

## **Best Practices in Segmenting Customer Data**

*by Gregg Weldon, AnalyticsIQ, Inc.*

For many businesses, blanket advertising for new customers has been the preferred method for quite some time. This may be because the business owner feels that his company targets a relatively small geography, the cost of the advertisement is minimal, or, most probably, the owner is unsure of what else to do in order to bring new dollars through the door. This type of advertising has proven to be wasteful for most businesses, as they're spending money to market to people who would never be interested in what they're selling. Clearly, a more targeted method of finding new customers is in order.

### **BACKGROUND**

In recent years, many business owners found that they could “zero in” on customers who had specific needs, based on some type of information. For example, retirement home communities could advertise to only older people, children's clothing stores could advertise to families with kids, etc. Finding this information was the difficult part, especially for companies that weren't confined to a small geography. Census data became the norm for identifying groups. This method proved successful, as variables such as Age, Income, and Number of Children became the standards for identifying groups of potential customers. Anyone who keeps up with entertainment news will frequently read that a certain TV show, while not a Top Ten hit, nevertheless does well with “women aged 18-49 with incomes above \$75,000”, for example.

As with anything that proves successful, many businesses flocked to this idea. As a result, the same potential customers were repeatedly targeted by a wide range of businesses, response rates fell, and companies found that they needed to further refine their desired population groups in order to continue to compete effectively.

Since then, the practice of using clusters to segment the population into “like-minded” groups has gained traction in the marketing industry. This methodology enables the creation of groups that can be expected to behave in similar ways, allowing a business to target those groups that would most appreciate its product or service.

## CLUSTERING AS A METHOD OF SEGMENTATION

As noted above, television shows rely on segmentation for selling advertising time to sponsors. Several years ago, “Dawson’s Creek”, a show with the highest percentage of teenagers, was pitted against “Diagnosis: Murder”, the network program with the lowest percentage of teenage viewers, on Thursday nights. Advertisers, focusing on this disparity in age, flocked to the youthful consumers available through “Dawson’s Creek”. A study showed, however, that due to the large difference in ratings between the two shows, there were actually a higher *number* of teenagers watching “Diagnosis: Murder”! Does that mean that Clearasil should have pulled its sponsorship from “Dawson’s Creek” and moved all of their advertising dollars to “Diagnosis: Murder”? Of course not, but it does point out that basing marketing dollars on just one or two aspects of consumer demographics can be limiting.

“Clustering” looks at a much wider variety of possible variables for segmenting the population. Whereas basic segmentation may look at age, income and number of children to break the population into separate groups, clustering is able to use many variables to create groups that are statistically different from each other and that have even better potential for responding to a company’s offers. Clusters are able to maximize the differences between groups who will respond and groups who will not for any given product or service. These clusters are also designed to make common sense to the business owner, and, with detailed statistics for each group, allow the vendor to craft his/her message to effectively appeal to the groups with the most potential.

In the television example, clustering would allow the user to identify which show or shows most appealed to their diverse customer base and they could then allocate their marketing dollars accordingly.

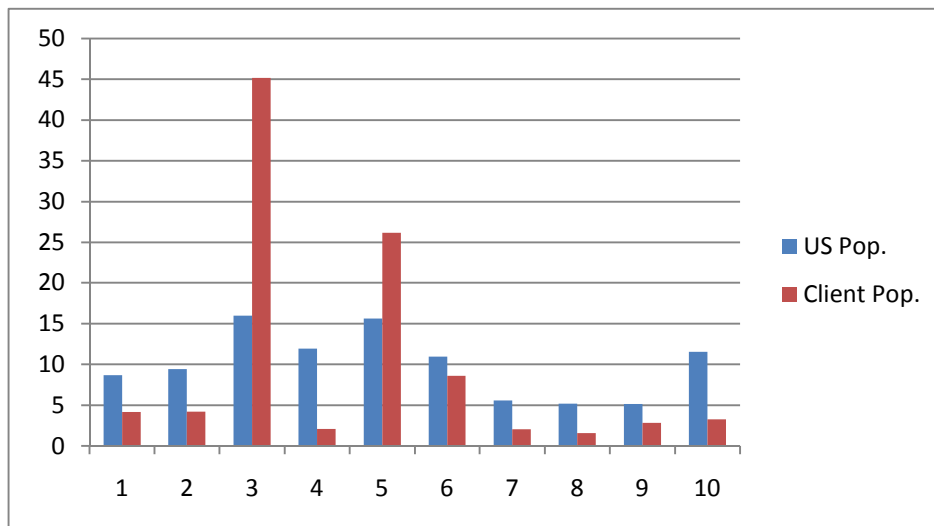
## COMPARING CUSTOMER POPULATION TO NATIONAL POPULATION

The following is an example for a client that is a national service provider. After many years in business, this client was seeing response rates continually drop, as their traditional marketing plan aged. AIQ was asked to profile their customer base using Delineate™, a segmentation tool that breaks every household in the US into 10 primary groups and 52 subgroups, based on data from over 100 unique sources.

