Value of segmentation models in marketing

By Amanda Cromhout

Sounds easy doesn't it? But how do you start such a strategy? Do you even know who your most profitable customers are?

Typically, most data led organisations understand the need to identify different segments of their customer base to drive better marketing plans. However, there are so many organisations out there which do not do any data led segment planning to derive stronger marketing results. For those organisations, I hope this is an eye-opening read...

There are many different types of segmentation models but the one I am referring to in this piece is the RFV segmentation model, simply known as the Value segmentation model - or the Recency, Frequency & Value segmentation model. It does just that; it measures the recency of customer spend/transaction, the frequency and the value (e.g. value of financial transaction or retail basket size).

So, how is this useful? A model like this allows you to identify your most profitable customers. It may, for example, show you that your top 4% of customers are worth 23% of your turnover. Equally, at the opposite end of the scale, you may see a huge amount of customers only yielding about 5% of revenue. Globally, retailers seem to follow a trend of the top 3% of customers yielding approximately 20% of turnover.

Amazingly, the gaming world tends to see its top 4% of customers are worth 58% of turnover. Wow. You can rest assured that the gaming industry uses value segmentation in a very sophisticated manner and knows its top 4% customer behaviours, trends, likes and dislikes *intimately*.

What is a segmentation model used for?

So what is this magic segmentation model used for? Firstly, it is used for good old fashioned direct marketing. However, surprisingly, you may not always get the results you expect.

A novice CRM marketer may feel that they must communicate offers and campaigns to their top tier customers. However, imagine as a retailer that your top customers are in the store frequently. They already know and love your brand, so they may not be the most responsive to a seasonal trend release email campaign. They have probably already know of your trend release dates, as they are more emotionally involved with your brand.

You are more likely to see positive results from your middle tier customers who are slightly ambivalent about your brand. They shop more than once but not too frequently, so you probably have more to gain by enticing *them* to your store if you offer the right service or product in a personalised and targeted manner.

Don't ignore the top and bottom customer tiers though. Remember that even your most loyal customers are spending a significant amount of money at competitor brands - not even the most entrenched customers spend all their money in one place. You need to inoculate your most profitable customers against the inevitable seduction of your competitors!

Make sure you reward these customers appropriately and keep them engaged in your brand. This way they will not only continue to spend regularly and with great value, but will also become your brand ambassadors, on- and offline.

A more sophisticated approach

So what about the lower tier customers in the value segmentation model? Typically, you may not get much of a boost from a direct marketing campaign aimed at them, as they may not seem very interested in your brand.

Maybe a big discount offer would yield some results, but at what cost to margin and brand perception? Rather take a more sophisticated approach.

These customers may be brand 'detractors'. You may or may not use the Net Promoter Score research tool, but basically, after one simple question: "Would you recommend brand X to others?" - you get a sense of how many of your customers will 'promote' your brand, 'detract' from your brand or are 'passive' about your brand.

Imagine if there is a strong bias of 'detractors' amongst your lower tier value customers. It may be worth creating a brand perception/win-back campaign in an aim stop the negative influence of these detractors - even if you don't expect to see an increase in sales from a campaign.

Let loyal customers do the talking

Equally, if you know your promoters and where they sit within your value segmentation, you must seek to engage these customers so you can successfully achieve positive word of mouth at a lower cost, rather than a broadcast brand campaign. Let your most loyal customers do the talking for you.

Finally, in my experience, if organisations know how to use value segmentation properly, they begin to use it as a long-term strategic tool. You can see year-on-year trends across different customer tiers. You may see a decline in your most profitable customers as a clear indication of poor sales performance on the horizon. It is a more powerful strategic indicator than simply being used for marketing campaign customer selections.

Such customer tools are available to assist all brands to run their customer strategies. Are you making use of them? Do you know and appreciate your most profitable customers?

ABOUT AMANDA CROMHOUT

Amanda is the founder & CEO of Truth. Amanda's extensive experience in the field of Loyalty & CRM has put Truth at the forefront of loyalty in South Africa. She enabled customer-led sales and marketing strategies across the UK, Africa, Middle East and India, at British Airways for 11 years. She has also spearheaded the Customer (CRM) division at Woolworths, South Africa's no. 1 premium retailer.

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