Customer Segmentation Equals Marketing Advantage
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About the Author

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Introduction

Creating a customer profile

Let’s face it, marketers have a tough job. They’re responsible for presenting their organizations in the best possible light, but at the same time must deal with ever-changing economic, business and socio-political conditions.

Marketers must address challenges such as:
- Developing a customer profile.
- Identifying and selecting the best offer (e.g., cross-sell and up-sell).
- Predicting what customers will do next.
- Detecting and reducing customer churn.
- Identifying a customer's lifetime value and maximizing customer life cycle.
- Using the right campaign with the right customer.
- Creating brand and product awareness.
- Influencing longer-term purchasing behavior.
- Predicting events.
- Associating the right campaign to the right customer at the right time.

These challenges can expose vulnerabilities, especially if organizations don’t understand customer behavior. This makes it imperative that companies segment their customers in order to provide the best offers.

The first step is understanding the customer; because if you know the complete profile – psychological, geographic, preferred channels and sales – then you can build (and apply) more effective marketing campaigns.

Concept and relevance

The goal of customer segmentation is to divide your target market into subsets that share similar characteristics, needs and priorities.

The main goal of this segmentation is to better satisfy customer needs or wants. Segmentation, targeting and positioning (STP) is a customer analytics methodology used to identify and select groups of potential customers:
- **Segmentation**: Determine common needs within the groups and whose needs are different.
- **Targeting**: Identify your most profitable customers.
- **Positioning**: Use a focused marketing program.

Marketers like to think about target market segments that are easily defined, reachable and unambiguous. In practice, however, market segments are hard to define, often ambiguous and difficult to reach.

Once the segments are created, they are used in marketing campaigns that are focused on customer acquisition, cross-sell/up-sell activities or even retention opportunities. These segments enable you to:
- Understand the differences between each segment and the entire population.
- Define the next-best offer and determine the most appropriate channel (email, call center, SMS, etc.).
- Have a targeted customer relationship, resulting in higher profitability and greater customer satisfaction.

Segmentation as a CRM tool

The first step to implementing a successful customer relationship management (CRM) system is understanding your customers’ desires, needs and purchasing behaviors so that they can be grouped according to their similarities. This is the key to improving customer relationships and defining customized marketing campaigns that fit their needs and characteristics. With segmented marketing, the organization will then be able to offer a personalized and customized product, promotion or service that reflects the segment’s needs and behaviors.

True one-to-one marketing typically involves high costs and can be complex. To simplify the process and reduce costs, organizations can instead create one-to-one segment groups. These
groups are comprised of customers who share characteristics and affinities and receive the same marketing campaigns and communications.

To successfully segment customers, you need to:

- Define your business needs (e.g., retain customers, increase sales or maximize profit).
- Determine your approach and what kind of segmentation is necessary.
- Compare the segments with the general population to make sure they have distinct behaviors and characteristics.
- Determine how different marketing approaches will affect each segment.
- Understand the customers’ perspectives to determine which marketing program best addresses each customer segment.

Types of Segmentation

You can create several segmentation types and use different methodologies, based on your goals and the data available. There are a variety of segmentation approaches you can use:

- **Business rules segmentation**
  This is the most simple and direct method of segmentation. Each customer is assigned to a group using several business attributes. This approach may or may not be successful, because the grouping is based on simple rules, i.e., “if x, then y” (conditional logic).

- **Product segmentation**
  This approach entails identifying consumption patterns (average consumption, payment method, product mix, etc.). Next, specific campaigns are applied with new products and new pricing plans based on identified patterns.

- **Recency, frequency and monetary (RFM) segmentation**
  The most common types of segment profiles used in direct marketing are identified and then used to classify, but not predict, future behaviors. This model incorporates three customer attributes for each purchase:
    - **Recency**: How long has it been since the customer’s last purchase or communication? The interval can be measured in days, months, quarters, years, etc.
    - **Frequency**: How often does a customer make a purchase, and what is the size of their purchases?
    - **Monetary value**: What is the value of each of the items that were purchased?

- **Value segmentation**
  How profitable is each segment? You will want to know this as you develop new campaigns. What is the degree of effort and cost of acquiring new customers? This enables you to determine whether a specific segment is profitable by considering acquisition costs, marketing cost, revenue, profit, etc.

- **Behavior segmentation**
  What social, behavioral and demographic attributes need to be examined to understand customers and specific segments? Behavioral aspects include responses to campaigns or preferred communication channels. Demographic attributes include age, gender, income, education, location and profession.
How Should You Use Segmentation?

Here are some ways you can use customer segmentation and profiling:

- **Customer management**
  - Better understand your customers.
  - Create a more personal approach.
  - Develop tactics to improve the value of segments and avoid unprofitable segments.
  - Retain and serve customers better.

- **Personalize marketing campaigns**
  - Create offers and marketing campaigns that are distinct for each customer type or segment.
  - Attract new customers with similar profiles; offer new products and services to microsegments.
  - Develop product differentiation strategies; or, if warranted, an undifferentiated approach.

- **Segments as input to help predict specific events.**
  Segments are not necessarily predictive in nature; however, they are generally descriptive and serve as a type of classification that can be used to aid in understanding future behaviors.

