

Applying Consumer Segmentation for Maximum Impact

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Key Points We Will Cover

- ✓ Establishing your segmentation goals
- ✓ Building organizational buy-in to protect your investment
- ✓ Selecting the right modeling technique
- ✓ Making the segments come to life through analysis
- ✓ Delivering to key stakeholders
- ✓ Making the segments part of your business

Building a Segmentation Study

A carefully planned and expertly modeled market segmentation is the most efficient tool for accomplishing marketing and sales objectives if ...

You design it to have an impact on the bottom line.



A Solid Approach Should Also ...

Be specifically designed to meet users' needs

Be based on a rich and flexible framework

Incorporate value-related components (needs, attitudes, and behaviors)

Build in appropriate linkages to databases

Allow you to identify segment members with reasonable accuracy

Step 1: Pinpoint Your Goals

What Are You Really Trying to Accomplish?



Plan Carefully Before You Start the Chase



**Or, You Could End Up
with the Wrong Result!**



Identify the Users and Their Needs

Bringing focus to the goal brings clarity and direction

- Who are the key stakeholders of the segmentation?
- Which part of their business performance goals are tied to the project?

Defining the goals has an impact on scope

- Not all segmentations are large strategic initiatives
- It is the stakeholders' needs that drive scope
- Skip this step and you run the risk of the project being banished to a shelf and deemed “not actionable”

A segmentation will have a less than optimal impact unless it is properly aligned with the stakeholders' business needs. Workshops can help efficiently uncover these.

Case Study Example of Goal-Focused Approach

Background:

- Client organization initially specified the goal as a health attitudes segmentation
- With additional assessment we refined the goal to address a rather specific user need:
 - How do attitudes about package goods’ ingredients align with interest in our current product concepts?

Solution:

- Very focused model – 4 segments differentiated on key dimensions of interest

<i>Package Goods Ingredient Focus</i>	Status Quo <i>I eat what I eat, I just really can't be bothered changing</i> 38%	New Age Organics <i>Total mind and body focus</i> 15%	Fortification Focused <i>Seek out fortification to makeup for other shortcomings</i> 30%	Taking Control <i>Actively involved in all aspects of ingredients/nutrition</i> 17%
Concept #1	345	112	184	145
Concept #2	137	471	85	225
Concept #3	132	73	74	88
Concept #4	202	158	179	128
Concept #5	191	125	155	226
Concept #6	75	231	233	164
Concept #7	140	90	119	134

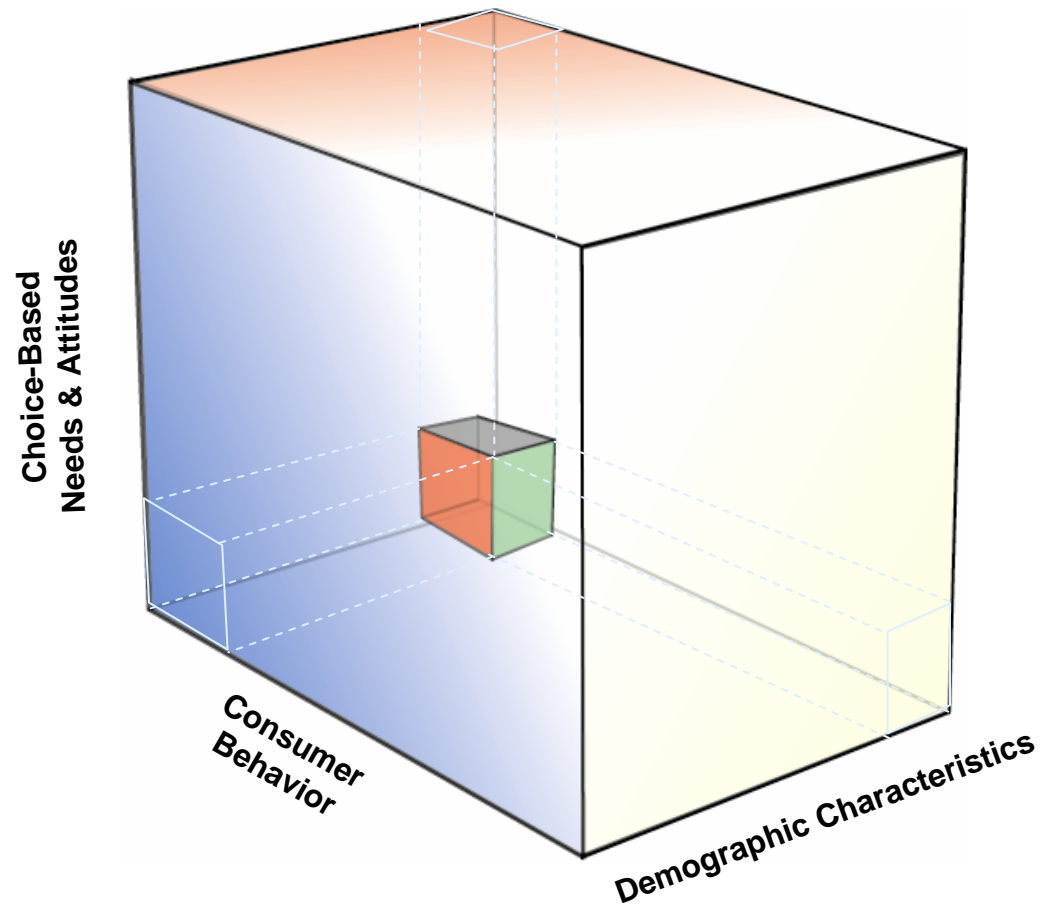
Step 2: Pinpoint Your Segments

On What Dimensions Is Differentiation in the Segments Most Important?



