

# SEGMENTATION

## FOR THE MODERN MARKETER



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Segmenting people into groups based on something they have in common has been around since the 16th Century - Yeomans, Knights or Labourers were audiences before they knew it. The more familiar language of Social Class is over 50 years old, but we can still hear consumers being labelled as “ABC1s”.

10 years ago, it looked like segmentation was going to be assigned to the bin of history itself. Technology was seeing a much-documented explosion in the volumes, speed and variety of data. For a time, everyone was trying to reach a stage of hyper-personalisation. Driving this was the customer’s own data but also a huge marketplace of third-party data that was collected, shared, modelled and sold in multiple places.

The one thing the industry forgot was to take the customers (and the politicians) with us. Too much was done with customer’s data with a slight of hand and no transparency – data was used to do things “to” customers – not “with or for” them. So GDPR came along and ePrivacy is fast behind.

## THE RULES HAVE CHANGED

We are now living with fast paced consumer change, the proliferation of customer data and a more consumer focused legislative environment. All of this is challenging the marketer when it comes to using data to understand existing and future customers. We can return to some of the old ways (can I buy Knights on Facebook?) or we can look to see what the advances in data science and technology can offer.

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*Market segmentation involves viewing a heterogeneous market as a number of smaller homogeneous markets in response to differing preferences, attributable to the desires of consumers for more precise satisfaction of their varying wants.*  
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Source: Wendell R Smith, Journal of Marketing

## WHY SHOULD A BUSINESS CONSIDER SEGMENTATION?

Despite the roots of segmentation dating back to the 1950s, at its core the concept remains as strong today as it was back then. Segmentation is a powerful tool for today’s marketer for three key reasons:

1. Customer strategy is linked at the macro and micro level – from Board plans to personalisation.
2. It turns the customer into a common business language to connect every decision-maker.
3. It allows us to understand the past, current and future behaviour of customers to give us more certainty in a volatile world.

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## THE POWER OF PERSONALISATION

Recent research by eConsultancy reveals that customer centric businesses are 60% more profitable than their operationally-efficient or product-focused counterparts. When asked what constitutes customer centricity, a study by Evergage shows that 96% of marketers believe personalisation to be key. In the same report 86% of marketers said they have realised a measurable lift in business results as a result of personalisation. Clearly the opportunity that personalisation affords cannot be ignored.

*In the US retail market alone Accenture predicts that by 2021 integration of personalisation into retail business strategy will result in \$3 trillion worth of sales.*

Ultimately personalised experiences are more engaging, entertaining, memorable and inspiring for audiences, which drives satisfaction, sales and loyalty as demonstrated by Netflix and Amazon's recommendation engines.

*35% of Amazon's revenue is now generated by its recommendation engine and 75% of Netflix users watch films and TV series suggested to them based on what they've already watched.*

Source: McKinsey

But personalisation cannot exist in isolation. The challenge is to link micro targeted actions (the last click, the abandoned basket, the coupon redemption in-store) to the macro marketing objectives and customer experience the business wants to provide. Segmentation is the connector that links these worlds together.

## SEGMENTATION AS A LANGUAGE

The second reason that segmentation remains a powerful marketing tool is its ability to bring an organisation together by inspiring a common language about the customer. Tesco's success starting with Clubcard in the 1990s came from the common language. Every decision-maker, in stores, marketing, merchandising, buying and around the Board table could talk about the customer in the same unique way and connect their actions and plans. This means that the customer is truly positioned at the heart of the business and becomes entrenched in the organisation's DNA. Any decision that is subsequently made can be framed around the customer. From price sensitivity, new store formats, service initiatives, channel usage, advocacy to coupon redemption, Tesco understood them all in relation to how they affected different customer segments.

To become a common language segmentation needs continuity and to be embedded in organisation metrics and rewards. It takes time for people to become familiar with a concept and even longer for it to become established.

## INSIGHTFUL PREDICTION

The final business case for segmentation lies in its ability to drive insight and predictive models. It is often said that the only constant is change. We know from analysis of Brexit votes that overall immigration levels were not the best predictor of voting patterns - it was the rate of recent change of immigration levels in certain areas (Source: Webber Phillips).

