Editorial

Journal of Targeting, Measurement and Analysis for Marketing (2010) **18**, 77–78. doi:10.1057/jt.2010.9

Writing in this Journal five years ago, Merlin Stone and Melody Badgett reviewed an IBM study into the ways in which companies actually used traditional methods of customer segmentation.¹ Seventy-seven per cent of firms saw segmentation as ‘valuable’ or ‘integral’ to their go-to-market strategy. Yet 53 per cent of companies reviewed their customer segmentation only annually, less frequently or not at all. And 36 per cent said that their biggest segmentation challenge was measuring the success of their segmentation efforts, while similar proportions were challenged by identifying inter-segment migration and determining appropriate frequency of segmentation strategy reviews.

If we are to believe contemporary commentators, so-called static segmentation is dead: killed not least by the tendency of the consumer or customer to outpace the capabilities of the firm for regular market research, and largely thanks to the Internet. Badgett and Stone sought to use operational CRM data to demonstrate a dynamic link to segmentation. But more frequently conducted segmentation exercises, perhaps linked to CRM data, have always proved expensive and have not always tended to yield easy additional insights, especially if not linked to clear objectives. In particular: ‘ongoing data collection, plus the resources required for sophisticated analysis, can put CRM out of the reach of small and mid-sized companies’.²

Sometimes even the largest companies have had difficulties. US electrical retailer Best Buy’s ‘customer centricity’ was a live market segmentation strategy designed to help the firm re-engage with its customer base. Customer-centric companies ‘see themselves not as a group of products, services, territories or functions, but as a portfolio of customers’.³ Five segments were designed based upon demographics, behaviour

and attitudes. The difference here was the segments would not be simply ‘background variables’, but that stores would be redesigned to focus on one or two of the segments and their needs, and updated to reflect changing customer needs. Evidence suggests that this step has not proved entirely successful and the segmentation is now more generally reserved for internal communications and training purposes. But perhaps we are over-complicating matters. The conventional example cited of dynamic segmentation is, of course, that of UK supermarket retailer Tesco. Yet Tesco found that just six segments sufficed to provide effective behavioural segmentation of its 15 million Clubcard database: price-sensitive, traditional, mainstream, healthy, convenience and Finest (premium) customers. The sophistication in Tesco’s marketing lies in the delivery of directly targeted offers to sets of shoppers based on their past behaviour, alongside innovative mining of the data to stimulate new product and service development.

A few years later the idea of self segmentation emerged, driven by online social and community practice and the dynamic interests of consumers. Writing in 2007, Matthias Huehn suggested that consumers should be allowed to segment themselves. ‘Only the customers know precisely which concrete building blocks and value activities they would like to be part of the value proposition’, he suggested. ‘What is more, often consumers know which exact mix of attributes they want to purchase only at the moment when they make the purchase’. This sounded a superficially exciting prospect. Of course, it depends on the assumption that consumers do, indeed, know what they want and that we are able to capture that ‘moment of truth’ (to misuse another metaphor). In the past, such suggestions would have been disparaged: Lusch’s

history of marketing thought reminds us that it was the 'go-to-market' philosophy that treated the customer as exogenous to the market and that, according to a new service-dominant logic, it is the notion of marketing with the customer that is more in vogue.⁴

In such a world, the co-creation of value for both firm and customer is at the heart of what marketing now does. And therefore self-segmentation becomes a more relevant consideration. How does this work in practice? The easiest examples to see are, naturally, online. Moments of truth (whether translated into actual purchases or not) are consistently captured by online retailers. For a number of years, an individual customer's buying patterns (or more realistically their household's buying patterns) have been played back by companies like Amazon with recommendations based on past purchases. Subsequently, the purchases of others who also bought the product the customer was considering, could be included in the recommendation mix, to the point where DVD rental and video streaming firm Netflix started to offer an annual prize to the programmers best able to improve the recommendation algorithm used by the company's collaborative filtering software. Improvements sought to capture more effectively not just the preferences of similar others, but the kind of serendipity which leads shoppers to make choices outside their comfort zones. The contest was cancelled in 2010 because of privacy concerns over the accessibility of

customer rental data. More enticing still (but arguably harder to access) are self-defining communities of interest established by consumers themselves, without recourse to the resources of the firm. Online brand communities, defined as a 'structured set of social relations among admirers of a brand'⁵ can be sustained through a consciousness of kind, observance of rites and rituals, and a sense of moral obligation to other community members. These communities themselves develop segments of their own: early adopters and enthusiasts, observers and followers.

However, despite a major proliferation of routes into self segmentation, the major question which Stone and Badgett discovered firms were asking about static segmentation in 2005 is still present: what is the return on investment and how do we measure the success of our efforts?

REFERENCES

- 1 Badgett, M. and Stone, M. (2005) Multidimensional segmentation at work: Driving an operational model that integrates customer segmentation with customer management. *Journal of Targeting, Measurement & Analysis for Marketing* 13(2): 103–121.
- 2 Wredon, N. (2009) The promise of self segmentation. *strategy+business*, 5 October.
- 3 Customer Insight Group Inc. (2007) Customer centricity: Beyond the theory, http://www.customerinsightgroup.com/white_papers/whitepaper_customer_centric.pdf.
- 4 Lusch, R.F. (2007) Marketing's evolving identity: Defining our future. *Journal of Public Policy & Marketing* 26(2): 261–268.
- 5 Muniz Jr, A.M. and O'Guinn, T.C. (2001) Brand community. *Journal of Consumer Research* 27(4): 412–432.

Jonathan Reynolds