YOUR SEGMENTATION MODEL

The #1 hidden obstacle to creating exceptional customer experiences

A research findings report into the state of segmentation in North American enterprises

QUARRY CURVE JUMP®

REVEALING A HIDDEN OBSTACLE TO CX

"Our research has uncovered a largely hidden obstacle that is a substantial barrier to you and your organization's CX initiatives… your segmentation model."

Creating exceptional, differentiating customer experiences has become a rallying cry in many organizations today. And for good reason. Industries are maturing more quickly and an individual firm's ability to sustain advantages on the basis of either experience-curve economics, or product/service quality is diminishing. Winning brands like Apple, Zappos, Google, Cirque de Soleil, Disney, and Amazon are all seen to have 'customer experience' (CX) near the heart of their advantage. Widely-embraced research tells us the most important driver of customer loyalty is the purchase experience itself (CEB).

If you're a champion for CX in your organization, you know first hand that many organizations have started to get more serious about the importance of CX. Some have positioned CX as a core pillar of their business strategy. We've seen dedicated CX roles created, conferences established and companies setting CX-related goals and objectives, launching programs and implementing processes.

But, amidst all of that optimism and energy, our research has uncovered a largely hidden obstacle that is a substantial barrier to you and your organization's CX initiatives. From our vantage point, it's the #1 obstacle standing in the way of companies wanting to create exceptional customer experiences that stand out versus the competition. It sits at the foundation of your CX initiatives and if you don't get it right, much of the rest of your strategies and tactics will fall short.

That obstacle is your organization's view of 'the customer'—in other words, your segmentation model.

What needs to be done? Awareness is the first step. With this report, we're seeking to shed light on the current practices that are in place for building segmentation models, to highlight where companies are falling short, and to arm you with the evidence to inspire and drive change in your organization.

And, we're inviting you to compare how your organization is faring in the area of customer segmentation versus those we've surveyed. Is your segmentation model optimally built to help your organization better compete on the basis of customer experience?

Are you and your leaders satisfied with your segmentation? **And, more importantly, should you be?**

"The majority of companies today are using segmentation models ill-suited for driving high performance in a customer-centric economy."

DISCOVERING OPPORTUNITIES FOR GROWTH

We first started to sense something was amiss back in 2013. We kept hearing people refer to "The Customer Experience" and "The Customer". Some may have seen these as figures of speech, assuming that behind them, there were more dynamic views of customers being referred to. But, our experiences led us to question that assumption.

Our deep appreciation for the important relationship between segmentation and the effectiveness of an organization's customer experience spurred us to investigate whether there might actually be a wide-spread deficit in effective customer segmentation that could be putting much of the CX movement at risk.

So, we decided to ask some questions. We fielded a study with 200 sales, marketing and product development executives working in North American B2C and B2B companies with sales between $100M and $10B.

And now we have some answers. As you'll see, these answers help to explain some of the gap between stated ambition and present achievement in customer experience. And, they point to some obvious places where improvements can begin.

Mainly, they shed light on the state of segmentation in North American businesses; they reveal that the majority of companies today are using segmentation models ill-suited for driving high performance within a customer-centric economy.

If you're involved in your company's CX initiatives, this has significant implications for you in your efforts to champion initiatives, design and deploy differentiating experiences, and achieve results.

But the great news is this: the data we collected —and the resulting insights—reveal a business environment rich with opportunity for those who pursue building more effective segmentation models to create sustainable competitive advantages.

Here are the 7 key facts we discovered:

FACT

ONE

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How can companies expect to compete in a strategically-advantaged way in today's customer-driven environment when their teams lack a foundational and shared understanding of customers and the differences between those customers that matter to the business?

Companies at the scale of those in our sample cannot realistically operate without some view of customers. We genuinely believe all have some form of segmentation model—regardless of how robust or high quality it may be—guiding their efforts.