The 10 primary groups that make up Delineate are as follows:

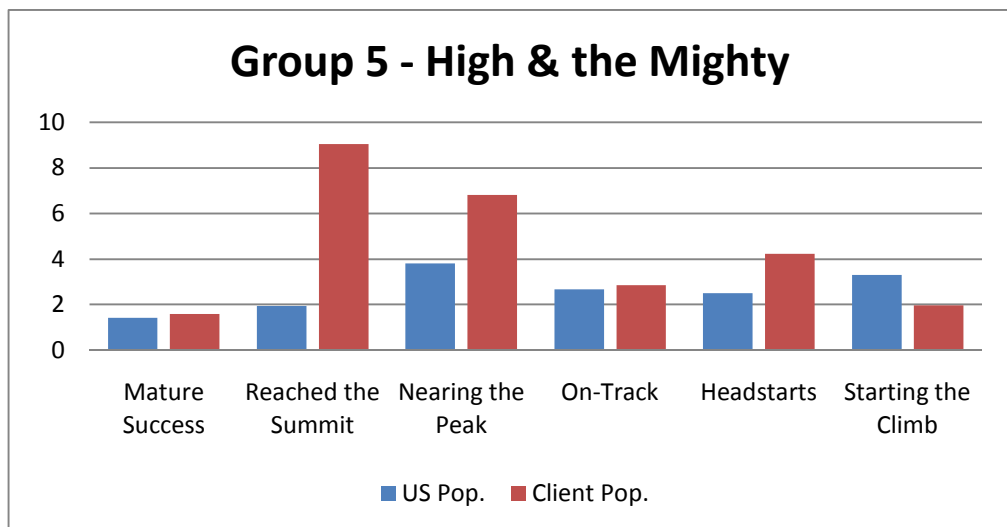
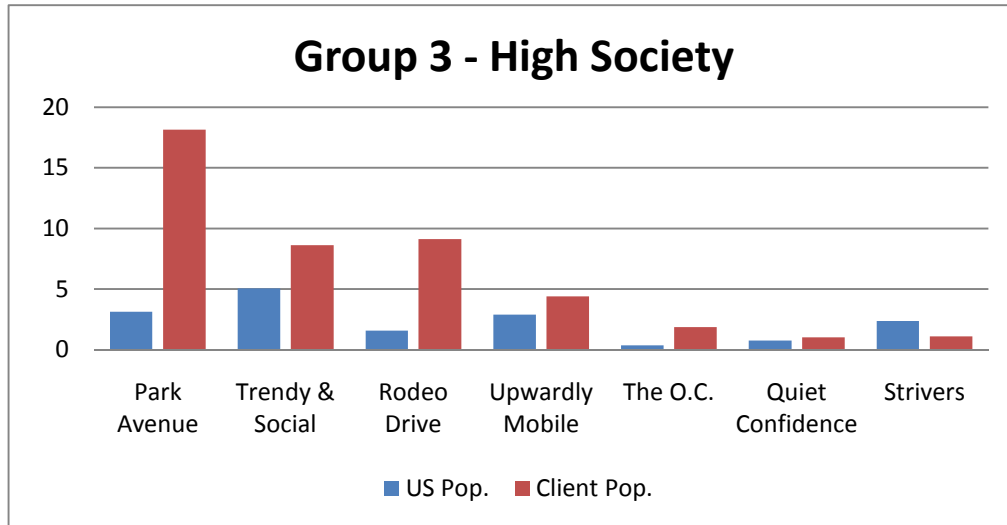
- 1 = “Assimilating New Americans”
- 2 = “Mid-Market America”
- 3 = “High Society”
- 4 = “Blue Collar America”
- 5 = “The High and the Mighty”
- 6 = “In-Town Homeowners”
- 7 = “Struggling to Get Ahead”
- 8 = “New Americans”
- 9 = “Economic Casualties”
- 10 = “The Burbs”

Below is a breakdown of the client’s population for the 10 primary groups:



This client has a large concentration of their customer base in Delineate groups 3 and 5 (“High Society” and “The High and the Mighty”). “High Society” can be described as wealthy, older families, well educated, having stable marriages, and with multiple cars in the driveway. “The High and the Mighty” are described as financially independent, well educated individuals who enjoy big-city living.

This client obviously has a high-end product that appeals to wealthy customers. Because Delineate has a total of 52 subgroups, the client was able to further drill down within groups 3 and 5 and even better target potential customers. By then crafting a marketing campaign specifically to those people who fall into these categories, this client was able to increase response rates significantly.



Note that, although groups 3 and 5 are primarily wealthy households, not all wealthy households are in these two groups. In fact, there are rich households within each primary group of Delineate. It's the combination of wealth along with the many other individual and geographic attributes that makes Delineate so effective in segmenting the population of potential customers.

## **CONCLUSION**

In today's competitive environment, businesses that expect to succeed must use every strategy possible to win new customers from competitors. Using a clustering tool such as Delineate for segmentation allows a business to identify who his existing customers are and how to find more like them. The days of blanket advertising, or segmenting the population on 1 or 2 identifying characteristics are over in terms of maximizing ROI. Only by using a clustering tool like Delineate, which combines cutting-edge analytics with basic business sense, can a company hope to overtake competitors in the quest for new customers.

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