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is generally recognized as the originator of geodemographic classification, having been involved while working for Experian and CACI in the development of both Mosaic and Acorn. Since taking up a visiting professorship at Kings College London, he has become increasingly interested in the geography of naming practices and how government and commercial organizations can infer people's origin from their names.

Opinion Piece

In which contexts do different market segmentation strategies work best?

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Abstract

Segmentation is a term that is found in every textbook and every course on marketing; a number of articles have been devoted to it in learned journals. It is therefore a matter of surprise that nowhere in this mass of material has the author been able to find even a glimmer of recognition that the very concept of segmentation itself requires to be segmented: there are many ways of segmenting an audience, and some of them are better suited to some audiences — and some projects — than to others. This paper suggests the creation of a two-dimensional grid, setting the principal different segmentation techniques on one axis against, on the other axis, the commonest circumstances (of industry sector and consumer life cycle) in which these techniques are applied. Examples are given, of different techniques and varying circumstances, together with suggestions on the implications of each. Suggestions are made of the possible advantages for various parties of some rather clearer thinking on the issues raised. *Journal of Direct, Data and Digital Marketing Practice* (2011) **12**, 310–314. doi:10.1057/dddmp.2011.6

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Practicality

Segmenting segmentation techniques

Bertrand Russell is said to have observed that there is nothing more practical than a good idea, to which one might add the rider that there is nothing less practical than a good idea taken out of context and then applied in an inappropriate environment.

Consumer segmentation is a good example of a field where intelligent, innovative and potentially successful techniques are often used with insufficient consideration of the contexts in which they were successfully pioneered. Such disregard at best wastes time and effort, at worst results in serious loss of business opportunity, as well as damaging the reputation of the techniques themselves.

It is a curious paradox that an industry that should lay such emphasis on the importance of segmentation should be so backward in applying segmentation to the contexts in which different segmentation systems are themselves most likely to be productive.

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**Practice among
journal submissions**

Evidence of this assertion is based on a decade of reviewing submissions for publication, many for the journal you are currently reading. Not one case study or description of an advanced segmentation method has included any reference of the types of organization, whether by size, industry sector or stage in the customer life cycle, for which the practices described by the paper are considered suitable. Marketing textbooks are no better. However excellent their description of segmentation techniques, they routinely fail to advise their readers of the contexts in which different segmentation strategies work best.

In each case, a reader could be forgiven for imagining that the segmentation 'market' is analogous to the market for consumer electronics, where the more recent the technology the better it performs, or that as with high street fashion clothing, choice of product is a matter of personal taste or the brand values of the supplier.

Two dimensional grid

To address this problem, it seems to me that marketers would find it helpful to conceive a two-dimensional grid, where one axis represents the principal techniques used in consumer segmentation, the other the most common circumstances in which segmentation is applied, reflecting differences both in industry sector and in stage in the customer life cycle. The resultant cells would be populated according to the appropriateness of each technique in each type of circumstance.

The first axis of such a matrix is relatively easy to populate. It would contain, among others,

**Forms of segmentation
vs**

- (a) segmentation based on research questionnaires covering consumers' attitudes, values and psychographic orientation;
- (b) segmentation on the basis of simple demographics such as gender, age, household composition, social grade and level of education;
- (c) the use of pooled information, for instance where lenders or insurers share information on debts and claims;
- (d) classifications based on elements of consumers' address records, principally those that classify people by the types of neighbours they live among;
- (e) segmentation based on events;
- (f) segmentation based on recent transaction history, consolidated into measures such as recency, frequency and monetary value and often expressed in terms of a prediction of lifetime value.

The criteria that should populate the second axis of this matrix are less self-evident. Below, I list my own set of personal preferences. These are separated according to whether they relate to the product category, product or brand or to the characteristics of the relationship with particular groups of customer:

Criteria relating to the product category, the product or the brand:

**Contexts in which
segmentation is
applied**

- (1) Does the brand operate in a market that delivers functional or emotional benefits?
- (2) Is the decision to purchase the brand socially influenced?

- (3) At any one time, does the consumer purchase exclusively from one supplier within the product category?
- (4) Does setting up and then maintaining a new customer account incur significant costs?
- (5) Is there the potential for a serious loss from a high-risk customer?
- (6) Are purchases of small value and frequent, or high value and occasional?

Criteria relating to the nature and stage of the customer relationship:

- (7) Does the segmentation need to discriminate between competing brands in the market or between different segments of the existing customer base?
- (8) Where segmentation is applied to existing customers, is the objective to segment by the value and composition of sales or by costs of achieving this level of sales?
- (9) Where the segmentation is applied to existing customers, is the objective of segmentation to maximize sales or to minimize defection?

How then would these different considerations relate to the choice of segmentation strategy? Here are a number of propositions that seek to link the two.

It is for brands (such as Burberry) that deliver emotional rather than functional benefits that segmentation systems based on attitudinal data collected in research surveys are likely to be most effective. For functional brands and product categories (such as Legal and General), demographics are a better indicator of need and hence purchase.

