additional cost often overlooked and is something that needs to be built into core business processes and programme roadmaps.

"I know this is controversial, but my belief is that our insight industry isn't backward looking enough! Huge amounts of primary research data - perhaps half of it – are forgotten about after a debrief presentation, and go completely unexplored. There is a massive amount of latent commercial potential in this data."

Dr. Leigh Morris

When presented with a business need which requires research, every insight professional should ask what data they already have that can get them some way towards an answer. If you've already got a CX tracker, brand tracker or segmentation data set then these are all great places to start.

Best Practice

If your resources are stretched and you anticipate it being an issue. Many agencies, such as ourselves, set up support contracts for the insight.

"There wasa multi-country segmentation we did over a decade ago. We actually ran over 90 different separate mini projects off the back of that one segmentation data set, almost none of which had anything to do with the segmentation itself. The vast majority was just digging into that data and using it over the next few years as a really, really valuable source of foundational category and brand knowledge."

Paul Carney

Tip 08.

Have a deployment plan & budget

When we talk about socialising a segmentation, we are talking about the roll-out of insight throughout the organisation at all levels. Let's be clear that rolling out a segmentation is by no means the end of the programme. We talked earlier about the importance of teasing information rather than having a big blow-out event. Continuous communication is key in ensuring the long-term strategic value of segmentation.

Recognise that different audiences need different levels of detail, and different levels of understanding. Don't make the end-users lives any harder than necessary in order to absorb the information. Use language already used within the business, to bring people along.

Real-Life Example

We recently worked with a national Insurer on their segmentation programme.

When we first introduced the segments, we asked the team using Miro (a virtual whiteboarding app) to link the segments to existing propositions or products currently in development. Then we challenged the team to look at each proposition through the lens of the consumer segment. This opened their eyes to how to communicate the proposition better, using consumer language, and also how the same proposition can be applied to different business areas.

After that, we gave the team the opportunity to develop new innovations using the segmentation materials. Had we done this step first (as many others often do) we would probably have been met with silence. Instead, we had a whole virtual whiteboard full of comments and new ideas.

The way that the segments are presented should focus on the needs they are looking for brands to fulfil, and the commercial potential each segment has. We work with our sister company, STRAT7 CrowdDNA, and their design team, to create amazing videos using ethnos or even found footage on the internet, to bring the segments to life in ways that a PowerPoint presentation can only dream of. While there is still a need for detailed Pen Portraits of each segment these should rarely (if ever) be presented and instead used as workshop materials to help breakout groups bring their targets to life.

With your segments rolled out across the business, you must keep providing the teams with fresh news on the segments. Identify quick wins where the segments have been used (product launches, CRM campaigns, an uplift in ROI) and publicise these successes internally to generate momentum and appetite. It's the quickest way to generate adoption.