Bottom Line to Pinpointing Your Segments

Your goals will drive the dimensions to be incorporated. We often recommend a mix of rational (behavioral) and emotive.



Mixing Driver Dimensions

Often no single dimension completely captures the disposition of segments – this is especially true when motivations/benefits are involved

- Behavioral data only speaks in detail to what consumers did, but offers no clear insight into why
- Attitudinal data only can be rich in motivators but falls short in tangible indicators of value
 - These types of segmentations can also result in segments that are difficult to find

Driving the segmentation with a mix of underlying dimensions solves the potential for informational voids.

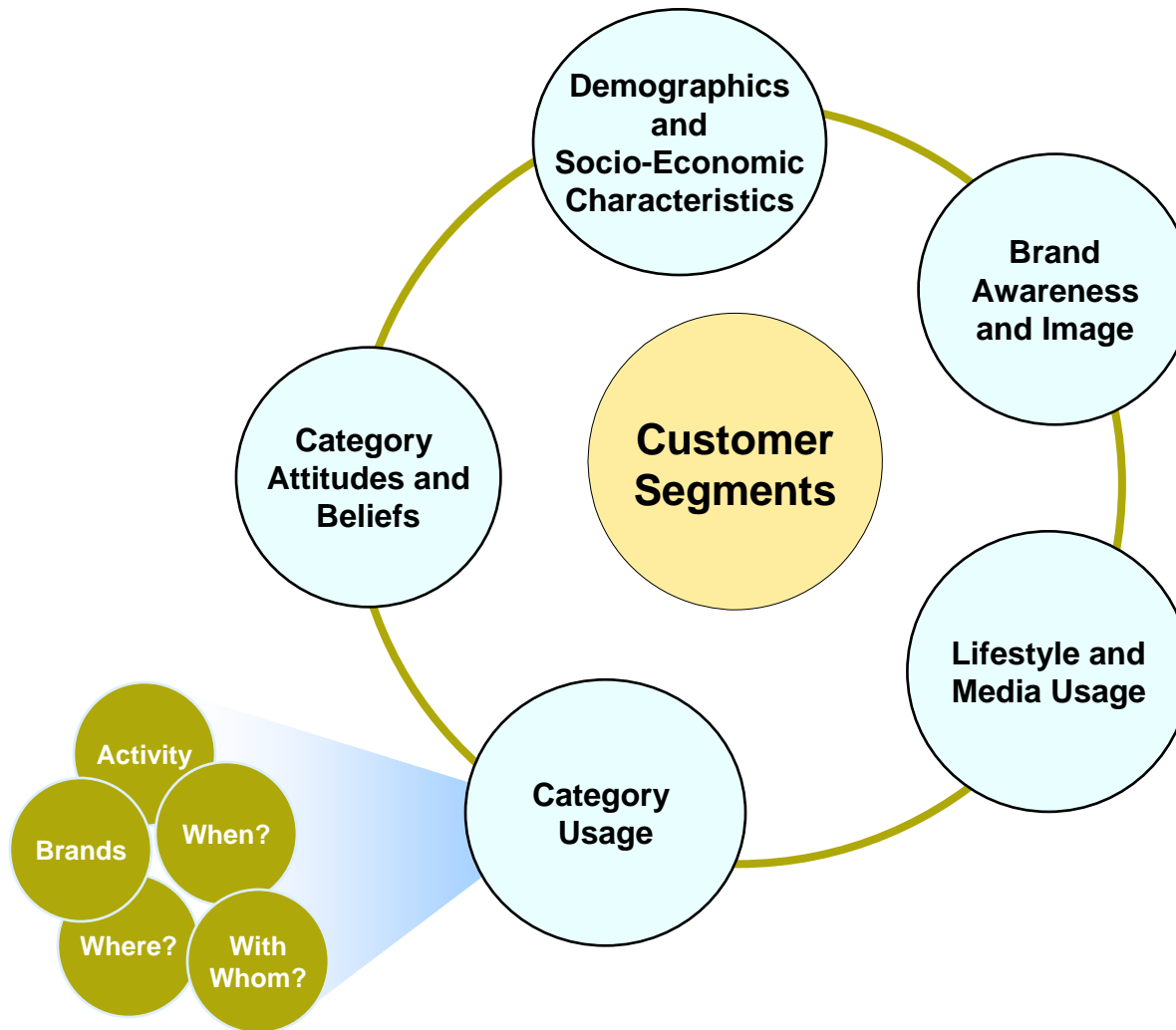
Identify Your Segments

How? By using a strong modeling approach to...