But, we provided ample room to respondents to shape our understanding of the state of their current segmentation model. There were multiple response options ranging from having one common model across the entire organization, to having multiple segmentation models used in isolation or parallel.

And, yet, many respondents indicated they weren't aware of any formal segmentation model. What gives?

We think those who indicated they were unaware of any formal customer segmentation are highlighting a key gap that exists in many organizations today: there is a lack of a deliberately-defined, well-socialized and broadly shared view of customers that is used to inform and inspire sales, marketing and product development decisions and innovation. And, that's a notable, missed opportunity.

CUSTOMER EXPERIENCE

TARGETING STRATEGY

SEGMENTATION MODEL

BUSINESS MODEL

A company's segmentation model is vitally important as a source of potential competitive advantage.

In an optimized organization:

- The segmentation model aligns with and helps activate the business model.

- The segmentation model reflects deep insight into the differences between customers that matter to the organization's business.

- The organization's targeting strategy for specific customers is formulated within the context of the segmentation model.

- Exceptional and differentiating customer experiences are achieved by designing and delivering for particular customers, not just the average customer.

FACT

TWO

70% say their segmentation model is not noticeably different from their competitors'

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If competitors in an industry see the same customers in the same way, how can they possibly expect to create competitively differentiated experiences?

We were quite surprised at first, by how many respondents indicated their model was not noticeably different from their competitors'. But, when we looked at the pattern of responses with an appreciation for the fact that many organizations are thinking about and focusing their efforts on the 'average' or 'prototypical' customer, the outcome makes a lot of sense.

It seems that many organizations are not thinking in a sufficiently nuanced way about customers and the meaningful differences between those customers that are strategically relevant to the organization's business.

If you want to improve customer experience, differentiate your CX from your competitors' CX and really connect with a particular group of customers at an emotional level, you need to move beyond the average customer and get a deep appreciation for what makes different customers different.

Armed with that insight, you need to select particular segments to focus on and deliver an experience that feels like it was made for them.

By doing so, you'll be seizing opportunities to build greater affinity with particular customers and, in turn, drive greater revenue and growth.

RELEVANCE

SWEET
SPOT

RESONANCE

FLOW
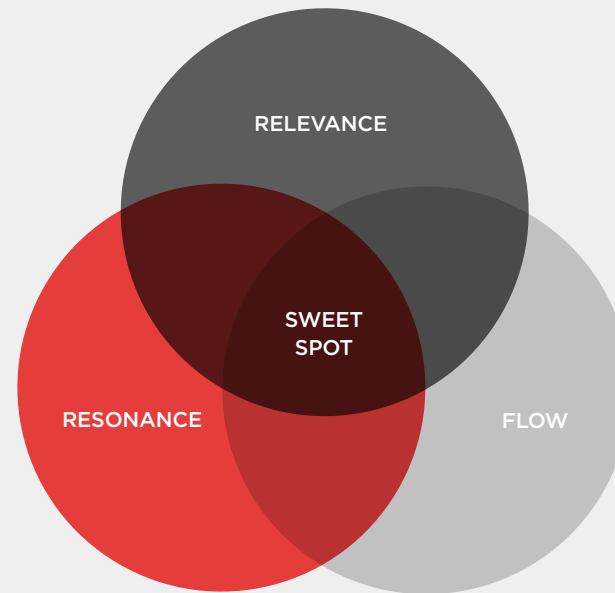
Design for Someone, Not Everyone

By focusing on a key audience (or strategic segment) for your experience design and delivery, you create a more relevant and emotionally resonant experience for members of that group.

And, designing with a particular someone in mind means you can deliver an experience that feels effortless and intuitive — one that flows in a way that matches that someone's expectations.

FACT

THREE

90% don't have a single, shared segmentation across their organization

MARKETING

PRODUCT

SALES

SERVICE

FACT

THREE

90% don't have a single, shared segmentation across their organization

"To compete effectively in today's experience economy, companies need a common and shared view."

