Customer Segmentation in the Age of Big Data

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**Moving Beyond Traditional Segmentation**

Traditional customer segmentation is at the heart of every marketing organization, giving companies a clear understanding of the most attractive segments, including their size, profitability, and growth potential, to better align and meet client and customer needs. Segmentation can create a competitive advantage for businesses, enabling them to become more efficient and effective in the way they serve customers, go to market, and educate employees about customer needs. Overall, however, in terms of attitudinal and behavioral factors, segmentation approaches need to continue to evolve for businesses to better understand and meet buyers’ needs. In today’s fiercely competitive world, the traditional ways of segmenting markets along broad economic, geo-demographic, and firmographic-based lines alone no longer adeptly describe the modern customer, especially in terms of their ‘real-time’ relationship with a brand. However, because of the world of data analytics, we can measure huge amounts of data in a short space of time, establishing a fusion between online habits and how they correlate to geographic, demographic, psychographic and behavioral patterns and differences.

What is the driving force behind all of this? Digital technology and “Big Data” are changing the way we comprehend brands, which is increasingly through multiple channels and in multiple ways. Subsequently, they’re changing how we connect and interact with brands and share their experiences. In the past, however, this provided little insight into how the online world reshaped its consumption habits. Data analytics now enable us to establish a link between online behavior and how it correlates to geographic, demographic, psychographic, and behavioral patterns and differences.
The Explosion of Big Data

Harvard Business Review reported, “as of 2012, about 2.5 exabytes of data are created each day, and that number is doubling every 40 months or so. More data cross the Internet every second than were stored in the entire Internet just 20 years ago.” The business world is being transformed by Big Data as more and more companies seek actionable insights from the mountains of raw data that are all around us. Companies such as Amazon, GE, Netflix, and Birchbox are using insights from Big Data to deliver better personalization, product recommendations, and enhanced customer experiences. Forbes declared Big Data as “the biggest game-changing opportunity for marketing and sales since the Internet went mainstream almost 20 years ago.”

In B2B contexts, data may be pulled from social networks, e-commerce sites, customer call records, and many other sources. These aren’t the regular data sets that companies have in their CRM databases; these data are so extensive and complex that specialized software tools and analytics expertise are required to collect, manage, and mine them, and can be used for everything from extracting sales insights from unstructured data (such as online comments about particular brands) to understanding the competitive landscape at a granular level.

Segmentation 2.0 – It’s not the data, but what you do with it

We’ve all heard the saying “it’s not what you say, it’s what you do that counts.” With today’s deluge of data, we are no longer talking about large groups of people that fit into known categories, but micro-segmentation into smaller and smaller groups of people that are actively identified from a mixture of attitude and behavior, enabling the definition of increasingly finer market segments. Different from macro-segmentation variables, which provide a better overview of the industry and the market, micro-segmentation variables seek to identify the characteristics of the customers that participate in the market: where they are, who they are, how they live, and how they buy. The clear benefit of micro-
segmentation is that the more relevant the message and offer in any media, the greater the ability for it to break through the clutter, engage the individual, and generate the desired response or behavior. These micro-segments enable finer targeting of content, offers, products, and services, which can deliver real and substantial returns.

In today’s age of Big Data, a multitude of new types of structured and unstructured, real time and static data is readily available and needs to be brought together for analysis. These include:

- Activity-based data – web site tracking information, purchase histories, call center data, mobile data, response to incentives
- Social network profiles – work history, group memberships
- Social influence/sentiment data – product/company associations (e.g. likes or follows), online comments and reviews, customer service records

Once target markets and customers are identified, the real value of segmentation comes from the activities that leverage the solution, creating greater go-to-market efficiencies and effectiveness. Real world examples of Big Data success include:

- Telecom providers gaining high-value insight from massive volumes of call-detail records, logs, and other data to optimize customer capture, retention, and margins
- Utility companies tapping meter data to create smart grids that deliver pinpoint intelligence on usage, failures, and theft
Consumer product companies and retail organizations monitoring social media like Facebook and Twitter to get an unprecedented view into customer behavior, preferences, and product perception, changing the perception of brand antagonists, and even leveraging enthusiastic customers to sell their products. Manufacturers are also monitoring social networks, but with a different goal than marketers: they’re using it to detect aftermarket support issues before a warranty failure becomes publicly detrimental. Hospitals are analyzing medical data and patient records to predict patients likely to seek readmission within a few months of discharge. The hospital can then intervene in hopes of preventing another costly hospital stay. Financial Services organizations are using data mined from customer interactions to slice and dice their users into finely tuned segments. This enables these institutions to create increasingly relevant and sophisticated offers.

In October 2012, HP commissioned an independent study to focus on information growth and challenges, targeting senior business executives and senior technology executives, in Enterprise-level companies around the world to understand their information optimization challenges, priorities, and perspectives. Some key results include:

- Nearly 70% of respondents (74% in the public sector) agreed with the following statements:
  - “Gaining insight and effectively managing Big Data is strategic to our organization”
  - “An effective information optimization strategy will give our organization a competitive advantage”
However...

- *Just 50% of respondents indicated that they use all sources of structured, semi-structured, and unstructured data to analyze and act*

- *Nearly 60% of business executives reported that their organization is not equipped with the right solutions to gain insight from Big Data*

- *Nearly 40% of all executives reported that their organization is not currently prepared in terms of having the right strategies, tools and policies in place to prevent data corruption and unauthorized access to their data*

- *Only 16% of executives said that IT immediately provides the right information at the point of need that enables them to obtain actionable insight that drives the right business outcome (up from 2% last year)*

- *Only 10% of executives said their organization currently incorporates unstructured data into their enterprise insights, processes, and strategy*

- *What do they plan to do? Over 90% reported that in the next three years, their organization plans to incorporate unstructured data into their enterprise insights, processes, and strategy.*

“Getting Small” with Big Data

By amassing information about different segments of the electorate, the 2012 Obama reelection campaign was able to target demographics of interest and custom fit its message to any audience – that is, target and galvanize specific demographics within high-stakes regions in crucial swing states. Obama’s campaign combined massive streams of swing state polling data, allowing them to monitor demographic trends within specific regions. Therefore when polls started
to slip after the first debate, it was clear which voters were changing sides — and campaign leaders knew exactly whom to target. These revelations directly impacted the way resources were allocated in the final weeks of the campaign, culminating in Obama’s reelection. Ongoing data-driven learning informs the way we make sound business decisions on the macro level, but also enables us to focus on small areas of concern that might have gone unnoticed. With the right tools, the bigger the data, the “smaller” you can get.

Good customer segmentation research provides a company with clear direction on which group or groups represent the best target — one that represents a disproportionately high share of potential profitability and can easily be identified in the population or in customer databases. If market segmentation efforts meet those requirements, it will pay for itself many times over. This type of segmentation is more important than ever as technologically empowered customers have more choice and the ability to craft their own solutions. Big Data doesn’t fundamentally change what segmentation can do or how we use it; rather, it enhances the segmentation and strengthens it by providing us with new facets of customer information. It offers sharper, more revealing insights into customer behaviors.

Legendary Harvard Business School marketing professor Theodore Levitt introduced the need for benefits based segmentation approaches in his 1960 quintessential Harvard Business Review essay, “Marketing Myopia.” Levitt recognized that businesses would do better in the end if they concentrate on meeting customers’ needs rather than on selling products: “If you’re not thinking segments, you are not thinking marketing.” Although this was written in 1960 it rings true today — perhaps more than ever.
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