



Leverage Customer Segmentation: 3 Steps to Increase Sales by Targeting the Right People With the Right Message

Why Customer Segmentation is key to Success

The customer is king – this is a well known and generally accepted fact. But to state this fact is not enough: In order to make your customers actually feel like kings and thus tie them to your company, you have to address each of them the right way. To achieve that, you need to leverage customer segmentation.

Customer segmentation is defined as the act of separating customers into groups of similar individuals that are related in regards to specific chosen characteristics. In this paper, we'll introduce a simple three step plan for establishing an effective communication strategy that leverages that kind of segmentation. Let's start with the reasons why this should be a key priority within your customer relationship

Reason #1: Increase of Profitability

Developing complex marketing campaigns to acquire new customers results in higher costs than nurturing your existing customers who have a high purchasing potential and are a constant basis for sales. Expanding your customer retention activities enables you to take advantage of this potential and achieve higher profitability. Consistent communication based on detailed customer segmentation will help you to meet the needs of every existing customer individually.

Reason #2: Churn Prevention

Large parts of the commerce industry have the challenge of rapid customer churn – e.g. the fashion retail industry or the fast-moving consumer goods industry. Influencing the behavior of customers is therefore of great importance to ensure constantly growing sales which makes an individualized approach to your customers indispensable.

Reason #3: Differentiation from the Competition

In the rivalry for the attention of customers, commerce organizations find themselves in a fighting arena with their competitors. In order to emerge victoriously from this battle field, a consistent communication strategy based on fine-granular customer segmentation offers the best chances. It will not only show your customers why they should stay loyal to your brand and business. Also, it will make you stand out from the competition which will delight loyal customers and can even attract new ones.

Your 3 Step Plan to Address Your Customers Perfectly

A successful customer segmentation has nothing to do with magic. First of all, it is an analytical task which includes a lot of work with all relevant data regarding your customer base. Second of all, it is a strategic task which includes defining the most appropriate segments in the right level of fragmentation. And finally, it is about establishing consistent communication processes, each tailored for a specific customer segment.

01

Step 1: Collect Data from all Relevant Data Sources

Customer segmentation is, above all, an analytics activity. And as in all analytics activities, it relies substantially on the availability and accuracy of certain data. So in order to establish flexible customer segmentation, a commerce organization needs to define the data points that need to be collected from each customer and work out an according data strategy. In the best case scenario, all relevant data from every touch point a commerce organization has with its customers is available for segmentation purposes – online and offline.

Relevant Data to be Integrated

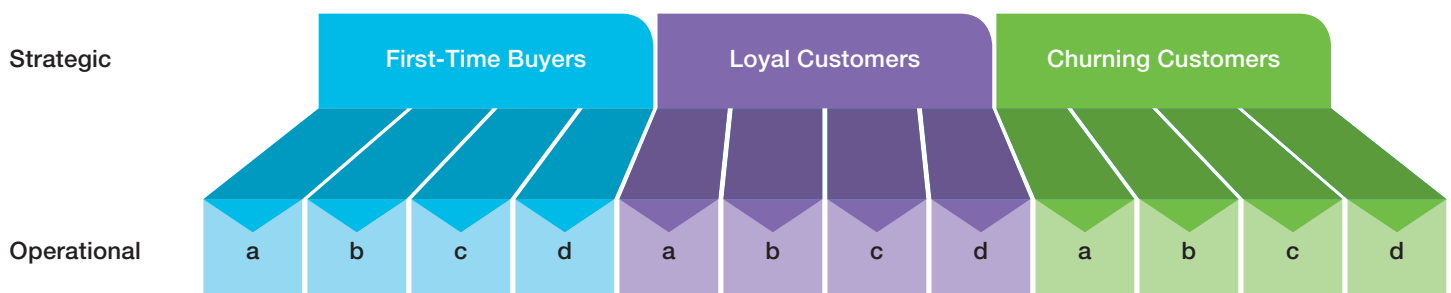


Ideally, all this data is collected and integrated in one single data pool. Establishing a company **data warehouse** is a proven way of integrating all existing data and making it visible and usable for the entire team. The more data you collect here, the more specific and the more detailed your customer segmentation can be. Thus, a more individualized, and therefore more satisfying communication with your customers can be implemented.

02

Step 2: Define Your Strategic and Operational Customer Segments

A consistent customer segmentation strategy involves analyzing the existing customer base and establishing types of segments that can be the basis for an individualized communication strategy. Defining strategic and operational segments is a proven way to lay the groundwork for a holistic customer segmentation. What kind of data is there to collect:



Strategic segments

A strategic customer segment is based on a more general classification. It can focus on a variety of characteristics, for example, age group, cohort or lifecycle stage. In this paper, the strategic customer segments are focused on the customer lifecycle since this is a good starting point for establishing a personalized customer communication. In this kind of approach, segments are defined by the underlying strategic goal of approaching those customers throughout their lifecycle: Customer retention (first-time buyers), customer cultivation (loyal customers) and customer reactivation (churning customers). Moreover, strategic customer segments contain a larger number of customers with fewer specific characteristics.

In addition to the communication component, these strategic segments also need to be carefully monitored. Since the development of these customer groups is substantial for the prosperity of a commerce business, CRM and Marketing teams need to be able to react to significant changes in the structure of these segments as soon as they occur.