- Leverage different types of data
- Obtain diagnostics on how well the model fits the data
- Provides clear insight about the influence of different variables on the solution

**Latent Class Modeling meets these requirements
and provides superior segmentation solutions.**

Latent Class Segmentation



Latent Class Overcomes the Shortfalls of Cluster Analysis



	Considerations	Cluster Analysis	Latent Class
Key Element	Can properly handle mixed measurement levels of data?	No	Yes
	Diagnostic information	Limited	Excellent
	How many segments do you keep?	Arbitrary	Measures of fit guide final choice
	Penalty for too many segments?	No	Yes
	Creates Segments defined by	Exact membership	Probability of membership

What Is Key about Different Types of Measurements?

Forced Choice = Superior Discrimination on Drivers = Superior Discrimination Across Segments!

Maximum Difference Scaling is significantly more discriminating than more traditional measures.

- Rating questions are easy to answer, but too often result in poor item differentiation – don't force prioritization
- Rankings are difficult for consumers if a large number (7+) of attributes is required
 - More importantly, rankings show order but do not quantify the magnitude of differences between the ranks

MaxDiff is easy for respondents (a natural decision making exercise), forces prioritization, and shows the magnitude of the difference between items.

Example MaxDiff Task

For MaxDiff, alternatives are presented in small, manageable sets and respondents are asked to choose the “most” and “least” among each set.

Most Important		Least Important
<input checked="" type="checkbox"/>	Benefit #1	<input type="checkbox"/>
<input type="checkbox"/>	Benefit #12	<input type="checkbox"/>
<input type="checkbox"/>	Benefit #4	<input checked="" type="checkbox"/>

Most Important		Least Important
<input type="checkbox"/>	Benefit #12	<input type="checkbox"/>
<input type="checkbox"/>	Benefit #3	<input type="checkbox"/>
<input type="checkbox"/>	Benefit #9	<input type="checkbox"/>