Segments tend to become caricatures of themselves over time, so it's important to refresh people's understanding periodically, by adding and layering insights. People often say that a segmentation has a shelf life of 3-5 years, but that doesn't mean you have a single dataset that gradually loses relevance over time. Ideally, you should regularly updating your understanding of the segments throughout that time, in a whole range of ways.
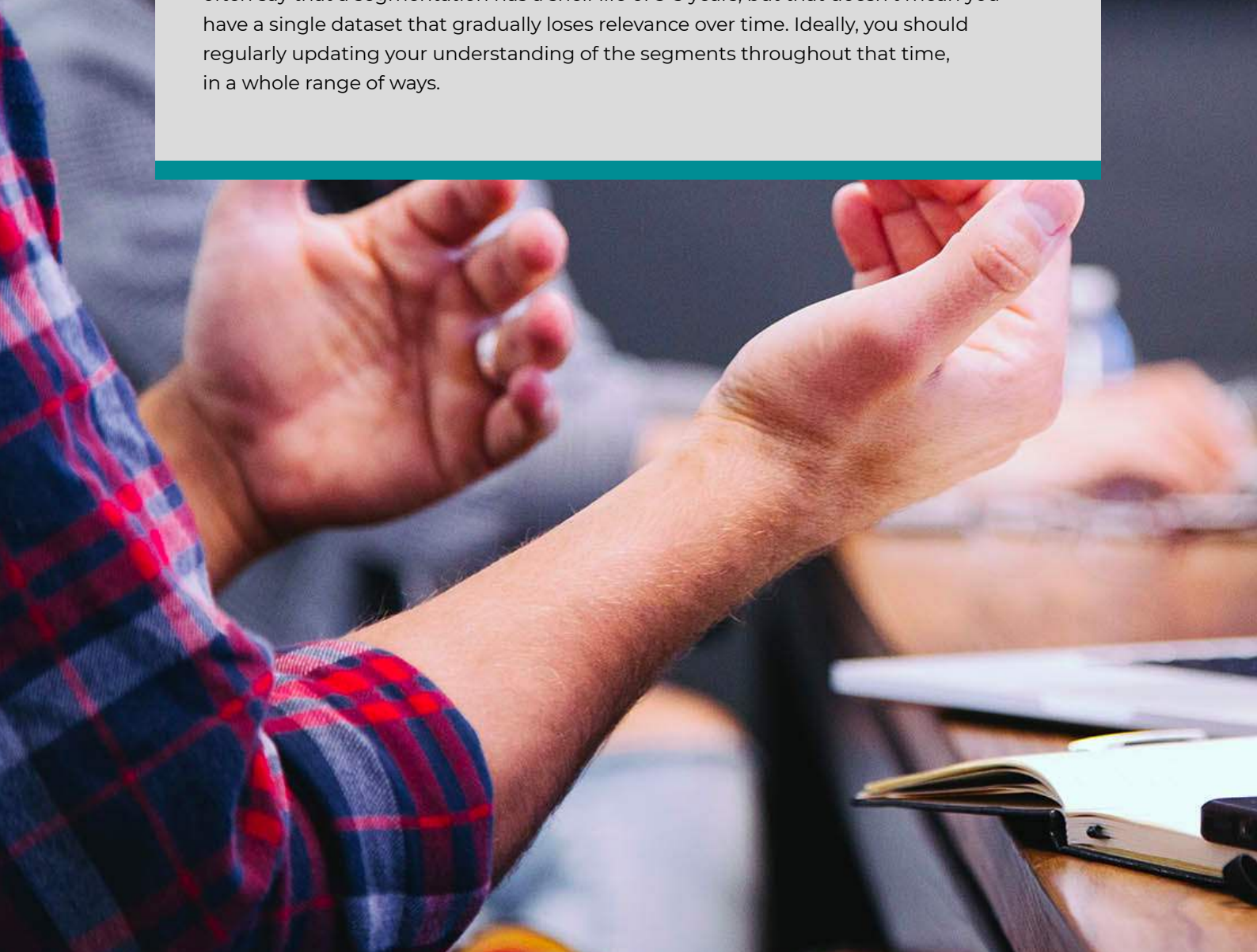
Tip 09.

Make data accessible

> **"Empowering data literate people to be able to run their own analysis is really important."**
>
> **Dr. Leigh Morris**

In order to facilitate the ongoing use of segmentation, it is key to ensure that the materials produced are freely accessible. Make sure there's a central accessible location of segmentation materials and that they are subject to access rights at the appropriate level. This should include standard fixed tables as well as PowerPoint profiling so it's making sure you've got multiple ways into the data. Make sure you have the raw data in an industry standard format like SPSS.

"I'm amazed by how many clients don't own their SPSSS data and have to go back to the agency to get it, which could take six or eight weeks. SPSS can be exported into lots of applications, so it's always going to come in handy. It doesn't matter if you use it yourself or not. Other agencies will do and it can fit in to iTools." Dr. Leigh Morris

Integrate the data set into any existing data lakes and BI tools that you have. This is a fantastic way to get the data around the organisation to increase impact. When these aren't available or suitable, there's purpose built online dashboarding solutions that companies like ours now offer.

Tip 10.

