Loyalty Begins With the Right Customers: Pinpoint Your Marketing Efforts Through Smart Segmentation

By Laura Patterson, VisionEdge Marketing, and Bruce Milne, HyPerformix

Bruce's company, HyPerformix, provides capacity and performance management software for enterprise systems. Its complete end-to-end view of distributed IT environments gives organizations a unique capability to understand all the systems and components implicit in business processes and to optimize those processes through informed IT decisions.

HyPerformix has developed an excellent track record in some key industries, including retail banking; property and casualty insurance; and life and annuity insurance. Looking to expand, the company identified SAP as a key platform with some common pains that matched its capabilities. But like many companies, HyPerformix didn't have the resources to pursue all markets at the same time. It needed to select one or two segments that had the highest potential to pursue first. And executives wanted a disciplined approach that would serve as a model for future efforts.

As you can imagine, this generally requires some type of customer and market segmentation. Segmentation is the process of dividing a market into a subset of homogenous groups, each of them reacting differently to promotion, communication, pricing and other variables of the marketing mix. The philosophy behind segmentation is that members of a segment will respond in the same way to a value proposition and have similar needs. As a result, they should respond similarly to a particular marketing strategy. Segmentation, then, is an important part of the foundation in the marketing mix.

Some of the most common reasons to segment include improving the ability to serve customer needs and to sustain customer relationships across the customer lifecycle. Segmenting appropriately can result in higher profits and opportunities for revenue growth. Through segmentation, you can develop niche strategies and focus your marketing and sales activities on the most attractive opportunities. Executed well, segmentation-oriented marketing approaches can increase your revenue and share of market while allowing you to develop strong relationships with your customers.

Fact-based approach

HyPerformix set about to create a repeatable fact-based approach to segmentation. This meant that, rather than selecting a segment based on subjective criteria such as affinity for a particular market or salespeoples' opinions, HyPerformix would build a model using objective data-driven criteria for analyzing and prioritizing segments. This type of approach matches the company's culture and value proposition around making informed decisions.

To help HyPerformix achieve this objective, the marketing team brought in Laura's company, VisionEdge Marketing. VisionEdge Marketing has a model that allows companies to compare customer segments on an "apples-to-apples" basis. The VisionEdge Marketing model evaluates segments against two primary categories: accessibility and opportunity. Accessibility describes how easy the segment is to approach, given the organization's current markets and expertise; opportunity describes the size and profitability of the target segment. We used the model and the resulting analysis to figure out which customer segments had the greatest potential for success.

We created a grid (Figure 1) with accessibility along one axis and opportunity along the other.

To create a model similar to this one, you will need to define three to five specific criteria against to weight and rank each segment. For HyPerformix, our criteria for accessibility included SAP market size, number of HyPerformix customers who were also top performers and the percentage of top performers who were already known targets in the HyPerformix marketing database. The criteria for the opportunity axis included the number of businesses in that segment, the industry growth rate, percentage rollbacks from SAP implementations (the "pain" HyPerformix would propose to ease for the potential customer), proportion of migrations to Netweaver, IT spending trends and the SAP application growth rate.

