

Effective CRM Requires Sound Segmentation

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Optimized CRM demands customer segmentation focused on the value of the relationship to the customer and the enterprise. Effective segmentation will drive CRM strategies and tactics.

ANALYSIS

This month's Customer Relationship Management (CRM) Spotlight focuses on customer segmentation, which is almost always a part of marketing efforts, but is often overlooked as a resource to help enterprises define CRM strategies and prioritize investments that are most likely to yield high returns.

Some enterprises implement CRM to gain a more-complete view of the customer, which can then be used to refine customer segmentation. There are substantial benefits to leading with customer segmentation as a precursor to CRM planning and implementation. In addition, enterprises that are well along in their CRM program would be wise to revisit customer segmentation to further refine CRM strategies, tactics and related expenditures.

Why is customer segmentation so important? Because, done properly, it can provide useful insights as to the type and value of customer relationships with which the enterprise has to work. Sound customer segmentation serves to focus attention on specific sets of customers to understand and address their common needs, opportunities or threats. And because a value can often be placed on the costs and benefits associated with each relevant customer group, segmentation serves as a valuable planning tool for effective resource allocation.

Economic conditions mandate careful utilization of an enterprise's resources. Although there are costs associated with conducting thorough customer segmentation, few if any CRM-related projects are likely to prove as valuable as a well-performed customer segmentation, because the insights derived can ensure that CRM resources are effectively allocated. A sound customer segmentation will provide both strategic and tactical value, identifying which customer segments require the most attention, and it can even show the types of tactics that may be most appropriate. The ramifications of effective customer segmentation can be felt throughout an enterprise's CRM initiatives — across marketing, sales and service.

The six research pieces that follow provide perspective on the key components for sound customer segmentation; details on how segmentation and targeting are used and how they impact the marketing, sales and service functions; and an introduction on how customer segmentation will further evolve in the near future.

The first piece, "The Difference Between Segmentation and Targeting" (*Research Note TU-14-3216*), serves to clarify the major distinctions between segmentation and targeting. This is an important subject, as enterprises that end up with too many customer segments have found it virtually impossible to manage and track them effectively. A key conclusion is that, for customer segments to be as meaningful as possible, the variables that make up the customer segmentation must reflect strategic value to the enterprise and the customer. On the other hand, variables better suited for targeting are those that facilitate the tailoring of communications to match customer preferences or that are driven by the enterprise's tactical requirements.

Moving beyond the basic understanding of the difference between segmentation and targeting, the next research piece, "Evolution to Customer Segment Portfolio Management" (*Research Note DF-14-2600*), describes a framework for developing a value-based customer segmentation. It focuses on using the combination of length and value of customer relationship as the key variables for a powerful, yet simple, segmentation approach that can be used to implement customer segment portfolio management. This novel approach is particularly noteworthy for enterprises with a high degree of customer interaction.

The research piece "Creating the Illusion of One-to-One" (*Research Note TU-14-2671*) deals with the issues associated with taking the concept of one-to-one marketing too literally. Simply stated, enterprises that equate one-to-one marketing with single customer segments typically end up

trying to manage too many customer segments and are likely to feel more pain than gain (although single customer segments may be appropriate in some high-value business-to-business cases). Another important point to recognize is that a personalized interaction does not automatically translate into relevance or value to the customer. Failure to recognize this fact has led to disappointing results in many personalization projects. The proper combination of segmentation and targeting can be used to design relevant, personalized customer experiences that deliver value for the customer — as well as the enterprise — and can be effectively tracked and managed for ongoing enhancement.

When it comes to sales, most of the emphasis is on the management and tracking of individual product sales or product segments, as defined by product categories or business units. The research piece "Sales-Focused Customer Segmentation" (*Research Note* TU-14-2578) provides a framework for customer segmentation in the context of sales management. This piece makes the case for sales personnel and the management teams that surround them segmenting their customers along a relationship-driven profit-and-loss statement. To best understand the customer relationship, this sort of sales-driven customer segmentation can be performed at various levels of aggregation (from value of customer relationship at a single product level, to product family, division or business unit, or at a total-enterprise level). Here again, the value of customer segmentation is in how the insights can be leveraged to allocate marketing, sales and service resources more effectively.

The next piece, "Consider Customer Segmentation for Customer Service" (*Research Note* DF-14-2517), argues that, although most enterprises recognize the value of differentiating their service based on customer value, many are wary of undertaking such efforts because of the possibility that such segmentation will be negatively perceived by customers. Balancing the overall service needs of the customer base with an enterprise's desire to provide superior customer service to customers that offer the greatest value potential is a challenge. This piece recommends that, for starters, enterprises must have an integrated view of their customers' long-term value. Beyond that, the customer service and support (CSS) function must be able to leverage fully integrated and workflow-empowered telephony, CSS and e-service systems that support value-based segmentation of customer service delivery.

The final piece, "Life Cycle Segmentation: Driving Lifetime Value for FSPs" (*Research Note* TG-14-2456), provides insight as to where customer segmentation is heading in the not too distant future. In many ways, financial service providers (FSPs) have led the way in CRM strategy and implementation. FSPs have been early adopters of customer value-based segmentation; already, many large FSPs conduct customer profitability analyses (76 percent) and customer-value-based segmentation (56 percent). FSPs have now begun to explore the use of customer life cycle segmentation based on life events that reflect the financial life cycle. Customer segmentation will allow FSPs to better understand customer needs and offer products and services that are likely to be valued by the customer. Customer life cycle segmentation offers the potential to further enhance value for customers and enterprises.

Features

"The Difference Between Segmentation and Targeting" (TU-14-3216). Defines the distinctions between two concepts critical to CRM. **By Gareth Herschel**

"Evolution to Customer Segment Portfolio Management" (DF-14-2600). Describes how to develop a customer segmentation model based on value. **By Claudio Marcus**

"Creating the Illusion of One-to-One" (TU-14-2671). A review of how enterprises should think about one-to-one marketing in a manner that truly adds value to the customer and the enterprise. **By Walter Janowsky and Adam Sarner**

"Sales-Focused Customer Segmentation" (TU-14-2578). Provides a method for developing customer segmentation in a sales-driven manner that will help allocate resources effectively. **By Dale Hagemeyer**

"Consider Customer Segmentation for Customer Service" (DF-14-2517). Explains how enterprises can balance the overall service needs of the customer base with the requirement to provide superior service to the most-valuable customers. **By Colleen Amuso, Brad Adrian, Esteban Kolsky and Michael Maoz**

"Life Cycle Segmentation: Driving Lifetime Value for FSPs" (TG-14-2456). provides insight into the future of segmentation, based on the experience of FSPs. **By Kimberly Collins**

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