If you're seeking to create a consistent and positive omni-channel brand experience, shouldn't your functional teams all be thinking about the same customers?

The large majority of organizations in our study that have a formal segmentation model indicated they have multiple segmentation models, each specific to a team or department. Others indicated segmentation is used only by Marketing, or they use multiple models in parallel across the organization.

But, to compete effectively in today's experience economy, companies need a common and shared view tuned to competing on the basis of experience. We call that an experiential segmentation.

Built properly—which means constructing the segmentation in the context of a deep appreciation for both the organization's strategic goals and the intended use cases as well as with high sensitivity to customers' motivations, goals and behaviors within a particular field of experience—an experiential segmentation model can provide a common language and actionable tool. It can be the keystone for creating and delivering consistent omni-channel experiences.

FACT
THREE

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THE PREREQUISITE FOR DIFFERENTIATED EXPERIENCE

In typical organizations, functional groups use segmentation models that give the most attention to the "dimension" (or system of difference) that directly enables the group's strategic or tactical priorities. For example, the product development group needs to design products, so their segmentation model would typically focus on the "jobs" customers hire products to fulfill. Whereas, the marketing communications group needs to reach customers in media channels so it would need data on communication behaviors and preferences.

Both of these cases call for a particular set of data and insight, with emphasis given to the data that best supports its target application. This is the majority case among our respondents.

The alternative, though, as illustrated, is a foundational strategic segmentation framework that can be used across all business functions. Doing so does not necessitate that functional groups sacrifice the use of views and dimensions that are integral to their work practices. What it does require, though, is that a foundational system of differences connects the views of the customer across all functional groups. In this manner, functional groups can work together with a shared definition of customers, albeit viewed through lenses specialized to their work objectives.

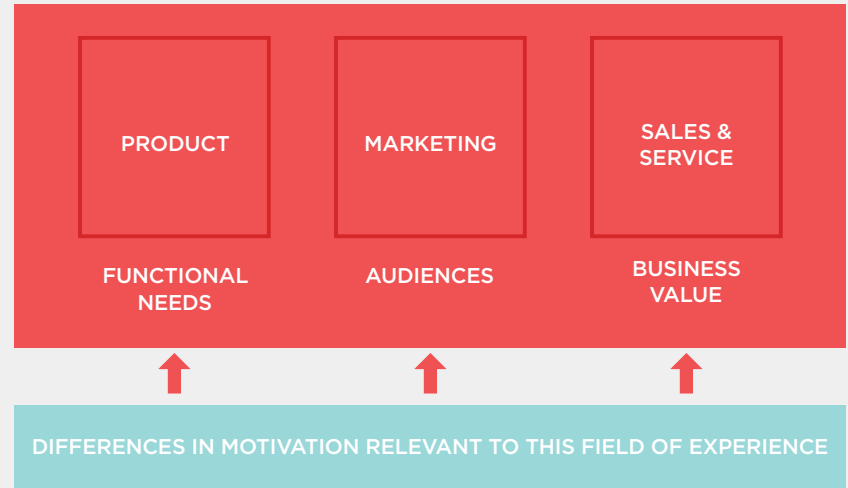| | **FUNCTIONAL GROUP** | PRODUCT | MARKETING | SALES & SERVICE |
| | **SEGMENTATION FOCUS** | FUNCTIONAL NEEDS | AUDIENCES | BUSINESS VALUE |
| | **STRATEGIC SEGMENTATION FRAMEWORK** | DIFFERENCES IN MOTIVATION RELEVANT TO THIS FIELD OF EXPERIENCE | | |

85% who have a segmentation model defined it based on intuition or qualitative research