A 10-step guide to building your own model

1. Identify three to five criteria for each of accessibility and opportunity. You will want to select criteria that are specifically relevant to your business model.
2. Determine the availability of the data for each criterion. You'll need to modify those for which you have no data.
3. Allocate 100 points across the accessibility criteria and another 100 points across the opportunity criteria.
4. Weight the criteria by apportioning the 100 points across them. Try to avoid giving equal weight to multiple criteria.
5. Determine three ranges or "standard deviations" for each criterion that will be used for weighting. Give the best case a 3 and the worse case a 1. Assign the middle case a 2. You now have a 1-, 2- and 3-weight for each criterion.
6. Using various data sources, collect the data for each criterion in each segment. Score each segment using the same 100-point allocation approach.
7. Multiply the score and weight to calculate your total number of points for opportunity and accessibility for each segment.
8. Plot the segments on a grid.
9. Apply the "test of reasonableness." As in the banking example, sometimes, out-of-band data can skew the results; make sure that you apply common sense to your interpretation of the results. You can't put all your faith in the numbers. Marketing is still a mix of art and science and you still need to apply your experience and skill to the decision.
10. Pursue those segments that have the highest accessibility and opportunity scores.
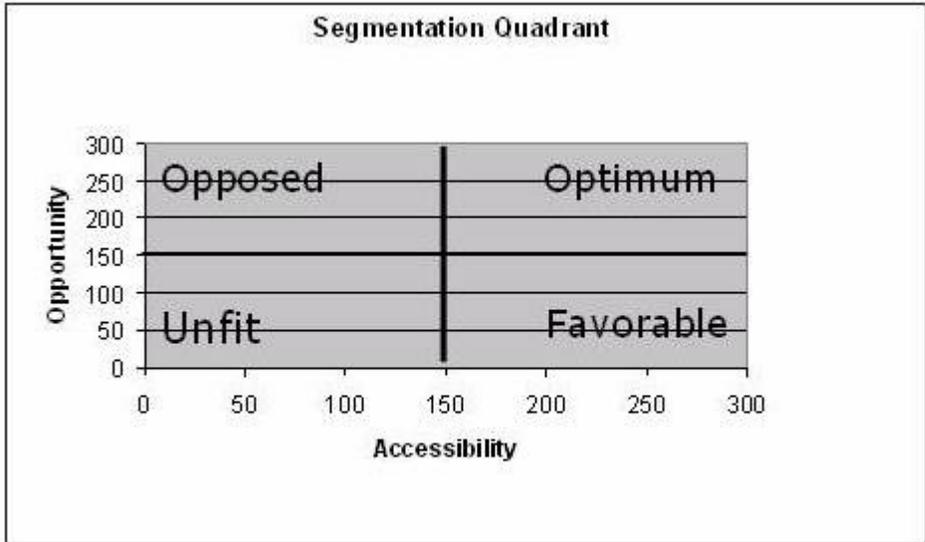
—*Laura Patterson and Bruce Milne*

Figure 1: Segmentation Grid ©1999. VisionEdge Marketing, Inc.

Figure 1

The VisionEdge Marketing team then researched data related to the criteria for each current customer segment. Using the model and the results of the research, the team scored each segment against the opportunity and accessibility criteria, allowing us to place the segments numerically on the grid. The process helped us determine that customers in retail banking and life and annuity insurance—traditionally strong markets for the firm—as well as manufacturing— an emerging market—sat in the upper right-hand corner of the grid, meaning that these segments offered the highest accessibility and opportunity based on our criteria (Figure 2). At this point, HyPerformix applied the lens of "reasonableness" to the market evaluation. For example, banking is a good existing segment, and while it scored unusually high on the grid, the HyPerformix team saw that, because of the number of potential banks in each of the regions, the level of investment didn't make the segment one of the best options.
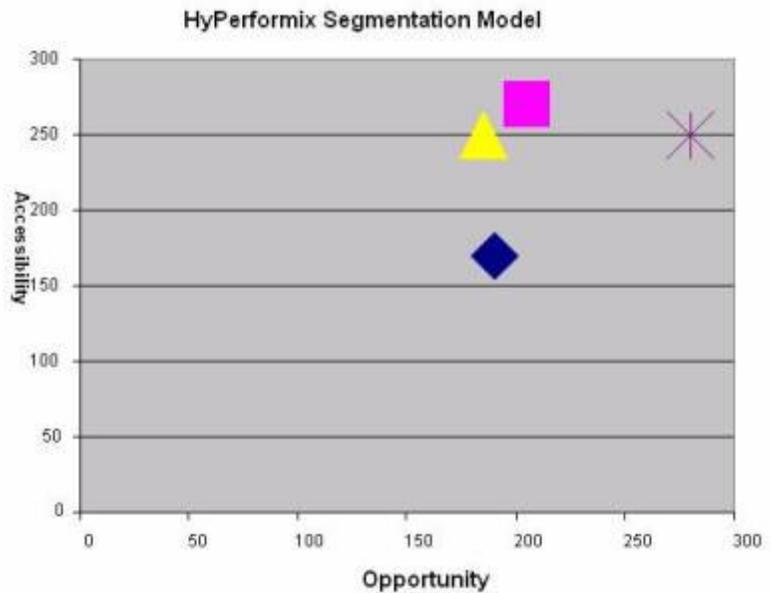

Figure 2

Building the model is something anyone in any company can do. The real challenge is establishing the criteria and then doing the research to gather the data needed to score the segments.

This process enables you to make fact-based decisions. And it is possible for any company to deploy this process. If you attempt to do this on your own, be careful not to build in any internal bias.

By diligently applying market research to go-to-market efforts over the course of 12 months, HyPerformix was able to grow its presence in the SAP market eightfold and develop a targeted sales pipeline that is more than 50 percent SAP-based.