# "How to win – segment"

BY ROBERT C. SHAY

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Competitors can take your customers by out maneuvering you with customer segmentation and superior marketing. This brief article will describe how customer segmentation can keep your company and marketing team on the cutting edge and help prevent losing market share to your competitors.

Why customer segmentation is important

Customer segmentation is a way to separate customers (and prospective customers) into groups that have similar needs. The operative phrase is *similar needs*. While a large group of customers may share several needs there may be segments of customers within that larger group that have unique needs.

To illustrate, let's say that your current customers are very happy with your product/service because it meets their *shared needs* – see diagram below.   However, not all of your customers have the same needs.   Your currently satisfied customers may actually consist of two different customer groups with unique needs not met by your product/service offering.
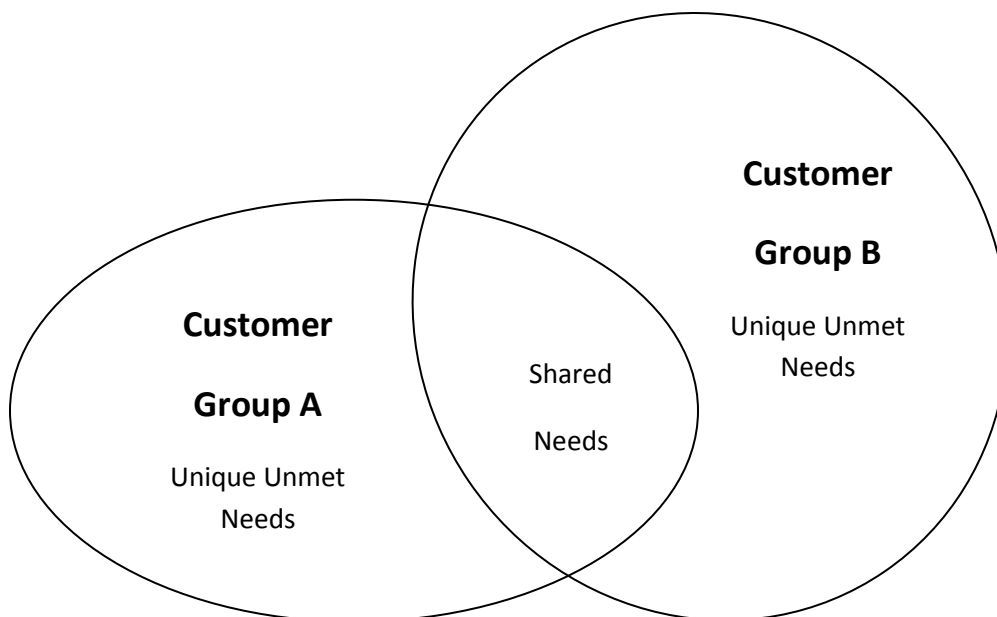
When a competitor enters the market with a product/service that meets more of customer group A's needs those customers will migrate to the competitor's product/service. Should another competitor enter the market with a product/service that meets more of customer group B's needs, you may lose all your customers.

How to segment your customer base

To create customer needs based segmentation is a two step process.

First step: use focus groups of customers (and prospective customers) to completely flush out their needs and expectations for products/services that your company may offer. In this step also capture some initial descriptive information that will help to distinguish each of these needs segments once identified. This descriptive information is very important and will enable you to find these customer segments within your customer list and when reaching out to prospective customers. Some descriptive information may include:

- Demographics – age, income, gender, marital status, etc.

- Behavioral descriptors - product use, competitive product use, etc.

- Psychographics – attitudes, opinions, and interests.

Demographics are probably one of the most universally used ways to identify and describe different customer segments because they are easily captured within the customer file and/or appended to a prospective customer list for targeting new customers. Behavioral definitions for customer segmentation are very powerful if the data is available but it is hard to get a hold of his information to use for targeting prospective customers. Psychographic descriptors for customer segments are most useful in the development of advertising creative, brand positioning, and packaging. That is mostly because these descriptors bring customer segments to life and give them a "personality".

Second step: perform a larger quantitative research study to identify the number of customer segments and sizes of each segment. The quantitative study will include capturing descriptive information so that you can distinguish customer segments with similar needs within your customer file and among prospective customers.

A worthwhile process

Segmentation work is a worthwhile process and provides several benefits:

- Provides a better return on your marketing efforts by enabling you to more precisely target your products/services, messaging, media purchasing, and servicing.

- Improves understanding of each segments profitability and profit contribution to your business to help determine what products/services you can offer them.

- Enables you to generate ideas for new products/services that may better meet the needs of each segment.

Ensure that each customer segment can financially stand on its own in terms of profitability and profit contribution. That is providing you can make and offer a product/service that best meets each segments needs.

Know when to ask for help

Talk with your marketing team and determine how your current customer file is segmented by customer needs. What is the profit contribution of each segment, how do your different products/services align with each segment's needs, and what is the customer retention strategy by customer segment. If you're not satisfied with the current approach it may be time to call in a marketing expert to work with your team and help define customer needs based segments.

Robert C. Shay has over 20 years of executive marketing and general management experience in Fortune 100 companies including American Express, Citibank, Sears, and JP Morgan Chase.   He can be reached at RShay@RCSAdvisors.com.