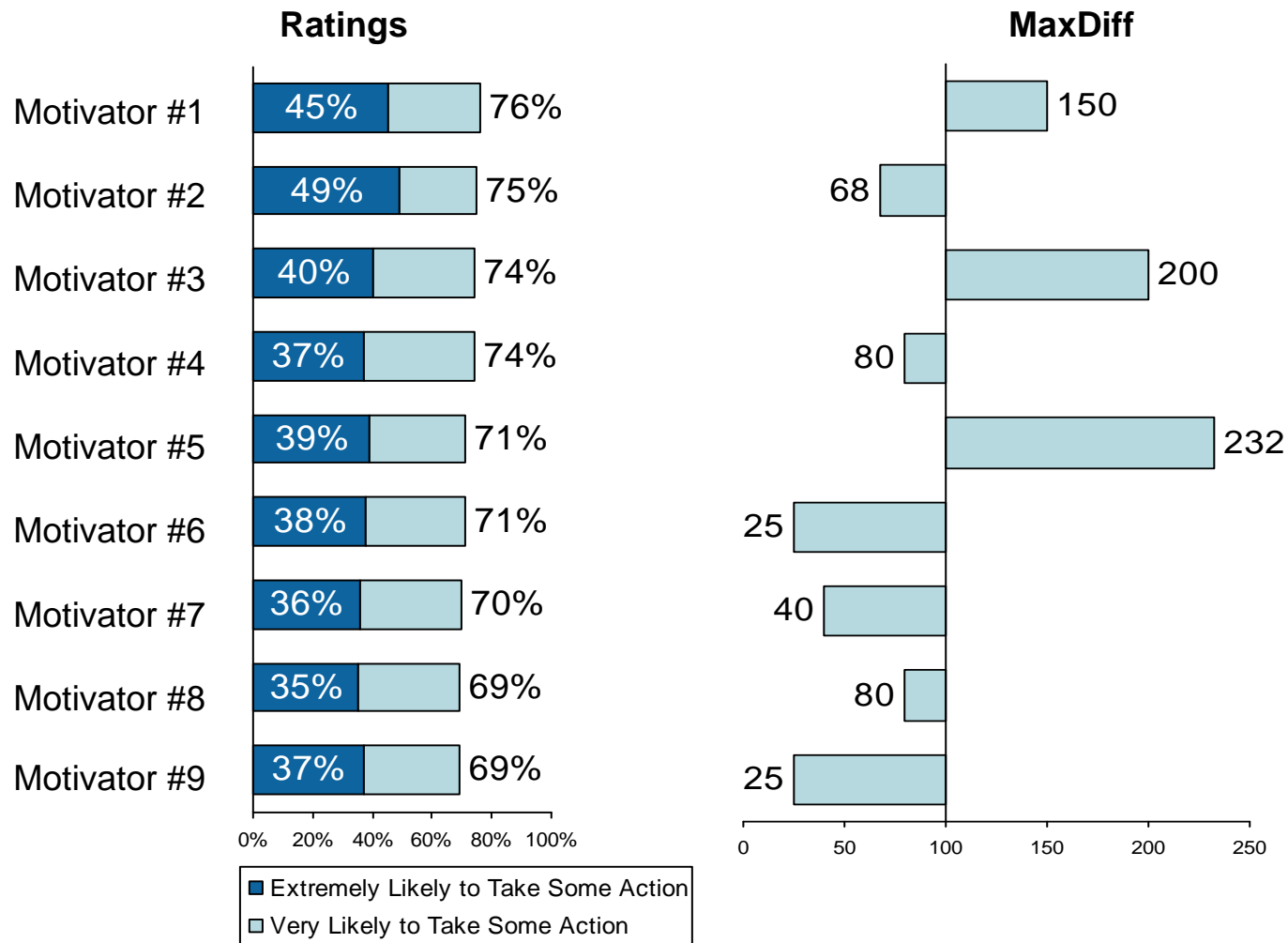
Choice Sets

- Required trade-offs
- Choice-based task
- Controls for order and context bias
- Needs no rating scale
- The Most-Least combination is the pair with the ***Maximum Difference***

Case Study: When Prioritized by Choice, Those Motivators that Resonate Best with Consumers Are Clear *and* Result in a Different Business Decision from Ratings Alone



Importantly, convergent validity supports the MaxDiff results

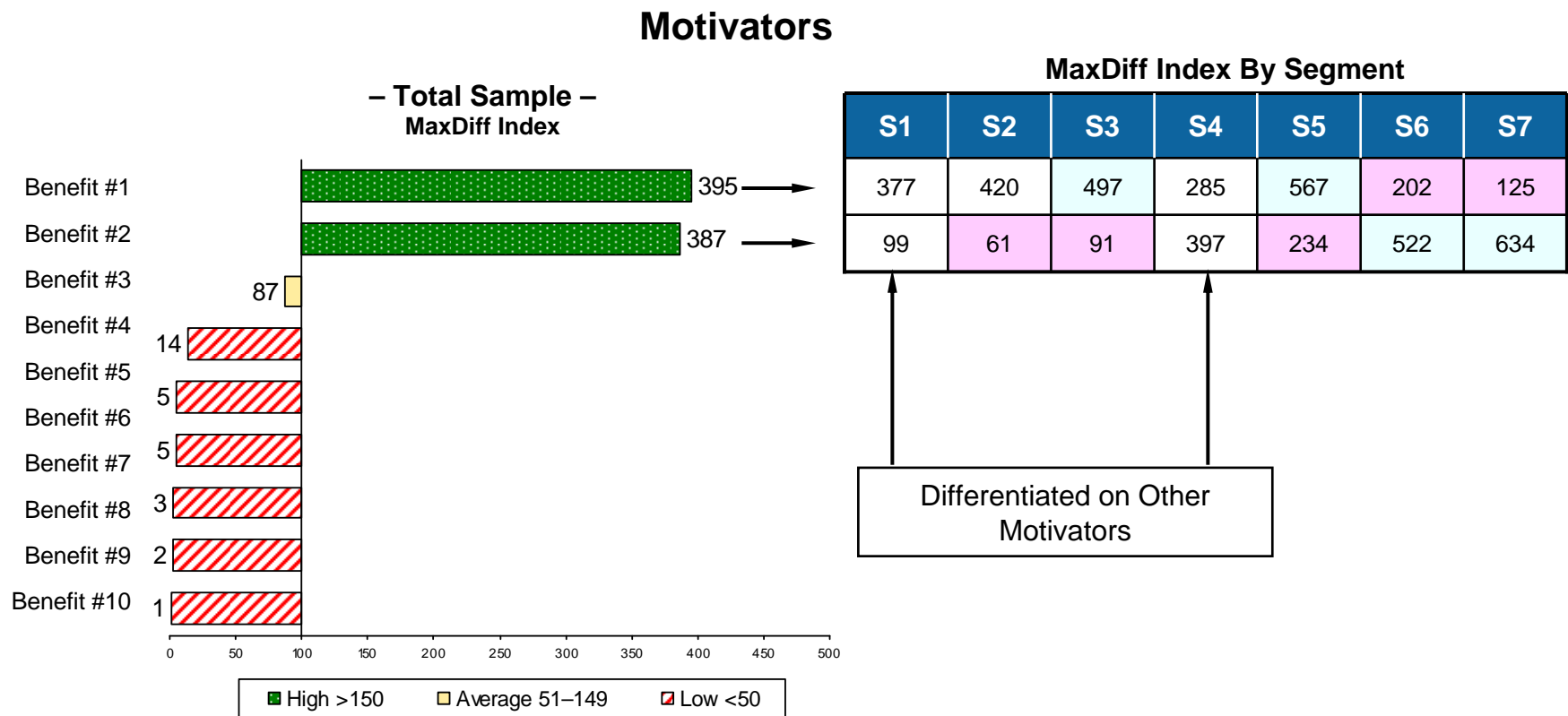


Choice-Based Driver Variables Result in Clear Segment Differentiation



Leveraging the indices from the MaxDiff exercise in the segmentation analysis provides richer inputs into the segmentation model resulting in segments defined by benefits sought and/or key importance drivers.

