

Targeting & Segmentation



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If Direct Marketing is the focusing of resources on the superior opportunity then targeting is the activity which identifies the superior opportunity. In other words, targeting is the technique used to locate the prospects that are most likely to want to buy from you.

In this context the term "prospect" means "anyone whom you are trying to get to do or buy what you want in the context of your campaign." In general we are talking about new people or businesses that we do not know, but occasionally we may also mean existing customers to whom we wish to sell something more.

Finding the right people



How do you find the right people for your promotional offer? There are several ways, including: database analysis, testing, research and last but not least, your own intuition based on experience.

Database analysis is the best way of all. If you have a database of existing customers and prospects you can use the information that you have about who bought or inquired about a particular product and their buying methods, timing and so on to draw up profiles of your best customers.

You can use these to identify good segments of other lists.

Testing is the next best method. Run a promotion in a suitable medium or mail a rented list that seems roughly appropriate. Analyze the replies. Profile the respondents, perhaps simply by gender or job title or geographical location or perhaps using more sophisticated criteria. Then next time you can specifically target the sort of people that responded to the first campaign.

Research, sometimes referred to as profiling, will also help you identify the right people. This is sometimes done by postal or email questionnaire, but more often by telephone. The object is to find out who in a household or business will be interested in the product. The important thing here is to ask

someone who will actually know the answers. In the household situation this is fairly simple but in business it can be a little more complex. The receptionist will probably be able to tell you the name of the chief information officer but would probably not be reliable about the name of the person responsible for mobile tablet purchasing for the organization. The best person to ask about the members of a decision making group in a business environment would be someone like a C level executive's personal assistant.

Using your own intuition based on experience is the last and most dangerous way of making selections. You have to make sure that your intuitive judgments are based on fact so that you are not just guessing. Guessing and guessing wrong can be very expensive.



Targeting your best prospects

You start by understanding your best customers.

Whether we want to sell more to existing customers or find new customers, the best place to start if you have any existing customers, is with them. Understanding these good customers will inform your planning for new business acquisition. You may well want more new customers that look like your best current customers.

Start with considering why your customers buy from you.

Are they buying the same thing as you think you are selling them?

How do they make their buying decisions?

Who is involved in those decisions (title, job title, job functions)

The decision making group is particularly important in business to business markets. It may consist of several people at different levels of authority with different needs and wants. Who should you contact?

Probably all of them as this is the only way you will cover all of their needs and wants. This sounds expensive but the whole point is that you communicate the right message to the right person. And if you stand a better chance of making the sale then the extra cost can be justified.

Types of relationships

Next you look at the types of relationships your prospects and customers have

with you.

You can view all the people on your database as standing at various points on a ladder that is moving upwards. At the very bottom are people that may not even be aware of your products and services. A little further up are those who you know have a likely interest but do not know much about what you can offer.

At the top are your best customers. In between are the 1-time buyers or the occasional buyers. At various points along the way are exit platforms at which people leave you.

For targeting your existing contacts consider where they stand on that relationship ladder. Are they at the bottom, completely unaware? Are they about to jump off? Are they longstanding regular customers or are they inquirers? Once you know where they are then you need to talk to them relevantly. The level of information each step on the ladder needs from you is different. Start simply by communicating differently to inquirers, customers and lapsed customers.

Direct marketing is about more than simply personalizing your communication. Personalization can make you look extremely silly if you treat an old customer like a brand new one. You need to make the message and offer extremely relevant to the recipient.

Managing customer relationship



It costs big bucks to acquire new customers, which is the reason that businesses are so focused on trying to keep the customers they have.

There are really two phases to the relationship – in direct marketing terms the front end and all the related activities which include acquisition and conversion. The second phase is the backend which includes all marketing activities related to keeping a customer an active buyer and advocate for the company and its products/services. It involves all retention and reactivation activities.

Unfortunately, all customers go through this life cycle. Some never make it past acquisition, some fall out after being good buyers for some time and then we're forced to spend dollars on activities designed to reactivate the customer.

Most companies don't make money on a customer until they have become a

backend customer.

It is possible to build a business model where you can make money simply by acquiring a “customer name,” examples would be directories which become mailing lists which become a marketable commodity in the list rental arena.

Another example, which is very prevalent today is the business based on the advertising revenue model...where the audience never buys from the marketer, but buys from the advertisers who buy advertising media space from the content provider.