Brands that deliver emotional benefits are often, but by no means always, the ones that are also relatively more likely to be the subject of social discussion. Product categories that are the subject of discussion with friends and neighbours (such as political parties) are more suited to segmentations based on the use of social media or segmentations based on neighbourhood characteristics rather than those based on transaction history and person demographics.

Marketers of products whose use is less subjected to social discussion (such as Kleenex, Unilever, DirectLine) are arguably more likely to make use of simple demographic measures and, where they have it, previous purchase history.

The concept of 'share of wallet' describes situations where a consumer uses more than one brand within a product category. Energy supply, mortgages, car insurance and in some circumstances major grocery purchase are examples of sectors where a brand will typically have all or none of a consumer's spend at any one time. By contrast, it is rare for a consumer to use only one restaurant chain or airline or to possess only one credit card. In this way, we can discriminate businesses that at any one time act as sole suppliers to their clients within a product category as against those that share their wallets.

Relating technique to context

Share of wallet

Brands operating as sole suppliers focus attention to a greater extent on customer retention, for which purpose it is useful to segment customers on the basis of recent events such as disputes, account queries, examples of poor service. Shared wallet contexts are ones where more effective segmentation is likely to result from a combination of lifetime value and geodemographics. In these contexts, suppliers will want to target for sales development customers who live in neighbourhoods that suggest high product category potential, but whose previous transaction history indicates low current profitability. Here, the objective is to increase share of wallet. Existing high-performing customers living in neighbourhoods suggesting low potential for the product category are likely to be already delivering a high share of wallet within the category. These are more natural targets for loyalty rewards.

Dynamics of profitability

Product categories vary in terms of the dynamics of profitability. To transact with a new customer, a lender will incur heavy costs for setting up a new account. In such a product category, the overhead of maintaining accounts may also be significant. As a result, 80 per cent or even 100 per cent of profits may be delivered by 30 per cent or even as few as 10 per cent of customers. By contrast, a football club supporter generates profit proportionate to the number of games attended – a supporter contributes to profits even by attending a single match. Whereas the objective of segmentation in non-account-based products and services will be sales development, an important objective of segmentation in account-based products will be to enable pricing and terms to be adjusted so as to reduce the acquisition of potentially loss-generating customers.

Risk

This objective of segmentation is even more important among services that sustain risks, such as insurance and lending, which is why shared industry databases, external databases such as names of people with county court judgements and credit scoring systems are likely to play a key role in segmentation systems for prospecting new customers, as well as customer development and retention.

Recency, frequency, monetary value

Concepts of lifetime value based on the recency, frequency and monetary value of customer transactions are most appropriate for organizations, such as mobile phone operators, credit card operators and supermarkets, where loyal customers sustain frequent, low-value transactions rich in information content. At the other extreme, house builders, car distributors and installers of central heating systems are likely to rely on demographics or geodemographics as a basis for segmentation.

While these considerations are likely to be among the most productive criteria for finding the segmentation strategy that will prove most effective for the marketer at the operation or brand level, it is self-evident that more than one segmentation approach will be appropriate according to the nature and stage of the relationship with the customer.

Thus, the segmentation that is most effective in discriminating within the market, and which may therefore be appropriate for positioning the brand and for its broadcast and even web-based advertising, may well be unusable in customer-facing environments. The types of information

Different segmentation across the customer cycle

that can be collected against samples of consumers from research questionnaire are necessarily different from the information, such as geodemographics, that can be known against the universe of prospects, enquirers and applicants and from the information known from the account number of existing customers, such as transaction details. Account-based organizations must therefore apply different segmentation strategies at different stages of the customer life cycle. At an even more fundamental level, the criteria that best predict potential users of a brand within a product category will be very different from those that predict users of the brand who will prove most profitable to serve.

Segmentation for channel switching

Similarly, for organizations operating in a multi-channel environment, an important requirement of segmentation is to target existing customers who should be persuaded to migrate to electronic channels, either because these incur lower account management costs or because they are more likely to suit the lifestyle needs of customers. Demographic and geodemographic data can be combined to create composite scorecards, which generally prove very effective in segmenting customers for this purpose. By contrast, such data together with transaction records may identify some customers, currently transacting remotely, with whom the supplier may want to initiate a more expensive channel of communication on account of their potential for additional sales.

Accelerating identification of most appropriate segmentation strategy

An opinion piece of this nature can do no more than illustrate the usefulness of a limited number of criteria for identifying appropriate segmentation strategies for different business contexts. Fortunately, most organizations, through trial and error rather than theory, arrive pragmatically at a good understanding of the segmentation systems, which deliver best value for their needs. However, a better understanding of these relationships would significantly improve the relevance of current academic research on marketing segmentation; it would aid marketing education; it might improve the effectiveness of sales representatives for different proprietary segmentation systems; it might also accelerate the time marketing departments take to find or develop segmentation strategies when they diversify into new product categories or new communications channels.