Clear differences emerge with a wide range from high to low.



Step 3: Select and Accurately Size Your Segments

Determine the Number and Relative Sizes of Your Segments

Plan an Early Workshop Session ...

This builds in time to examine alternative solutions to finalize the decision.

Recommended Selection Criteria

	4-Segment Solution	5-Segment Solution	6-Segment Solution
Improvement in Statistical Fit	✓	-	-
Distinctive Across/ Homogenous Within	-	✓	✓
Size Distribution	✓	✓	-
Meaningful? (Marketing Intuition)	-	✓	-

Develop and use key selection criteria to *guide* your decision – in the end, this will always be part art and part science.

Size Your Segments

Use high quality sample sources to ensure precise sizing of segments and opportunities.

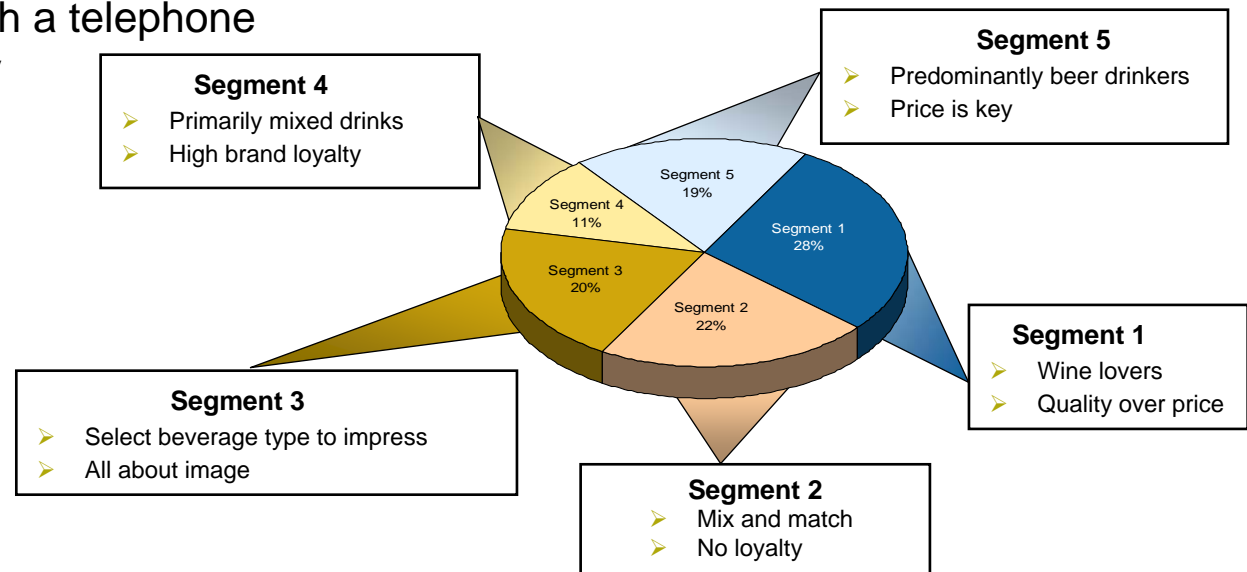
KnowledgePanelSM

Unique online consumer panel approach

- Based on RDD methodology
- National coverage
- Includes “non-internet” households
- Any U.S. household with a telephone has a known probability of being invited to join KnowledgePanelSM



Segment Summaries



Research Validity and Reliability Is a Business Issue – Excellence Needed *throughout* Process

Knowledge of specific industry

Research design

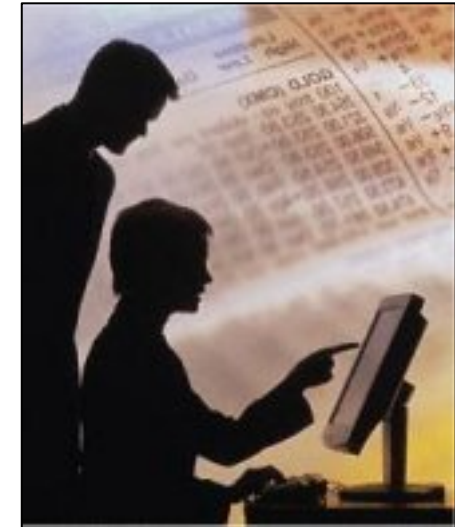
Quality of the survey experience

Quality of data collection

- Questionnaire design
- Quality of sample

Analysis and results

- Translation of data into findings
- Translation of findings into recommendations
- Ability to use a source that has proven replicability of results



Accurate sizing requires high quality data that can be subjected to well established, proven statistical principles and subsequently projected to the population of interest.

Step 4: Identify and Prioritize Target Segments

Among Your Targets, Which Is Most
Important and Why?