We all know customers change over time and we change too - jobs, relationships, house and even opinions. Despite this, change is rarely used as a variable in segmentation models, too often they are a static set of rules so that segments are only measured in aggregate. The power of modern segmentation models (using techniques such as Deep Learning) allows you to measure your current segments but also to continually look at new and different segment rules and data sources to ensure your current view of customers is not hiding great victories - and also big losses.

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Building predictive models to show where customers are heading in the future is one of the most powerful opportunities provided by modern data science. The challenge in the High Street is well known today but armed with knowledge on which customer segments are the most loyal, where the untapped potential exists, and which segments will move to the competition is hugely powerful. Then it is possible to look at the impact on the P&L, strategy, brand, and at a store and property portfolio level. There are stores around the country where the nature of the locality and the strength of the brand mean continued business success, but there are others where the environment is so fast changing that nothing can be taken for granted. Consequently, if you aren't looking at where customers and areas are heading, then the future is a dangerous place for traditional retail.

## WHERE ARE THE CHALLENGES AND OPPORTUNITIES?

So now we know why segmentation remains an important tool in the modern marketer's armoury, however there are several key challenges that need to be considered in order to make segmentation even more effective. Over the past few months we have spoken at length to a number of marketers to diagnose the issues they face when it comes to effective segmentation. All of them stem from the new marketing realities - the proliferation of data, the changing customer or the new legislative environment. Our common challenge is to turn them into marketing opportunities.

### Four key themes:

#### 1. Be clear on your objectives

One of the most common issues is the use of segmentation for segmentations sake. Without a clear objective a segmentation model is floundering in the dark, despite the seemingly endless patterns of data and insight it produces.

The best approach is to start by defining exactly what is it that the business wants to achieve. For example, to improve customer loyalty, increase market penetration or move into a new customer segment. Once this is established it is easier to determine what the business can do to change

behaviour and then segmentation can be applied to the business problem. It is here that the data science team can start determining the required data sources, layering up the segmentation hierarchy to create a multi-tiered, three-dimensional model that can be deeply interrogated to find insightful patterns that will ultimately lead to enhanced business performance.

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**85%** of 30,000 new product launches failed because of poor market segmentation.

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Source: Harvard Business Review

#### 2. Look at data through a new lens

The OECD has named big data as one of the most important developments in the 21st Century but the temptation is to load every piece of data possible into a model and then create a series of complex algorithms in order to predict pretty much anything. All this will achieve is a complex system too big for human comprehension and of limited use. Remember AI that cannot be explained is incredibly dangerous to an organisation's reputation - if you don't know why your models are producing a certain recommendation then be very careful.

Today the internet has created a tsunami of data which changes on a second-by-second basis. People, on average, only move house once every five years, but the number of likes they make on Facebook can run into the hundreds per day. Modern segmentation systems must be able to cope with these disparate data sets. The problem we have is that as a result, segmentation is becoming increasingly mechanical. And suddenly a marketing concept which was established to generate insight about people becomes all about clicks, algorithms and cookies. It is therefore crucial that dynamic, fast moving data (largely digital) is used to complement more static, slow-changing data (such as geography, housing data and demographics). Most households in the UK are spending 30% plus of their income on their home - it is useful insight to put that type of data and what it tells alongside the clicks searching for a pair of shoes or a new TV.

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## Every minute...

More than **3.7 billion** people use the internet

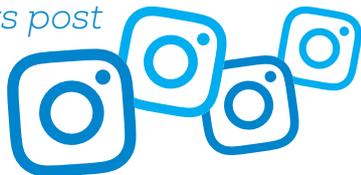
Google processes **2.4 million** searches



Snapchat users share **527,760** photos

Instagram users post

**46,740** photos



**510,000** comments posted are posted on Facebook & **293,000** statuses are updated

**156 million** emails are sent

**600** new page edits to Wikipedia

**56 million** text messages are sent



By combining all these data sources, it is possible to build up a picture of the types of issues that excite customers, what tone of voice to use and when they should be targeted, all of which engender stronger, more lasting, permission-based relationships.