Don't forget algorithms

> "99 times out of 100, segments live on in other data sources."
>
> **Dr. Leigh Morris**

It's rare that a segmentation sits as a single, static information source. Brand & CX trackers, proposition tests, customer databases all benefit from having a segmentation lens applied to them. Consider where the segmentation will live before confirming the segment solution. Need a very short algorithm to be added to a CX touchpoint survey? Need something that a sales force can pick up and use in their daily calls? This info might well have a fundamental effect on the segmentation we create.

Separately, tagging customer databases with segments using the Hybrid Segmentation approach needs a thorough understanding of the database before writing the survey or running any analysis. High-quality attribution requires large customer samples to take advantage of the most sophisticated Machine Learning algorithms.

Finally, algorithms themselves are not static entities. Most customer databases have gaps, and many companies are constantly upgrading systems or processes to create a better single customer view. We should look for ways to improve algorithms as the data quality and access improves too. Even outside of customer databases, we can fine-tune individual algorithms to make them work better across different markets or methodologies, or over time. If an algorithm isn't working for whatever reason, there's a good chance we can fix the problem and re-deploy.

Tip 11.

Have answers for skeptics

Despite the fact that segmentation is widely adopted and has a long history of ROI across industry, it is not without its detractors. There will undoubtedly be sceptics within your organisation so it's worth having a well-articulated philosophy, a water-tight rationale and a well-defined set of use cases.

One of the most frequent questions we are still asked today is "If I target this group, does it mean I alienate everyone else?" The answer is of course no. A company we have worked with on segmentation for a decade found that 75% of their customers came from segments other that the one they were targeting. This does not mean segmentation isn't working! Instead, it means that there are plenty of consumers outside of your core target audience that still find your brand relevant.

Differentiating your offer by targeting and positioning against a particular segment does not mean you become less relevant to everybody else. It means you become more relevant to a clearly defined, valuable consumer group. This wider audience may not have a perfect fit with your brand's strategic direction, but there are still dozens of ways to attract them to purchase.

A crucial step when targeting brands against segments is to understand the subset of the market your brand is relevant for, even if they are not your primary target consumer. It's important to consider both the core target, and how any activity designed for this group will impact the wider market too.

Experts in Segmentation

Contact the team at STRAT7 Bonamy Finch today and see how we can help you:

Survey Segmentation

We have delivered segmentations in over 50 markets across all major categories and, at all levels of complexity. Our Market Tier Definition Approach identifies simple, fundamental consumer groups based on category involvement, and our rich multi-model segmentations identify white spaces in complex repertoire markets.

As with all STRAT7 Bonamy Finch approaches, our segmentations are analytics-based and built to drive business growth. Our team of analysts uses proprietary software to iterate through multiple solutions – helping you make the best business decision.

Hybrid Segmentation

Strategic segmentation often requires our clients to look beyond their current user base, but with the growing importance of database marketing and personalised communications there is an increasing need to identify and target existing customers.

We combine customer data, survey data and third-party marketing data to create a single view of the consumer that results in the right business decisions being taken to both acquire and retain customers.

Database Segmentation

Internal database segmentations too often stay that way – used only by the people who created them. We seek to democratise customer data, enabling Recency, Frequency, Monetary (RFM) models to work in tandem with external data sources, propensity models and lifetime value.

We work directly and closely with CRM or database teams, often sharing analysis tasks to make sure our segmentations work first time and the segments are deployed rapidly. Our analysis can help rationalise existing paid-for agreements, with significant potential savings.

Activation

Developing a segmentation framework is only the start of the journey. Activation is where the work really begins. Embedding the segmentation beyond marketing or insight teams to reach its real end users is the only way to drive business growth.