Prioritization Requires Really Digging In

Analysis of the segments requires in-depth examination of the profiles and really coming to know the segments.

Attitudes							Feature Importance						
	Total	S2	S1	S2	S3	S4	Total	S1	S2	S3	S4	S5	
I love life	12%	11%	36%	13%	43%	24%	Comfortable	309	●	⊙	⊙	⊙	○
I worry about looking older	15%	13%	18%	17%	31%	27%	Durable	325	⊙	●	○	●	○
I feel older than I want to	39%	36%	58%	39%	66%	52%	Versatile (works in a range of temperatures)	203	○	●	●	⊙	●
I follow my own path in life	60%	54%	36%	70%	57%	71%	Affordable	168	○	○	○	●	⊙
I love to try new things	25%	19%	10%	19%	26%	29%	Good fit	162	⊙	⊙	⊙	⊙	●
I am very physically active	44%	37%	13%	40%	22%	39%	Good value for the money	158	●	○	○	●	⊙
I look good for my age	47%	48%	27%	55%	37%	53%	Easy to care for	156	⊙	⊙	○	●	⊙
You are as young as you							Soft	141	⊙	⊙	●	●	⊙

Demographics		Total	S1	S2	S3	S4	S5
Mean age (years)		65	67	62	68	64	61
Non-ethnic (%)		87	86	88	87	89	84
Married* (%)		53	50	60	54	52	53
Completed college or more (%)		26	20	39	26	23	27
Working* (%)		32	27	42	31	33	33
HH Head*		93	93	94	93	93	93
Median HH income (in '000s \$)*		38	32	49	39	35	36
Any kids in household*		7	5	9	6	5	10
Region							
Northeast (%)		24	21	32	25	23	24
Midwest (%)		21	22	18	21	17	24
South (%)		32	32	30	32	38	28
West (%)		23	24	20	23	23	23
Insurance (%)		55	53	56	54	55	58

And, Digging More – Case Study of Prioritized Segments by Means of a Development Index

Segments may be prioritized based on a wide variety of criteria:

- Absolute size
- Alignment of needs with client portfolio
- Alignment of interests against current range of engagement vehicles
- Likely share gains
- Ease of future penetration and extent of barriers to entry, etc.

A composite attractiveness index can score segments across some/all of these factors.

Or, build a development index for a key product or service:

- Composite measure of attractiveness and size
- A development index of 100 for any segment would mean that its share interest is in direct proportion to the segment size
- Segments with high indices (>100) represent higher-than-average opportunity

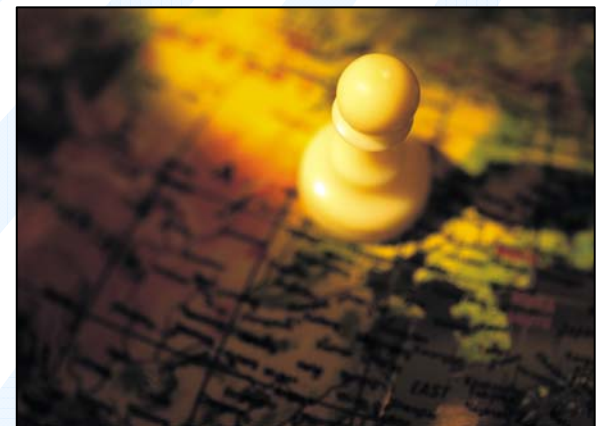
	A Size of Segment (%)	B Size of Segment (Sample Size)	C Likelihood to Engage (TB)	D Likely Users in Segment (Sample Size)	E % of All Likely Users in Segment (%)
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S1	17.9%	236	7.6%	18	8.3%
S2	6.5%	85	10.6%	9	4.1%
S3	9.3%	123	26.8%	33	15.2%
S4	22.9%	301	14.3%	43	19.8%
S5	2.8%	37	10.8%	4	1.8%
S6	40.0%	527	20.9%	110	50.7%
Total				217	100%

	% All Likely Users in Each Segment	Size of Segment	Development Index
S1	8.3%	17.9%	46
S2	4.1%	6.5%	63
S3	15.2%	9.3%	163
S4	19.8%	22.9%	86
S5	1.8%	2.8%	64
S6	50.7%	40.0%	127
Average	100%	100%	100

Step 5: Positioning Strategies and Messages

Implementing the Segmentation



KN Recommends Extensive Use of Workshops for ...