FACT
FOUR

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If what really matters is "the differences that make a difference between customers" and the relative distribution among the population, intuition or qualitative research alone is insufficient for building your segmentation model.
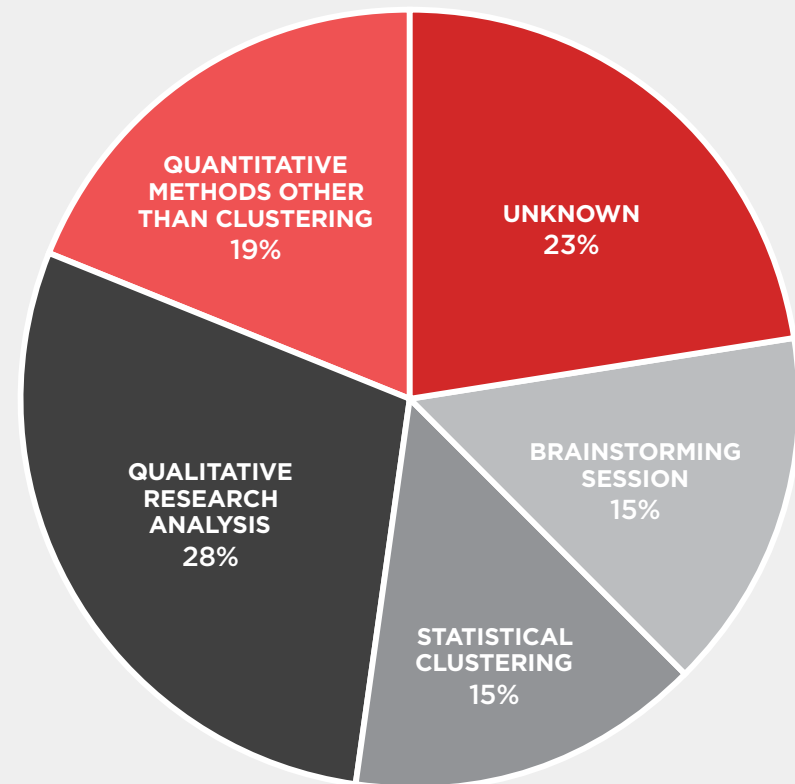
To get to a statistically-significant, 'strategically-actionable' segmentation, we recommend the use of statistical clustering and a 'bottom-up'—rather than 'top-down'—approach. 'Top-down' relies on inference and intuition to discern—and decide—what the important patterns are in the data. In contrast, a 'bottom-up' approach relies on data analytics to drive the segmentation model, drawing our attention to patterns and relationships our brains might not detect, but a computer can.

Yet, a quick scan of the chart on this page shows statistical clustering was used only 15% of the time. What then, currently, are the dominant approaches to segmentation?

There's a lot of faith being placed in intuition; the most obvious example of this is the 15% of respondents who achieved their segmentation through a "Brainstorming session."

As well, almost 30% built their segmentation model on qualitative research only. Qualitative research is massively helpful in understanding segmentation dimensions, but not a valid way to understand distribution of a population according to those dimensions.

19% built their segmentation using quantitative methods other than clustering. This would include categorizing by (a) sales (b) products purchased (c) channel (d) geography (e) and industry vertical. It would also include calculated values such as "loyalty."

Pie chart:
- UNKNOWN 23%
- BRAINSTORMING SESSION 15%
- STATISTICAL CLUSTERING 15%
- QUALITATIVE RESEARCH ANALYSIS 28%
- QUANTITATIVE METHODS OTHER THAN CLUSTERING 19%

FACT

FOUR

85% who have a segmentation defined it based on intuition or qualitative research

This may not be immediately obvious, but just because these are all categorizations based on quantities of data does not diminish the fact that each of these depends on intuition. The question of strategic segmentation is not, "What are the differences between customers?", but rather, "What are the differences between customers that make a difference?"

