Success through Customer Segmentation

“Nothing can add more power to your life than concentrating all your energies on a limited set of targets.” – Nido Qubein

I read a case study recently about an international cruise vacation company. They were creative and aggressive marketers and were driving brand awareness and lead generation across a variety of geographies and audience segments. Business performance was strong, but as they dug into strategic business analysis, some red flags popped up that indicated they were leaving market share on the table. The company was making the same mistake so many companies make – it was communicating to all of its customers with every touchpoint, with similar messages and frequency. The old adage was proving true: Trying to reach everyone means you usually end up reaching no one.

What they were missing was that their customers were in different stages of the purchase lifecycle and had varying ranges of lifetime value (LTV). Each step in that lifecycle came with unique messaging, varying product preferences, predicted revenues and more. To fill the gap, the company developed lifecycle models that segmented customers into five relevant stages: inspiration, planning, booking, participating and sharing. From there, it created contact strategies with tailored messages based on the customer’s interests, current lifecycle stage, product preferences, and data on the revenue each guest would bring over time.

These insights enabled the company to make informed decisions about where to allocate marketing resources and how to most effectively move customers through the purchase funnel. It was a classic demonstration of the power of market segmentation. In an age when brands are armed with more data than ever before, it’s a surprisingly rare feat. It’s not just understanding and appreciating the need to segment. (According to the 2016 TSIA Customer Success Baseline Survey, 79% of companies are segmenting their customers in some way.) It’s doing it logically and holistically, aligned with product development plans, sales goals, resource allocation and how customer success is defined in your organization.

But that’s easier said than done. Often, the negative effects of poor segmentation – increased customer churn, decreased renewal rates and missed expansion opportunities – often aren’t diagnosed as a segmentation problem. Once they are, changing a corporate culture by implementing a new purchase cycle approach can be difficult and timeconsuming. It’s not surprising then that a study done by Harvard Business shows that 85% of 30,000 new product launches in the U.S. failed because of poor market segmentation (or none at all). It’s just that much more critical to get it right.

At its core, segmenting improves awareness building, message penetration, lead generation and sales because it allows you to tailor your approach to a specific market, region, vertical or other subset of your customer base. Most importantly, it provides the framework to allocate resources and market plays to achieve customer success goals like increased adoption and reduced churn. Malcolm McDonald summarizes it well: “Getting clarity on customer outcomes begins with segmenting customers into logical groupings.” So where do you go from there?

The standard approach

The most common segmentation approach involves logical groupings of customers by basic market characteristics, including account size (revenue or employees), geography, industry, and product. This data is easy to access but also critically important and an easy baseline for building a segmentation strategy. The graphic below shows a typical segmentation framework to help align customer success resources to tiers based on the straightforward customer data.

As expected, this model pins a high-touch, proactive approach at the top for the highest value customers. The mid-market gets a just-in-time approach to help support adoption and nurture expansion. And the bottom tier is left with the automated/tech-touch experience to manage the one-to-many approach. Uncomplicated to be sure, but do these logical segments paint the most valuable picture of your customer base? Are they accurately structured to help the maximum number of customers achieve their desired outcomes? And do they support your team’s ability to reach your own organizational goals, whether it’s increased adoption, reduced churn or more efficient onboarding? Probably not. More so, this segmentation strategy can foster misalignment between available resources and opportunity, which makes it difficult to identify expansion possibilities in your lower tier.

A more effective approach

What’s missing from the typical segmentation framework is consideration for key analytics that are more difficult to determine but can illuminate a much bigger story. These advanced analytics have made the path to winning more clear by emphasizing and identifying the true leading indicators of win potential. Indicators like revenue growth per customer, overall financial value, utilization rate and health score provide a clearer view of the business and allow you to map the appropriate plays to the correct audiences. The result? Optimal business outcomes for you and your customers in all the areas that really matter.

