HOW TO USE NEEDS BASED CUSTOMER SEGMENTATION

IMPROVE YOUR MARKETING AND SOCIAL MEDIA STRATEGY
HOW TO USE NEEDS BASED CUSTOMER SEGMENTATION

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WHY YOU SHOULD READ THIS eBook

If you agree that a brand or a product cannot be all things to all people then keep reading. Organisations have to focus resource on brands that target customers of viable segments which are more relevant and easier to convert.

Before the start of any new marketing initiative (whether it's more efficiently monetising your social media assets, improving online advocacy or even the creation of a new company, or brand) – it pays to identify customer segments in terms of their needs as opposed to traditional demographic or psychographic segments.

Once an attractive operating segment is found, you should design an offering in line with that segment’s preferences. To create a successful service offering or positioning, you need to determine what you wish to excel in. To gain true competitive advantage it helps to select the areas where you can underperform in order to be able to fund service excellence in specific areas of choice.

The ultimate goal of any customer segmentation is to be able to easily identify prospects and leads and to place them in their respective segments in order to follow up with the right messaging and the right products for each lead. Social media has led to a profusion of sources for leads so responding to them in a systematic and cost effective way is key.

Once your segments are identified, named and targeted, a possible next step is to place existing customers in their respective segments by asking them a few questions – ideally less than 10. Social Media gives marketers much greater access not just to larger
samples, but also to samples that include groups of consumers who were previously difficult to identify or to recruit. One area where this is applicable, and relatively straightforward, is when a brand has a Facebook fan-page. They can invite customers to answer 5-10 questions in order to pass them through a segmentation algorithm and categorise them accordingly.

Proper customer targeting with the appropriate messaging, (whether through traditional means, or as is increasingly the case through social media) saves marketing money and delivers higher revenue overall and per customer. It is as simple as that.

This eBook lays-out, in simple steps, how a needs-based customer segmentation should be conducted and utilised for maximum results.
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CHAPTER 1

Survey Sample Definition
Survey Sample Definition

Let’s start from the beginning.

The sample for the needs-based customer segmentation survey has to be defined as broadly as possible. Usually this entails a representative sample of product users or a nationally representative sample. For example, if your product is a complex financial derivative it does not make sense to include people whose income is below a certain threshold and perhaps only include a certain type of investor. Leveraging social media platforms such as Facebook can make accessing niche sample much easier. On the other hand, if your product category is carbonated soft drinks, you may decide to go for a nationally representative sample, as the likelihood in finding interesting targets among a general demographic is relatively high.

An ideal sample size for this kind of survey is n=1000 but there are circumstances where a lower sample (down to n=500) will be effective. The challenge with the smaller sample sizes is not only that the standard error is larger but that we may miss an opportunity to identify a small high value segment. Our advice is to use larger samples when we aim for national representation and smaller samples for low incidence category usage or when cost is an issue.
CHAPTER 2

The Survey Questionnaire
The Survey Questionnaire

The survey questionnaire should include a number of sections (described below), however it’s best to keep online surveys short - ideally below 20 minutes. A recent paper showed bad respondent behaviours increase six-fold if we compare a 15-minute survey to a 30 minute survey². The shorter the survey - the better the completion rates.

What you need to include

If you have already conducted a usage and attitude (U&A) study for product category users this part can be excluded from the segmentation, otherwise a U&A section is necessary. The following questionnaire sections will produce more actionable results:

- Product Category Needs. The product category needs can be broken down in different distinct elements if necessary e.g. in the case of a video game it could be divided in console needs and actual game needs;
- Demographics including gender, age, education, income, marital status etc.;
- Lifestyles & Attitudes such as types of entertainment, sports, attitude towards religion, politics, attitudes towards shopping in general;
- Media consumption offline and online media including social media sites and other specific websites;
- Behaviours in relation to the engagement with the product category, occasions of consumption etc. (this section could be part of the U&A.

²: The Foundations of Quality ARF August 2009, Knowledge Brief #2
CHAPTER 3

Analysis of results and interpretation
Analysis of results and interpretation

Segmentation is an art and a science\(^3\). It is a science because it utilizes sophisticated statistical techniques to create meaningful customer segments. It is an art because the attributes used in the segmentation questionnaire and the final segmentation option are based on the knowledge and experience of humans - i.e. the agency researcher and the client’s team.

There are many different ways to segment a market. Segmentation types can be based on existing factual databases (e.g. demographics) or on primary research (conducted to collect descriptor variables from the current and prospective customers). What is applicable, when, and how, is a big subject, the discussion of framework of this eBook.

Here are some important areas to consider however:

- A customer takes purchase decisions based not only on objective factors but on emotional ones too;
- The emotional aspect can even affect the way “objective” factors are perceived (distortion of reality);
- The purchase decision process of a person might change with time based on life-stage;
- A factual database of prospective clients is not good enough for “state of the art” segmentation, because it does not explain the emotions that impact choice.
Factual databases are often useful for targeting once the segments are specified, if they are able to provide distinct demographic characteristics for each segment. However, these are poor substitutes for primary data that result from a segmentation survey when a company is interested to really focus on customer targets that make good business sense.