How SAS® Can Help

SAS can help you to develop and implement segmentation analysis, combining SAS analytical power with business knowledge.

Segmentation and profile analysis creates a customer-centric view that is based on the customer life cycle (subscriptions, purchases, complaints, returns, responses, etc.). It also takes demographic data into consideration. This analysis is crucial to determining how customers should be treated in the future. Data mining from SAS can help develop this model.

Used in a variety of industries, this software allows you to:

- Explore, select, modify and model data.
- Select the most important variables to explain the customer’s profile.
- Understand relationships between multiple attributes.
- Understand the segment’s dimensions and how each segment is characterized.
- Build migration reports between segments.
- Compare each segment with the population behavior by using intuitive graphs.
- Identify the most important variables for each segment.
- Create a model score with little time or effort.
- Draw conclusions that will allow you to create customized marketing campaigns and business opportunities.

Figure 4. Personalize marketing campaigns.

Figure 5. SAS® Enterprise Miner™ data mining and analysis tool.
Customer Stories

Chubb Group of Insurance Companies

Today’s insurers are creating specialized products to meet the individual needs of a range of clients – art collectors, owners of midsize businesses and professionals in a variety of industries. While the demand for specialized policies is on the rise, the key to marketing and selling them still lies in the ability to segment and analyze customer data in ever-finer detail.

Well-known for its specialty insurance products and its premium personal and commercial coverage options, Chubb Group of Insurance Companies counts on SAS Customer Intelligence to market its products to the right customers, develop new products that meet customer needs, and make sure Chubb operates in areas where the company’s customer base is most likely to benefit.

Jeff Hoffman, Senior Vice President of Customer and Marketing Intelligence, says Chubb applies customer segmentation to every aspect of the company, but he lists three unique areas where he’s seen customer segmentation really take hold: product improvement, targeted marketing and customer service.

“We use customer segmentation to drive research agendas and to improve products and service offerings,” says Hoffman. “Segmentation also helps identify targeted marketing messages and communications. We also use it when developing service strategies for different segments of customers. SAS has been a core driver behind all of this activity.”

As a result, product offerings have evolved to meet customer needs, marketing messages have become more targeted and customer cross-selling efforts are more productive.

The challenge

Chubb wanted to gain a clearer understanding of customers to develop and market its specialized products.

The results

After implementing a customer segmentation solution from SAS, Chubb saw improvements in:

- Confidence in decision-support information.
- Enhanced distribution planning, growth strategies and budgeting.
- Awareness of which niches to target, leading to significant marketing, conversion lift and increased cross-sell opportunities.

The value

“SAS converts raw data into useful information, and SAS helps us focus on producing clean, consolidated results, so we can have a system in place to optimize all our BI efforts.”

Jeff Hoffman, Senior Vice President, Customer and Marketing Intelligence
Chubb Group of Insurance Companies

For more information regarding this case study, visit: sas.com/en_us/customers/chubb-insurance-group.html.

Endesa

To get a jump on the other players in Spain’s highly competitive energy market, Endesa – the country’s leading electricity dealer and second-largest gas vendor – uses SAS Customer Intelligence to segment and better understand its customer base, streamline campaign management, build customer loyalty, and acquire new customers. As a result, the company reduced churn by 50 percent in two years.

"Until recently, our main challenge was to move from a regulated to a deregulated business environment," explains Luis Miguel Muruzabal, Endesa’s Deputy Director for the Mass Market. “Now it’s not only about engaging customers, but also extracting more and more value from them, by offering new services that keep them satisfied. SAS is integral to our strategic segmentation, which has allowed us to improve our customer knowledge, streamline our campaign management and increase new customer engagement.”

With SAS, Endesa now has a strategic approach to customer segmentation, which delivers the customer insight to help define new products, formulate new customer acquisition strategies, and reduce attrition.

“The SAS solution works very well, manages a large amount of customer data and allows us to try new marketing concepts,” adds Customer Intelligence Officer Tomás Cruz.

With millions of commercial and residential customers, Endesa collects a significant amount of data, which the energy company has been able to manage much better using SAS.
Conclusion

SAS is the leader in providing business intelligence software and solutions. SAS Customer Intelligence solutions can help you develop customer segmentation and profiles. Proper segmentation takes some practice, but with the right SAS solutions in place, it becomes quite simple.

SAS gives you the scalability, flexibility and adaptability that you need to:

• Integrate, manipulate and analyze your data.
• Obtain information and knowledge from large amounts of data.
• Understand customer behaviors and needs.
• Treat your customers according to their characteristics.
• Satisfy your customers by meeting their needs and wants.
• Use segment-appropriate marketing methods.
• Ensure that trusted, analytical-based decisions are made across the organization.

For More Information

• For more details about SAS advanced analytics: sas.com/en_us/software/analytics.html.
• To read more thought leader views on marketing analytics, visit the SAS Insights Center: sas.com/en_us/insights/marketing.html.
• To get fresh perspectives on customer analytics from marketing practitioners, check out the Customer Analytics blog: blogs.sas.com/content/customeranalytics/.
• To read more customer success stories: sas.com/en_us/customers.html.