Impact on churn

By assessing the overall financial value of your customer in comparison to their health score, you can begin to paint a more accurate picture of churn risk. This graphic below from Irit Eizips, CEO of CSM Practice, shows an example of what such a picture might reveal. The bigger the bubble, the bigger the profitability or any other metric you've prioritized for your business.

The biggest bubbles — customers with high financial value — rise to the top. Those with a corresponding high level of risk are the ones that should be tackled first. Looking to prioritize how you invest your time and resources? This level of visibility will help you dictate resource allocations to help address urgent needs and drive relevant, strategic changes to your playbook on engaging with each account.

And the data itself will lead you straight to your churn strategy blueprint because it will force you to address how you're going to save the customers you identified as high risk.

Here's how to identify high-risk customers:

- Are they scheduled to renew this quarter, next quarter, next year?

- How many are currently engaged in a strategy to save the account?

- How many have requested cancellation?

Answer these questions, and you can then map customer engagement points and plays to the segments that need it most. Analyze those points and plays, and new metrics emerge to track conversions and determine how many accounts you were able to save at each stage. The following graphic illustrates this concept.

Impact on adoption

Remember those "desired outcomes" we discussed earlier? Increased adoption is almost always near the top of the list. Usage data plays a key role here but, again, advanced metrics rule the day — not just whether users have logged in and how often, but also the number of seats activated and disabled, the number of users trained vs. untrained, user roles, number of support requests logged and more. Unearth that data and you'll answer the key questions that allow you to effectively define the path to usage.

- What features/functions are customers using (and not using)?

- Have they fully onboarded or not (and is there a common disengagement point for those who don't)?

- Are there other products they can/should purchase and is there a larger expansion plan?

Much like we did with the churn example, the practical application here is straightforward. Just leverage the answers and data by comparing customers' health scores to their utilization rates, then determine the appropriate customer success plays for each of the quadrants as shown in the graphic below.

Scaling your team to execute

Segmentation strategies and customer success plays certainly can have a profound impact on your business. But your team is only so big and there are only so many hours in the day. So how do you best prioritize, scale and evaluate? Of course, your Customer Success Managers should be focused on tackling your highest priority issues. The problem is that there will always be high priority issues to solve. With all those fires to extinguish, how does your team find the time to connect with lower priority accounts before they turn into high-priority problems? For most organizations and teams, that extra time rarely materializes. But the 80/20 Rule still applies. The top 20% of your customers make up roughly 80% of your revenue and so they get nearly 100% of your proactive attention and resources.

But what about the diamonds hiding in that bottom 80%? What about the customers left alone to navigate your products and services? What about the additional revenue that can come with building those relationships without pulling resources away from your top customers?

Make the commitment to build your internal team with specific CS expertise. For instance, Virtual Customer Success Managers (vCSMs) can bring a passion to engage with customers and partners, to help them better understand and utilize the full capabilities and features of your products, and to help them achieve incredible outcomes. From there, you're ready to tap outsourced expertise to accelerate improvement faster than you could ever achieve it with internal resources alone. Much like the CS model as a whole — low risk/ high reward — outsourcing with the right partner can deliver significant return and overall cost savings typically outweigh external expenses.

An experienced partner can evaluate what's happening with your top-tier customers and determine what can and cannot be replicated for your lower tiers. Automated communication with tools like Gainsight is helpful, but it's not enough. A partner like ESG will look for meaningful opportunities to engage with even your smallest clients one-on-one, not with automation like most companies do, but with actual live human beings. Like George Anders said, "You can't automate empathy." As technology advances, it's tempting to try, but the human touch still delivers superior results.

Bringing it home

Segmentation is not a one-size-fits-all proposition. The most effective approach will depend on the outcome you're looking to achieve and the customer experience you need to provide in order for your customers to realize ultimate value in your solution. Segmenting by size is a good place to start, but there's so much more to the story. Francis Bacon once said, "A wise man will make more opportunities than he finds." Digging deep into next-level metrics and health scores takes more time, but the extra investment will make more opportunity than you could ever find without it.