Segmentation is the final step in targeting your best prospects.

You do segmentation so that you can target the segments most likely to be interested in a particular offer. You do it so you can tailor your products, services, offers, and messages better to the recipients.

Segmentation means breaking down into smaller groups or segments. Breaking down customers and prospects by their existing relationship with you is the simplest form of segmentation.

Segmentation permits selectivity. Selectivity makes direct marketing, and especially direct mail and email very cost effective ways of doing business. You can only achieve selectivity if you have information about people and their situations.

Segmentation works on the theory that parts of a list have more sales potential for a particular product or service than other parts of it. You get more sales from customers by matching offers to customer buying preferences. How much segmentation you can do, depends on the size of your lists or the lists you want to rent.

Why do it? Because you want to know the answers to these questions whether you're your own list (house file) or an outside list that you want to rent:

- Who are my best customers or best prospects?
- What do they buy from me or my competitors?
- Why do they respond to my mailings or other businesses' mailings?
- How do I retain them and increase their purchases?
- Where do I find others like them?
- When do I sell them more effectively?

List Segmentation Methods include:

- Sex and other demographics (reductive segmentation)
- Geography (reductive segmentation)
- Source
- Behavioral segmentation characteristics (lifestyle, buy cycle)
- Psychographic segmentation overlays (attitudinal, e.g., Empty Nesters, Psyte Clusters)

Behavioral segmentation characteristics include:

- “RFM” or “FRAT” or “FRAC”
- Mode of payment
- Types of products purchased
- Length of time on file
- Source
- Date of last transaction



How should the marketer approach the challenge of list segmentation?

The first task is to select data to be used in the analysis, and it is desirable to consider whatever information is available from the highest priority categories.

1. Highest priority and most useful are data related to direct response transactions. Examples are:
 - a. Acquisition source or method
 - b. Type of action: inquiry, order, etc.
 - c. Date of most recent action
 - d. Date of first action
 - e. Frequency of action
 - f. Monetary value of action
 - g. Type of product purchased or inquired about
 - h. Use of credit or credit card
 - i. Seasonal buying pattern (Christmas only, Spring only)

- j. Medium priority and sometimes predictive are non-transaction data describing the particular buyer or prospect. This information is often very difficult to obtain on an accurate and consistent basis.
- k. Demographic (age, sex, marital status, family composition, occupations of male and female heads of household, education, family income, home ownership, etc.)
- l. Psychological or psychographic (intelligence, personality characteristics, interests, activities, and attitudes)
- m. Geographic (location, population density, big city influence, climate, etc.)
- n. Lowest priority and generally useful only when other information is not available are data describing the general characteristics of groups to which the individual belongs. These are:
 - o. Demographic characteristics based on averages for Zip or Census areas
 - p. Interests based on occupation, job title, etc.

Interests based on the assumption that like-minded people tend to live in proximity to one another (i.e. mailing to the next door neighbor or new residents of a house from which a customer has just moved.)

These are the major things that you should consider when you are in the process of developing your targeting and segmentation plans.

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About the Author

Dudley Stevenson, founder and CEO of DWS Associates, has over thirty-five years' experience in consumer marketing, business-to-business marketing, and direct marketing, including developing, planning, and implementing go-to-market strategies. He's also the author of "Marketing Direct: Breaking Through The Clutter." Working with organizations ranging from start-ups to Fortune 100 companies, he and his team have helped clients such as IBM, SAS Institute, Sony, Neiman Marcus, Arizona Highways, Marshall Field & Co., Mrs. Field's, UNICEF, SSA Global Technologies, Hartmarx, and Patagonia implement successful direct marketing programs. A longtime member of the Direct Marketing Association and the American Marketing Association, Stevenson is also a sought-after speaker. He's given hundreds of presentations and workshops on marketing and direct marketing. His "Marketing Planning 101" workshop alone has reached more than sixty thousand marketing and sales professionals.

About DWS Associates

Founded in 1982, DWS Associates is a full service marketing firm that develops and implements multi-channel marketing programs for organizations targeting business-to-consumer and business-to-business audiences in global markets. Our focus is on data-driven, innovative lead generation, lead nurturing, retention, and referral programs that attract, engage and retain profitable customers. Our staff is highly experienced in market research, competitive intelligence, business intelligence and analytics, strategic planning and campaign management - so we help you increase sales and marketing performance while building strong, unique, differentiated brands.