The most popular of many segmentation methods available is cluster analysis combined with factor analysis. Before proceeding with this approach, there are two questions to ask:

1) Do we need to conduct factor analysis before we do clustering (segmentation) or should we just cluster (create segment options) based on all available factors/variables?

2) If we do factor analysis before the cluster analysis, do we group the factors/variables in a small number of consolidated factors, or do we just exclude the ones which are similar leaving the most distinctive ones to go on with the cluster analysis?

The more factors or variables we have, the more room there is for subjectivity. The result of cluster analysis is the creation of many segmentation options.

Typically the options from 3 to 6 segments are considered.
This is when a large degree of “art” meets science in deciding which number of segments to accept. There are two levels where artistic/creative interpretation need to be applied:

1) Selecting the statements or attributes or variables or factors (best practice is qualitative research with stakeholders *before* the segmentation survey).

2) Deciding the number of segments based on the respondents’ agreement with each factor.

To get the best out of the analysis and interpretation both the research agency and your management team have to engage and collaborate to come up with the decisions/answers together. They have to review multiple segment scenarios and once the number of segments is decided based on homogeneity and plausibility, then they should be adequately “baptised”.
What should a marketing team do with the results?
What should a marketing team do with the results?

Once the segments are defined they need to be profiled with all available data. The next step is to decide which of the segments represent your ideal targets. The management team together with your agency should ideally brainstorm the possibilities. The following steps need to happen, especially if you wish to inform your social media strategy:

• Analysis of results in order to find the answers as to:
  WHY customers are in the segment they are and why they buy the product/service or engage in the activity;
  WHO they are by demographics, lifestyles, attitudes, behaviours etc.;
  HOW, WHEN and WHERE do they engage with the product category in question;

• Articulate a value proposition for each segment and by extension the Unique Selling Proposition, a brand promise and the positioning in general;

• Engagement strategy for each segment to communicate the value the new proposition will bring, and how to stimulate further online engagement and WOM.

This is where the needs-based segmentation project ends…. well not quite. The segments have been defined, the targets have been selected and the messaging has been articulated. What comes next is actually a guide for marketeers on how to make the implementation of the segmentation results a way of life.

• Select the ideal segment(s) to target based on size and value to the company but also easiness and cost to access.
CHAPTER 4

Applying the segments to leads and customers
Applying the segments to leads and customers

Each lead has to be vetted. Its characteristics should be put through The Segmentation Algorithm so that it will be identified as a member of one of the segments and annotated as such.

When this happens we know what products will appeal and which needs this lead may have. We also know what language to use in media so that we will have a higher chance to be perceived as attractive.

There are organisations that have databases with all their customers profiled by interests and needs. In such a case the whole database can be annotated by segment quite easily. Less progressive organisations have to develop a number of questions answered by every lead that will feed data into the algorithm which is part of the deliverables of any segmentation survey. The algorithm will spit out the segment to which the lead belongs.

Your next steps in lead follow-up are then pre-defined based on the segmentation survey results. The lead will be exposed to the right messaging and the right products and the chances to convert the lead to a customer are now much higher.
CHAPTER 4

Applications of customer segmentation to monetise your social media assets
Applications of customer segmentation to monetise your social media assets

As already mentioned, although needs-based customer segmentation is integral to launching new products and brands, it’s also a key way of understanding the needs of your online followers when launching social media campaigns.

You don’t have to be Starbucks with 31 million LIKES on your Facebook fan-page to want to know which of them really LIKE you! Jokes aside, you do want to know which segment your fans belong to in order to access them and engage them accordingly.

Whether you have 200-300 likes to having 100s of thousands or millions, the same principles of low hanging fruit apply. If fans already like you, find out what needs-based segment they belong to so that you can fulfil their needs faster, better and maybe even cheaper (or higher value for them).

Additional analytics are then also possible by looking at how your Facebook fans reacted to certain messages, campaigns, contests or other initiatives. What is also relevant and important is to know what other competitive FB pages they have liked.

Needs-based segmentation can also play a key role in defining social media strategy and generating online word of mouth (WOM). By defining key issues around customers and creating a better understanding of their needs it is easier to identify specific online targets and key influencer profiles. This becomes a key part of developing your online customer advocacy strategy.
Conclusions and Recommendations
Conclusions and Recommendations

If marketing is fundamentally about meeting customers’ needs, then conducting a needs-based segmentation will help you to achieve this goal more cost effectively than your competition.

If your marketing strategy is not founded on the most critical needs of your customers then you are at best wasting resource and at worst, opening the door to your competitors. As they say, if you do not look after your customers, someone else will.

If you have already conducted a needs-based segmentation, how up to date is it? Needs change and segmentations that drive strategy should be continually updated and finessed.

Finally, with the mass proliferation of social media, many organisations are only now able to assess which digital assets are working well for them and looking at how they can be more fully utilised. Your social media strategy is best served by putting the needs of your customers at the forefront of all your activity.

A well-crafted needs-based customer segmentation allows you to do just that. In fact, instead of calling it social media strategy maybe we should simply call it customer strategy.
NEXT STEPS

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