### 3. Leverage the power of data science

Many organisations are running with segmentations that take months to build, using limited data with static rules and based on simple ways of looking at data patterns. Saying that, the data industry is little better. Many of the market segmentations sold today (such as geo-demographics) have 1970s and 1980s data methodologies at their core.

The good news is that as a result of increased computer power, sophisticated technology and ever more predictive analytics we can build segmentations that bring many different types of data together from dynamic data such as an individual's last interaction with a brand; their device of choice; relevant buying history; credit score; social media activity; the need or challenge that the brand in question can remedy, and much, much more.

### 4. Remember what data you are missing

Segmenting your existing data and your existing customers is extremely powerful, but in a world of GDPR it is no longer permissible to process a customer's data on an individual level without explicit permission to do so. We have to recognise we will have plenty of "missing" data. On top of this E-Privacy is likely to cut a large swathe of digital data, and potentially current technology approaches, out of the marketer's toolkit.

The large corporates dominating many markets today do so because of their broad and deep understanding of customer behaviour. The challenge is to equip yourself with similar capability in terms of both data and data science. Understanding current and future customers is key to success – one approach is to build incredibly small micro or nano segments across the market to link customers to their context and to future customers. This approach of working with data for "crowds" of customers is the new approach for segmentation in this increasing legislative environment.

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## WHERE NEXT?

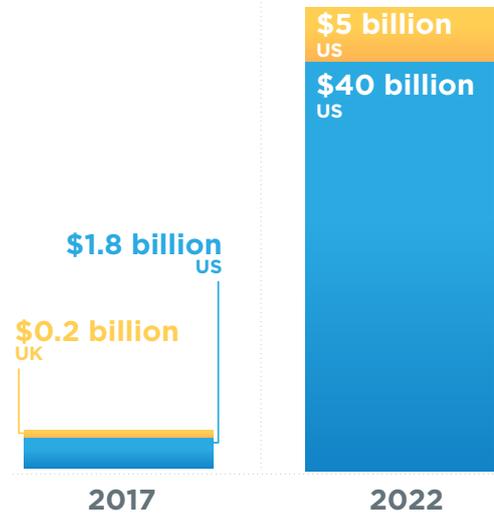
It is important that segmentation keeps up with the customers it seeks to decode. Staying abreast of new trends and new data is critical and taking into consideration changes in consumer behaviour such as IoT and the rise of voice search. Virtual assistants are proving to be as disruptive to consumer behaviour as the introduction of the Internet itself.

**50%** of all searches will be voice searches within 2 years and 30% of these will be used without a screen.

Source: Comscore

Through voice search emotions will become data. It will be possible to determine the frame of mind of the person searching the internet - are they angry, happy, frustrated or excited? Voice data will provide marketers with a richer understanding of the customer and this in turn, when added to our data stack, will enhance the way we communicate with consumers meaning more relevance and greater engagement levels.

## Voice Commerce Sales 2017, 2022 in US & UK



Source: OC&C 2018

Many modern marketers may have been tempted to write-off segmentation as an outdated concept that is no longer fit for purpose due to the new marketing realities. However, through the course of this whitepaper we hope to have put forward a compelling business case for segmentation, showing just how crucial it can be for achieving competitive advantage in this tough business climate.

## ABOUT THE AUTHOR:



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Simon is a founder and the CEO of Outra. He was previously Global CEO of dunnhumby, leading major growth initiatives including helping establish Tesco Clubcard.

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# ABOUT OUTRA

Outra is a customer data science business that helps drive performance.

We unify and refine large scale unstructured and structured data sets from multiple data source at speed. We apply machine learning and other data models to analyse and segment your customers to build insights to understand why they behave as they do and what motivates them to act.

Outra has developed Quanta, a new approach to segmentation using the latest data science techniques. We believe that more accurate and predictive segmentations can now be created at lower cost and greater speed to align to business objectives.

