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CUSTOMER SEGMENTATION STRATEGIES FOR ECOMMERCE SUCCESS

This whitepaper explains how B2C and B2B companies can utilize customer segmentation fundamentals to improve ecommerce results.

March 2013

Summary

Consumers today have more choices and a higher degree of control over the purchase process than ever before. In order for business-to-consumer (B2C) and business-to-business (B2B) companies to succeed at engaging and converting customers both online and off, they need to understand them on numerous levels.

Customer segmentation (or "market segmentation") is a tried-and-true marketing research technique used to group and target customers according to multiple attributes. While market segmentation research can be can be cost-prohibitive for some companies, most organizations can still leverage low-risk, fundamental segmentation strategies to improve their ecommerce success.

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The Role of Segmentation

In terms of its role in market research, segmentation is as important today as it was when it first emerged in the 1950's.[2]

Fueled by the double-digit growth of ecommerce[1], today's consumers have an unprecedented amount of product/service choices and control over the purchase process. With constant access to an abundance of information, brands, channels and sellers, consumers alone determine what, when, where, how and why they purchase.

For this reason, it is more important than ever for B2B and B2C companies conducting business online to understand their customers and the myriad factors that influence the purchase decision.

Customer segmentation can help deliver those insights. In terms of its role in market research, segmentation is as important today as it was when it first emerged in the 1950's.[2] It involves the iterative process of identifying distinct groups of people or businesses that have one or more specific attributes in common. Those attributes may be demographic, geographic, psychographic, or behavioral in nature. The primary purpose of segmenting your online customers is to know them better in order to more successfully predict the products and services they may be interested in and matching them with the most relevant offers and messages. Doing this successfully for ecommerce customers takes diligent and ongoing planning, tracking, analysis and action—but doing it well pays off.

BENEFITS OF PROPER SEGMENTATION INCLUDE:

Improved customer experiences with brand

Increased volume of qualified sales opportunities

Higher conversion rate of opportunities into revenue

Reduced time and personal touches needed to close a sale

Increased repeat business

Higher average sale price and/or up-sell rate

[1] comScore.com, Feb. 7, 2013
[2] Cossin, Kenneth, Customer Segmentation: A Contemporary Historical Perspective, Feb. 16, 2011.
[3] Raouf, Firas, Market Segmentation – The Means to More Profitable Growth, March 3, 2010.

Collectively, these can drive higher sales volume at lower distribution costs, resulting in increased operating efficiencies.[3]

Along with benefits, there are challenges associated with segmentation. One challenge for many organizations is the ongoing investment and commitment required by segmentation research. Developing and applying a segmentation model tends to be time-consuming, labor intensive, and costly. In addition, the data is dynamic. It must be continually collected and analyzed, and actions taken in order for a segmentation model to work in a fast-moving, multi-channel environment. Understandably, not all companies are willing and able to invest in developing and managing their own customer segmentation model.

Most organizations can, however, apply proven fundamental segmentation strategies to enhance their ecommerce efforts.

Segmentation Strategies

The "acceptance test" was developed to ensure market segment viability.[4]

Ensure Segment Viability

Ensuring that customer segments are viable may seem like an obvious step, but even the best of companies are guilty of pursuing market segments that they later learn cannot be monetized.

To prevent that from happening in his business endeavors, Firas Raouf, a seasoned venture capitalist, developed an "acceptance test" for ensuring market segment viability (see below).[4] If you answer "no" to any of the following questions for a particular market segment, most likely it is not a segment you should pursue.

Market Segment Acceptance Test

- ☑ *Identifiable:* Is the segment distinct enough such that its members can be identified?

- ☑ *Measurable:* Is it possible to determine the segment size?

- ☑ *Significant:* Is the segment large enough to be profitable?

- ☑ *Homogeneous:* Are members within the segment similar?

- ☑ *Heterogeneous:* Are members between segments different?

- ☑ *Reachable:* Is the segment reachable via promotion and distribution efforts?

- ☑ *Responsive:* Is it responsive to marketing messages?

- ☑ *Compatible:* Does the segment align with your company's mission and strengths?

Consider Customers Multi-dimensionally

Although market research companies have been compiling and selling demographic, geographic and lifestyle information about consumers for decades, countless organizations in a wide range of industries continue to view their customers based on only one or two attributes. Some banks, for example, continue to use relationship value as the variable for segmenting their customer base. This type of one-dimensional customer segmentation can be limiting. Organizations that segment this way are not harnessing the full power of customer data; nor are

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[4] "Raouf, Firas, Market Segmentation – The Means to More Profitable Growth, March 3, 2010.

they building the kind of customer intelligence that can lead to product/service innovations. All customers in all industries are multi-dimensional.

In order to appeal to them with relevant experiences, messages and offers, your company should be looking at them multi-dimensionally and segmenting them accordingly.

To do this, consider the attributes of your customers and prospects in terms of the information categories below. Then create homogenous groups and test them against the acceptance test above.

• Demographics – Age, gender, household income, marital status, renter/homeowner, etc.
• Geographics – Location of household and place of work
• Psychographics – Personal characteristics such as roles in life, interests, attitudes, preferences
• Behavioral – Purchase history; online behavior and habits

Leverage Advanced Ecommerce Technologies
Some ecommerce website platforms have smart data analysis and customer segmentation tools built right in. These allow you to create a separate profile and "store" for each segment you wish to target—making it possible to deliver relevant customer experiences to a wide variety of audiences via targeted content, product pricing and promotions. For example, an online retailer of specialty foods could build an ecommerce website containing a custom store for each of its product lines. The company can then deliver specific promotions tailored to meet the distinct preferences of the customer segment(s) associated with each store. These are the types of personalized ecommerce experiences that lead to increased sales and brand affinity. Today's savvy and demanding customers expect e-retailers aren't the only businesses that can benefit from advanced ecommerce technologies, however. B2B organizations can use a multi-store strategy to reach multiple, disparate groups and make specific products/services and capabilities available to them online.

A chemical manufacturer could, for example, create a distinct store for each of the following audience segments on a single website: industrial customers; government customers; education customers; distributors; affiliates. With an advanced ecommerce platform, the number of stores is nearly unlimited, and all are managed via a single admin interface.

Advanced ecommerce platforms have been proven to deliver higher returns-on-investment in less time than other ecommerce platforms on the market.

Custom store creation, data analysis and segmentation capabilities of these platforms are further enhanced by the speed to market they offer. Because the architectural framework is light and flexible, deployment of stores is rapid. You get to market faster, reaching all of your market segments with targeted promotions and experiences ahead of your competition. In addition, cost of these types of systems is competitive and the labor investment is low. They have been proven to deliver higher returns-on-investment in less time than other ecommerce platforms on the market.

Znode®

Customer Segmentation Strategies
for Ecommerce Success
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Znode®, a Columbus, Ohio-based company has established itself as an industry leading ecommerce solution. Our highly flexible ecommerce platform enables businesses to easily build and manage rich, multi-store and multi-device ecommerce websites with a significantly higher ROI.

Znode is trusted by leading global brands including LoJack, Waste Management, Wawa, Channellock, Arbor Day Foundation, Sonos, Fechheimer (Berkshire Hathaway), and other B2B and B2C companies worldwide.

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