These systems of categorization can, by themselves, provide a valid answer to the first (simpler) question, but not the second (more difficult) question. When one of these systems is used to answer the second, the validity of that answer is not deduced from the data, but rather drawn from a strategic inference—an intuition (for instance, the idea that sales volume reflects something important about brand engagement).
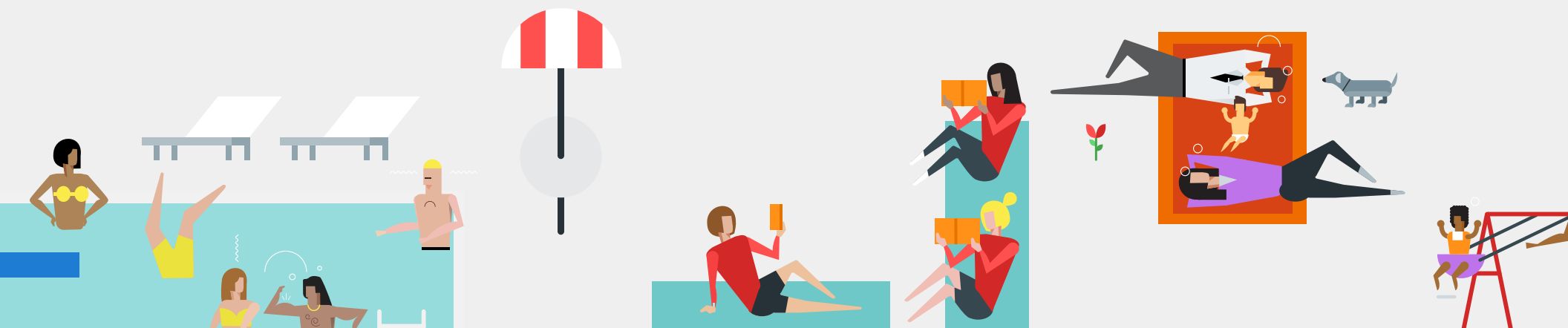
In observing this, we don't intend to offer a blanket judgment on whether strategic inferences are right or wrong; however, it is useful to recognize that in each case, it is intuition, not statistics that drives the selection of this segmentation lens. Statistics and analytical routines conducted by computers, in contrast, can identify important, complex patterns that our brains aren't naturally equipped to see on their own.

"The question of strategic segmentation is not, "What are the differences between customers?", but rather, "What are the differences between customers that make a difference?""

15% used statistical clustering to drive the definition of their segmentation model

FACT
FIVE

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By using bottom-up, cluster-driven methods to build your segmentation, you can unlock a much more nuanced view of *the differences that make a difference*™ between customers. That view can make a big difference in the success of your marketing, sales, and product development initiatives.

It's these organizations that deserve a nod for taking an important step in the right direction; they are leading the way with a better approach to building segmentation models that can enable and fuel customer-centric marketing, sales and product development.

Cluster analysis capitalizes on statistical analysis software to help these organizations discern what the meaningful patterns of difference are that they should pay attention to. These organizations are able to learn what constellation of attitudes, behaviors, and demographics (or firmographics) are key to grouping like customers and differentiating them from others. These organizations can then leverage that understanding to formulate more relevant and resonant strategies and tactics.

In the product-centric world that we're emerging from, an 'a priori', top-down segmentation model may have been adequate to compete effectively. A big reason for that was that people would reach out to a salesperson much earlier in the buying journey, opening up the opportunity for that salesperson to customize the offer and messaging to fit the prospective customer.

But, if you consider what's now needed to create a meaningful experience for a prospective customer who is investigating, learning about, reviewing and evaluating your product or service online for almost 60% of their buying journey (CEB)—and before they reach out to a salesperson, you will quickly see that a segmentation based on sales volume, channel preference, geography, loyalty, etc. is likely to be far less relevant and useful than a model that provides a rich understanding of buyers at the level of the human being.

When your goal is truly to engage human beings involved in a buying process and help them accomplish the 'job' they're seeking to fulfill, a top-down segmentation model is not only of little value, it has the potential to mislead your efforts to connect with current and future customers.