Operational segments

Strategic customer segments themselves are not the base for operational activities. For initiating the right individual approach, or rather, for establishing the right operational actions for your customer base, further segmentation is required – strategic customer segments need to be divided into more specific customer segments. This differentiation can be initiated according to the concrete buying history or interests, or by any specific behavior of customers within one strategic segment.

This additional level of detailed segmentation of your customer base is the foundation for establishing individualized messaging for your customers – it gives you the idea and focus to send the right message at the right time to the right customer.

For example, first-time buyers (strategic segment) who are male and bought blue jeans during the last month (operational segment) will be offered a matching belt and suitable sneakers in a followup promotional campaign (operational action).

03

Step 3: Establish Processes for Consistent Communication With Your Customer Segments

Communication processes need to be defined for every single operational customer segment. As this is quite a complex task, it can be helpful to define an overall communication plan for the strategic customer segments first. Here are a few ideas.

First-Time Buyers

Timing is key when it comes to approaching first-time buyers. Data from the customer segment related to the average time between initial purchase and second purchase can be an initial reference point when determining appropriate communication intervals. The content of the communication must include appropriate offers and purchase recommendations with reference to the first purchase category to successfully re-engage first-time buyers.



Loyal Customers

Never lose sight of this customer segment because it is your most reliable sales basis. Establishing a feeling of exclusiveness around loyal customers is the most successful approach to continue to retain them – for example, by offering exclusive product novelties, personalized vouchers or special discounts. Indications of changes in the customer base (size, turnover or return behavior) must also be observed and taken seriously. Those changes must be seen as triggers for adjustments in approaching those customers. For example: Declining revenue in this customer segment is detected – adjustments in the way of communication must be considered.



Churning Customers

If customers haven't been active for a specific period of time (e.g. number of days since the last order > average inter-purchase time plus X), there is a strong risk that these customers are about to churn. Thus, regular reactivation measures need to be established for this segment. The motto: Keep it small! For example, sending out vouchers or other offers according to the customers' preferred product category can be a strategy. Also, specific cross-selling strategies can be taken into account.



The Next Level: Leverage Ad-Hoc Segmentation to Respond to Short-Term Challenges

You identified shelf warmers, products you need to sell because of seasonal changes or simply products that show high return rates? All of these are reasons to execute an ad-hoc campaign. Only in the rarest of cases will your standard strategic and operational segments fit this kind of very specific short-term challenge so it is most likely that a new, and more complex, ad-hoc segment has to be defined. For example:

You want to sell the last scarves and gloves you have in stock as soon as possible because winter is almost over and you need the space in your warehouse for the new spring fashion items. Now you need to define a segment of customers who are likely to buy those products. So you would like to know which customers bought a winter coat or a knitted sweater between the 1st of October and the 31st of December and spent more than € 50. These customers should also have a return rate of less than 20% over their entire

customer lifecycle because you want to prevent a high return rate for the promoted products. In addition, these customers should be over 25 years of age and live in Germany or Austria to benefit from lower shipping costs.

Let's dive into it: Your transaction data set provides you with a group of customers who purchased winter coats and knitted sweaters during the identified period. Additional data relating to the customer's purchasing behavior – average amount of money spent and return rates – sharpen the segment of target customers for this campaign. The demographic data for these customers helps you to further narrow the given group down to the final segment.

By leveraging all the customer-related data that is available in the entire commerce organization, you can easily accelerate the performance of your ad-hoc campaigns.

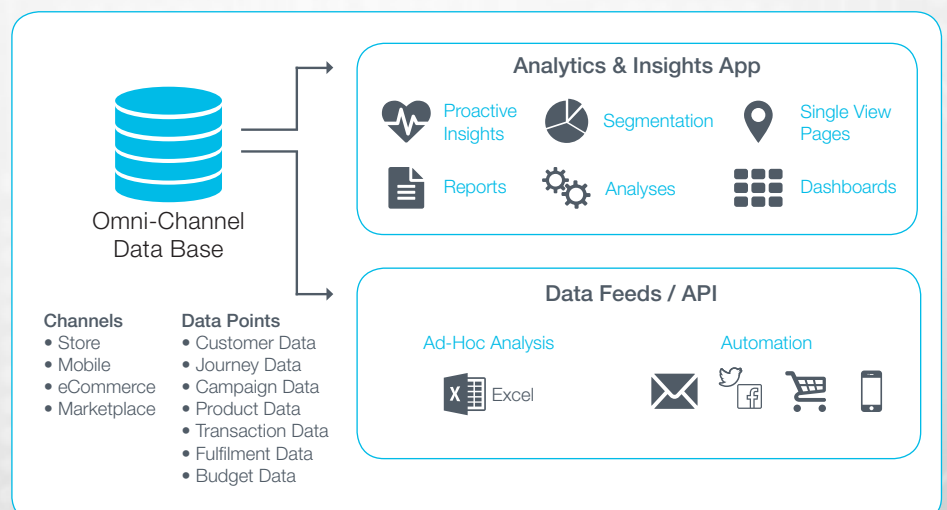
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How minubo Enables Flexible Customer Segmentation

As the Commerce Intelligence Suite for omni-channel brands and retailers, minubo integrates all relevant data sources into one omni-channel data base, enabling CRM and marketing teams to easily segment customers across all relevant data points: demographics, transactions and journey.

Via easy-to-use data feeds, these segments can then be used in email and campaign management tools to significantly improve customer communication by delivering relevant content to everyone.



Get started today!