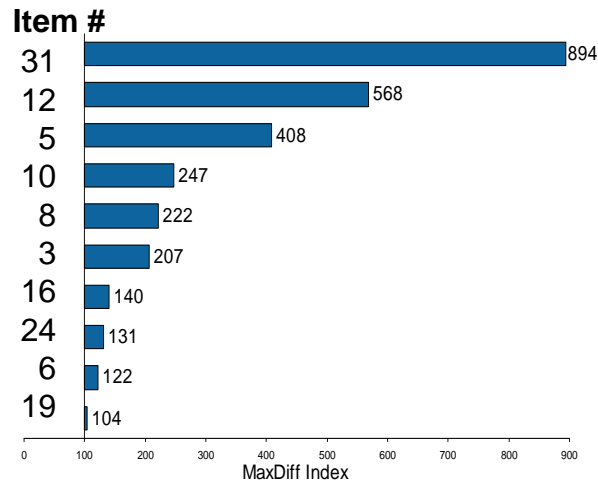
... developing positioning strategies and messages

First session should include only the core project team

- One or two of your key internal stakeholders
- Core marketing partners
- The vendor team

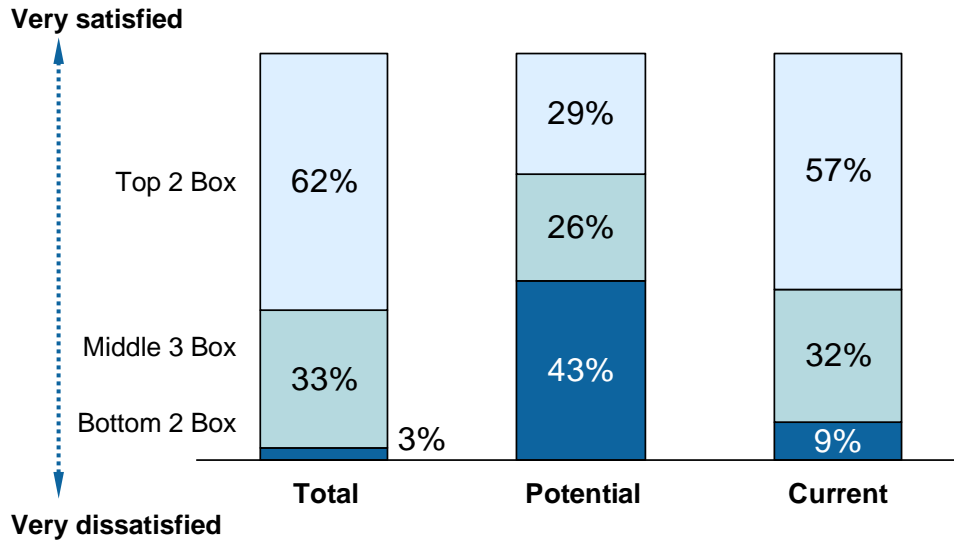
We started with this team during design, and we reconvene at this point for this initial strategy workshop.

Start by Getting a Handle on the Market



	Total Channels	
	Total Gen Pop	Store X Shoppers
Client Share of Spending	13%	31%
Client Share of Trips	13%	25%

Satisfaction with Current Product



	Grocery Channel Only	
	Total Gen Pop	Store Y Shoppers
Client Share of Spending	20%	44%
Client Share of Trips	23%	40%

Then Use Segment Profiles to Build Strategy

Motivation for Purchase

- Enjoy snacking alone
- Sense of enjoyment
- Can do a better job making fun snacks than my friends

What are their attitudes towards snacking?

- Take pleasure in making own snacks and rather often make them themselves
- A source of info about snacks for others

What are the barriers to snacking?

- Dietary requirements

What are their shopping needs?

- Sufficient quantities in stock
- Wide product selection

Attitudes

Needs and Products

Snacks only occasionally and serves snacks when friends come over on average 75% of the time. Higher propensity for sensible snacks that involve personal touches — such as snacks on crackers.

Who is involved in the purchase?

Purchase initiated by both respondent and spouse. However, respondent more likely to plan and do laundry themselves. Purchase decisions sometimes made just by the respondent and other times shared with spouse.

Where do they shop?

Most Often: Grocery store
Most Preferred: Mass Merchandiser

Behavior

Lifestage

Empty Nesters
Older Married/Singles

Demographics

Older (50+), Male
Household size of 1–2
Most Married, Some Widowed
Retired
Lower than Average Income
High School education



How do we win this segment?

Offer wide selection of products with good nutrition information
Appeal to sense of snacking enjoyment when friends come by
Focus on both snacking alone and social snacking

Keep focusing more depth and richness here – along with actions – this directly feeds the strategy

Extend the Next Workshop More Broadly

This session should be focused on bringing the segments to life for all the stakeholders.

- Sometimes using interactive exercises
- Others driven by profile reviews and creative brainstorming

To be most effective, the workshops must include all stakeholders, including marketing teams and agencies.