4% of those using statistical clustering based their clusters on a single data type
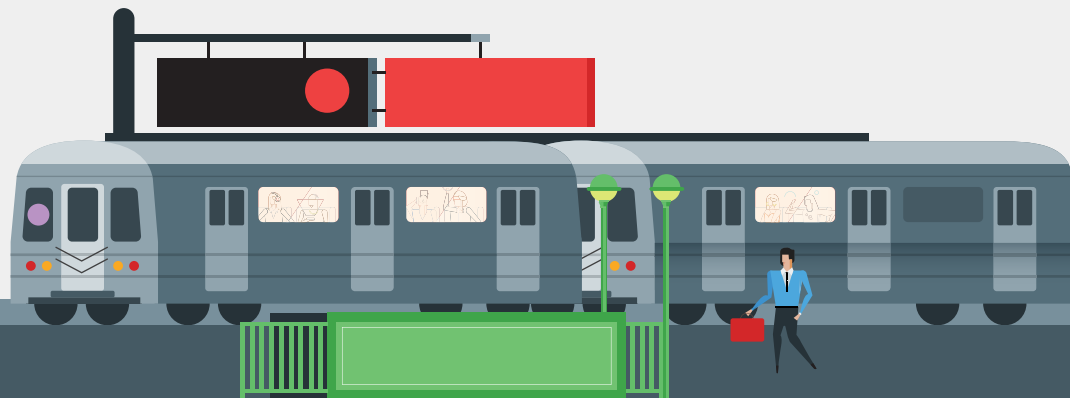
4% of those using statistical clustering based their clusters on a single data type

Cluster-based models that are based on a single data type at their core—specifically, attitudinal data—and which have behavioral and demographic data layered on top as co-variates, preserve cause and effect relationships. Preserving these relationships leads to a high degree of predictability regarding how people will respond to tactics such as marketing messages, product designs and digital experiences. These models deliver a high degree of actionability, which is paramount within a context where companies are seeking to produce customer-centric experiences.

While 15% of organizations in our sample were using statistical clustering, only 4% of those were basing their clusters on a single type (and less than 1% were using attitudinal data as the single type).

This data point—while based on a small sample size—caused us to pause, particularly because it points to the topic of 'actionability'. Actionability is currently the biggest concern for organizations when it comes to discussing segmentation models based on bottom-up clustering. Many companies have struggled to implement cluster-based models because they fell short on actionability.

In the past, 'top-down' models based on sales volume or geography, for example, enabled organizations to identify and directly reach out to customers with relative ease. But, a cluster-based model, particularly one founded on attitudinal data, isn't as easily mapped to a particular company or buyer because the dimensions that matter for understanding that buyer aren't characteristics readily-observable from afar. In other words, we can't simply categorize that customer based on sales volume, location, or other objective identifiers.

But, in our experience, it's not that cluster-based models are inherently lacking in actionability; in fact, we've helped clients build effective, actionable, bottom-up segmentation models, with attitudinal data at the core of the clusters. Rather, it's the approach to building the cluster-based model that influences the degree of actionability.

When you base your cluster model on a single data type, specifically attitudinal, you preserve cause and effect relationships; that provides you with a high degree of predictability regarding how your target customers will respond to your tactics and messaging. Then, when you layer on demographic (or firmographic) data and behavioral data, you increase your ability to find your target customers in the population. This sequence provides you with a powerful recipe for building a segmentation model optimally tuned for creating and activating differentiated customer experiences.

So, why then do some cluster-based models fail? A key reason is that, instead of clustering based on a single data type, many organizations are creating their cluster-based models using a mix of data types. That's a problem because the causal relationships between data types become unclear. Simply dumping data of all different types into a single model greatly diminishes the probability of producing valid, actionable clusters because the theory about what is driving behavior and preferences becomes distorted.

Maximum actionability results when our segmentation model helps us both understand how to connect at an emotional level with the people we are targeting and also how to locate them in communications channels based on an understanding of their behaviors and demographics; following the recipe we've laid out can help you build a segmentation model that delivers on both goals.