Our suite of activation tools – including facilitated workshops, tailor-made recruitment algorithms, physical collateral, beautifully designed handbooks and talking head videos – ensures your segments become part of the organisation's language and culture, and the foundation for better business decisions.
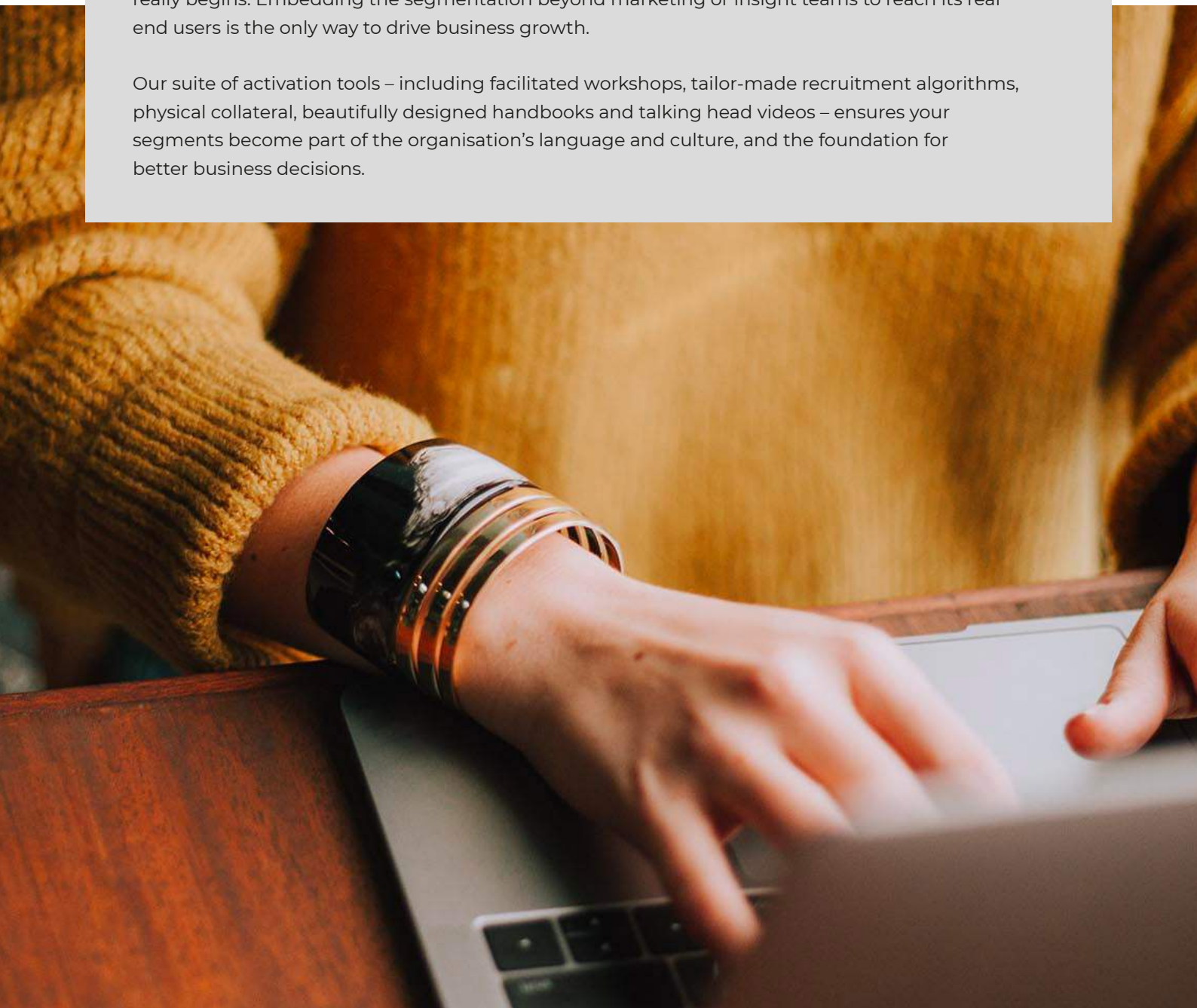
About STRAT7

We are part of the STRAT7 Group, providing guidance that delivers genuine business impact to some of the world's leading brands. The heart of STRAT7 is the belief that connected commercially relevant datasets bring sustained competitive advantage. Our partner companies include:

STRAT7 ResearchBods who create Insight Platforms and Communities for customer-centric growth.

STRAT7 Crowd DNA who deliver culturally charged commercial advantage through an understanding of people, culture and trends.

STRAT7+ who create and deploy customer-centric strategies to drive business growth and transformation.

STRAT7

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