Affluent Gadget Lovers: Hypothetical Example

Older
Mostly men
Married



The most affluent
Most likely to own their home; own the largest homes
White collar
Highest income
Most satisfied with current standard of living






High interest in politics
Strong sense of duty as a citizen. Believe they can influence government decisions





Own largest number of gadgets. Most likely to own a foreign/luxury car. Most likely to own file insurance and investments







Most likely to watch cable channels, watch news and watch commentary-type programming





Second highest newspaper readership
Most likely to read WSJ. Highest book readership




The most innovative.
Highest usage of technology
Share decision-making
Invest time/money to get the best
Second least likely to pay cash

Most likely to contribute to charity and belong to orgs. Feel in touch with people. Enjoy the arts and culture

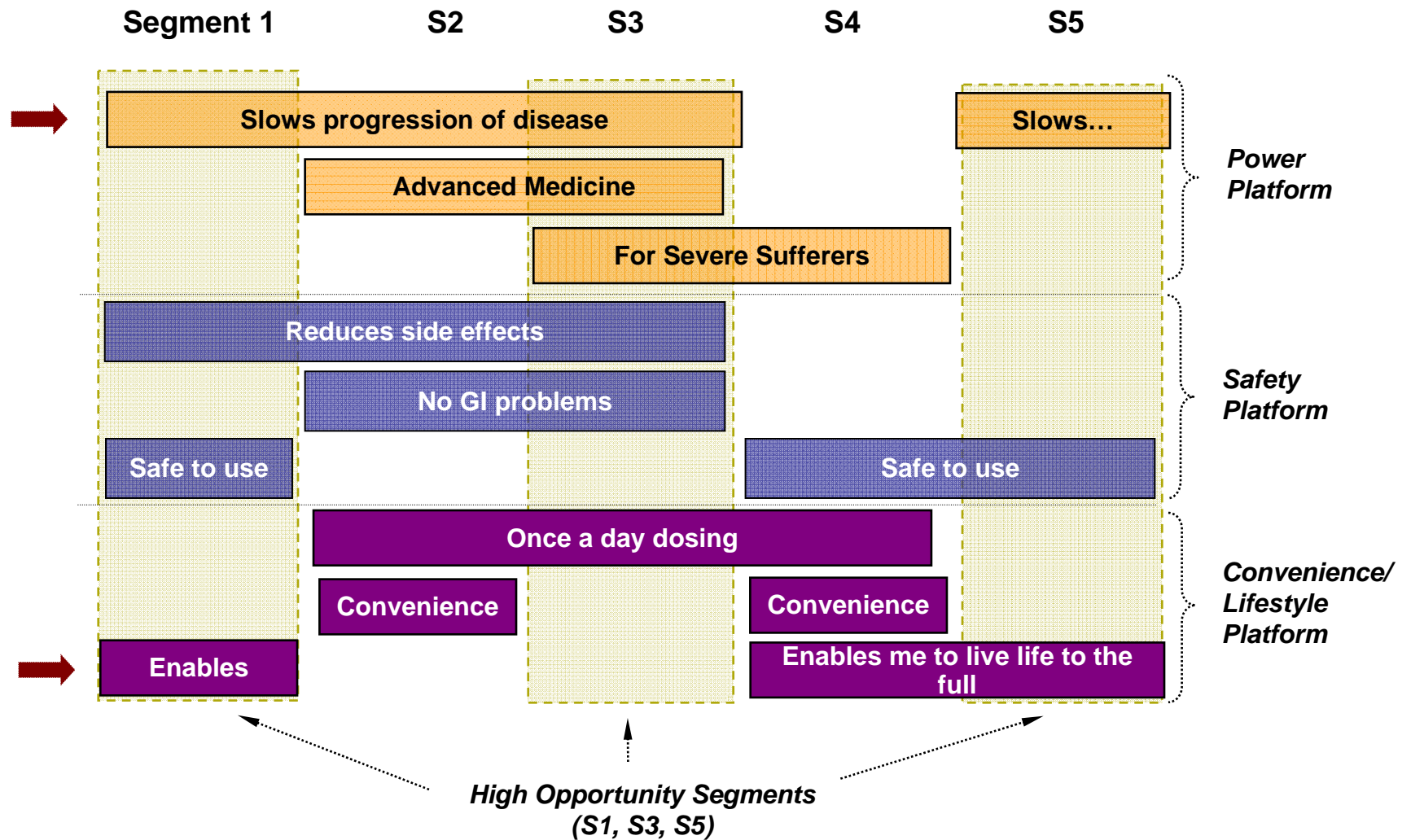
Be Ready to Look for Marketing Efficiency

Several high-opportunity segments, each with distinct need sets, can be unwieldy and costly from a messaging standpoint.

Questions to ask:

- What are the similarities between high-opportunity segments?
- What common positioning will resonate strongly among the high-opportunity segments?
- Is there a high-opportunity segment that is out of synch with other high-opportunity segments?
- Will some high-opportunity segments be tougher to penetrate than others?
 - If so, should these be treated as Tier 2 targets, rather than Tier 1 targets?

Identify Synergies across Priority Segments



Conclusions

Conclusions

The keys to success are to:

- Establish and refine your goals early in the process
 - Engage all key stakeholders at this stage
 - Design to meet business objectives
- Drive the segmentation with variables across different dimensions – both rational and emotive
 - Use superior measurement techniques
 - Data quality is crucial
- Use a flexible modeling approach that allows you to use key metrics to evaluate solutions
- Workshop through alternative solutions with your stakeholders
- Use inclusive and extensive workshops to formulate strategic and tactical action plans against the segments

Thank you for your interest

To replay this webcast (*available as of 2PM EDT on 5/24/07*):
go to www.MarketingPower.com/webcasts

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