60% of sales, marketing and product development executives are satisfied with their segmentation

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"[Most] organizations are not ensuring their segmentation model is properly constructed and tuned to fueling, informing and inspiring more effective business performance."

Far too many organizations are complacent (at best) with the current state of their customer understanding and, specifically, their segmentation, even though the rest of our research tells us what they have is insufficient.

Take a moment to reflect on this final fact. Even though the rest of this report reveals that most organizations do not have a segmentation model in place that will optimally support their goals of competing in a differentiated way on the basis of customer experience, the majority of respondents were satisfied with their current segmentation.

Throughout this report, we've promoted the idea that a company's segmentation model is a strategic asset that can serve as the foundation for targeting strategy and the design and delivery of customer experiences. That means it is critically important to have a segmentation that is effectively constructed.

Overall, our research reveals the majority of organizations are not ensuring their segmentation model is properly constructed and tuned to fueling, informing and inspiring more effective business performance.

Despite clear and widespread desire on the part of organizations to create better customer experiences, many are missing a rich opportunity to equip better their organizations to do so.

LOOKING FORWARD

While the current state of segmentation in North American businesses appears somewhat dismal, the good news is there's a lot of remaining opportunity for marketers, sales people and product developers to build more effective, competitively differentiating customer experiences and, in doing so, drive revenue growth.

The organizations that can shake off old models of the customer and then produce and align around a refreshed and richer view of The Differences That Make a Difference™ between customers will win in their marketplaces.

A robust segmentation—constructed to enable companies to compete on the basis of experience (rather than products or services) —can capture and communicate actionable insights that become keys for driving innovation, unlocking future growth, building stronger relationships with customers and delivering differentiating experiences.
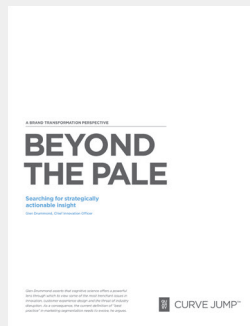
We encourage you and your organization to set yourself apart. Ask yourself:

Are you satisfied with the state of your segmentation?

Should you be?

WANT MORE?

Want to learn more about discovering, refining and sharing actionable insight? We offer several companion articles that can be downloaded for free at Quarry.com

Beyond the Pale: Searching for Strategically Actionable Insight

Opening with a simple, yet powerful thought experiment, Quarry's Chief Innovation Officer Glen Drummond discusses the important contributions that cognitive science has to tell us about why conventional customer segmentation often fails. He offers a radically different approach to strategic segmentation— one based on understanding tensions in customer motivations—that can inspire product-design and customer-experience innovations.

Zombies, Phantoms, Shadows: 3 Threats to Your Experience Innovation Initiatives

Products fail, market leaders falter, sales slump and industries stumble when the corporate model of "the customer" slips out of touch with reality. Does this just happen to poorly managed organizations, or could it happen anywhere? In this article, we'll show you three ways that models of the customer go wrong, where these threats come from, and—most importantly—tips to help you combat them in your organization.

From Vulnerable to Advantaged: Six types of personas on the road to customer-centricity

Great personas can inspire innovation and fuel customer-centricity. Bad ones can mislead and leave you vulnerable. Here's a way to tell the difference.

ABOUT
US

This report was written by Tony Mohr, Managing Director, Curve Jump™ and Glen Drummond, Chief Innovation Officer with key contributions from Maurice Allin, Nicole Strong and Mo Oishi.

Curve Jump™ by Quarry helps executive leaders align their organization around customers rather than products. Our consultative process draws on a rare blend of strategic consulting, customer experience design and customer insight capabilities to understand the company's strategic context, refresh our clients' view of the customer and then help the organization get aligned around that view. With a compelling new model of customer motivations in place, the company can establish a customer-centric advantage, strengthen brand positioning, reignite innovation and compete on the basis of customer experience.

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