The fruits of segmentation

An extract from Perspective: The Responsible Lending Issue

Essential insights into the issues facing your industry today
Perspective talked to Andy Marson, Products Leader, Equifax Touchstone, about the benefits of market segmentation to both organisations and their customers.

We’re all different
In the U.S. Declaration of Independence, Thomas Jefferson stated that, “All men are created equal”. For many decades, organisations around the world have taken this to heart, treating customers as a homogenous group, adopting a one-size-fits-all policy to product design, marketing, customer service and written communications, amongst others.

But with more than 64 million people in the UK, all with different attitudes, financial statuses, at different life stages, with varying kinds of household composition, levels of education, appetites for risk, hobbies, interests in technology – the list can go on – it’s clear that any organisation that treats everyone the same is unlikely to be meeting the needs of either their customers or their own business.

Segmentation is vital
While the dream might be to treat every person as an individual, no organisation has all the relevant information to be able to do this. Nor would they have the capacity to individually tailor every product, service model or communication to each and every recipient.

Instead, segmentation is vital for an increasing number of organisations, allowing them to divide the population into a manageable number of groups with similar characteristics. This provides the dual benefits of being able to deliver a more personalised and targeted message to customers, and treating them more as individuals, while still maintaining operational efficiency.

How many segments are there?
There is no simple answer to this question. The ‘right’ number of segments varies from one organisation to the next. For some, their customers will naturally fall into two or three categories, while for others there may be dozens of segments.

The volume of data available either to, or within, an organisation may also influence the number of segments it deals with. With very limited data, the organisation is unlikely to be able to create more than a handful of differentiated segments; however, even if an organisation has extensive data and can segment in many ways, that does not necessarily mean that it should.

Internal vs external data
We live in a world in which there is an exponential growth of data, with organisations storing more and more information about their clients. But how much insight does that really give them? And are they using this insight effectively to help improve the customer experience and improve the performance of their businesses?

Internal data is likely to provide an organisation with basic customer information, including an individual’s name, address, phone number, email address and any products or services they have bought in the past.

In addition, organisations should have information about the individual’s responses to any marketing campaigns and details from customer service calls.

Models
By putting information about people, such as their age, life stage, household composition and wealth, through analytical and statistical processes, we are able to create groups of ‘similar’ people.

Organisations can then differentiate their sales and marketing strategies to better target the groups that are going to be the most profitable for them.

For example, the type of product promoted to young, wealthy, single people will be very different to that which will be of interest and therefore promoted to older, less wealthy families.

Together this can help to create a view of consumers based on the revenue they generate, as well as the cost to the business of servicing them. This in turn can help the organisation focus its marketing effort on the right customers; in all likelihood, the high revenue/low cost segment.

There is, however, likely to be a limit to the data held internally within an organisation. Many organisations will choose to augment the data they already have with external data in order to provide a more comprehensive view of prospective or existing customers. That external information often takes the form of segmentation models or characteristics/scores.
Characteristics and scores
Organisations that have their own data and modelling capabilities sometimes choose to ‘fill in the gaps’ rather than use the ‘off the shelf’ models described previously.

Having clearly defined outcomes, such as propensity to respond to marketing emails or likelihood to make a purchase after an enquiry, organisations will often build statistical models on these internal characteristics. They will then use external data in the form of characteristics or scores to try to improve the accuracy of these modelling predictions.

Improving the odds
You can improve your organisation’s odds of success by understanding the types of people who:

- Do and don’t respond to your marketing
- Buy your products or services
- Take up excessive and unnecessary customer service time
- Respond to discount offers
- Use your website a lot
- Recommend you to others
- Have significantly better than average lifetime value

In fact, using any other key metric, you can significantly improve wasted efforts, thereby reducing costs, improving response rates and increasing return on investment from your marketing activities.

Right message, right person, right time
At Equifax Touchstone, we believe that taking the data held internally and supplementing it with external data is the only way to offer true and valuable insight into an organisation’s customers.

Our wealth of data on individuals across the UK has been used by numerous organisations and sectors to create ‘off the shelf’ models, including Equifax Investor Profiles. This is unique because it includes Touchstone investment data to identify segments of the population that should be of most interest to Financial Services’ providers.

Using more than £345bn of investment sales over the last five years, this solution is helping organisations to:

- Identify the best up-sell and cross-sell opportunities
- Ensure prospects get the appropriate level of marketing communication
- Improve the effectiveness of their marketing
- Increase response rates
- Improve marketing return on investment
- Get the right message to the right person at the right time

The Touchstone database allows us to provide insight to organisations through accurate and in-depth identification – right down to postcode level – of those households that do and do not tend to purchase retail financial products.

This is in addition to the more traditional measures of wealth, such as income and household value, which wouldn’t indicate a person’s attitude to securing their financial future. It is this insight that is crucial if an organisation’s targeting, acquisition and retention strategies are to be successful.

Effective segmentation is the only solution to provide the insight required to create enough differentiation between products, services and communication channels to reflect people’s distinctiveness, while remaining operationally effective.

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