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Segmentation strategies for retailers

Leverage customer insights to drive profitable growth

As retailers compete to drive foot traffic and grow share-of-wallet, what varies is how well each retailer understands its customers' buying preferences, likes and dislikes, and how each retailer uses this knowledge to influence shopping behavior. Customer segmentation is an important part of building that understanding.

Through segmentation, retailers gather insights to pinpoint their marketing strategies and deepen customer loyalty. With the number of marketing channels available to retailers today, careful segmentation has become a mandate for those who want to remain relevant, and has been shown to grow sales, reduce attrition and increase profitability.

What is customer segmentation?

Customer segmentation is a tool that enables marketers to customize their efforts based on the behaviors of their customers. By collecting and analyzing customer interactions, retailers can start to group their customers into different segments using insights that include:

How much customers spend

Seasonality and frequency of purchases

Basket size of each transaction

Channel usage

Categories in which customers purchase

Discount vs. full price shoppers

Margin per customer

Understanding customer behaviors

Compare two customer segments spending $1,000. By detailing their spending behaviors through segmentation, Segment A is identified as more profitable.

SEGMENT A: SPENDS $1,000

- 60% spend is at full price
- Shops in-store and online
- Shops in multiple categories
- High # of trips

SEGMENT B: SPENDS $1,000

- 60% spend is on sale items
- Shops only one channel
- Shops in one or two categories
- Low # of trips

Segment A shops deeper in the store and purchases more items at a higher margin rate, therefore it is a more profitable segment. In addition, Segment A is an omni-channel shopper and probably has a higher affinity for the brand. As a result, Segment A is likely to have a higher lifetime value. Appropriate marketing strategies should be developed to further engage that segment.

Using segmentation in marketing strategies

The key to segmentation strategies begins with gathering customer data. Once enough customer data is collected and analyzed, certain characteristics and behaviors rise to the top, forming a distinct and unique segment profile. Marketers can then begin to create a marketing plan by segment and determine the relevant marketing strategies and tactics to help grow or retain each customer segment.

When creating a segmented plan, use the customer segment data to inform the following:
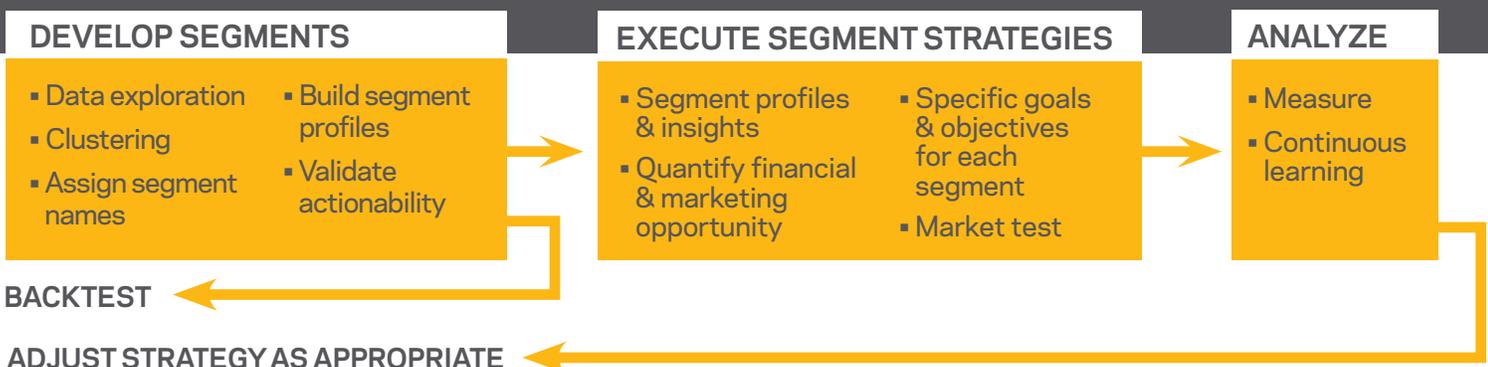
- Creative/messaging
- Revamping experiential benefits or reward structures
- Differentiation of offers
- Proactive retention
- Frequency and cadence of customer contacts
- Customer service
- Channel strategy

Remember, it's easier to manage fewer segments - such as a range of four-to-six. If you find some segments are similar, combine them or revise the segmentation for better results.

Developing a roadmap

To track segmentation, create a roadmap listing each milestone in the process. Then define the marketing opportunities and overall strategy for your brand. Take time to develop a deep understanding of the segment profiles and quantify the financial opportunities by segment. This will help with developing specific goals and objectives for each segment.

Once the overall strategy is finalized, it's time to launch a test and review the key learnings. Keep in mind that one set of results will not determine whether the segmentation was successful. However, it can help validate the segment profiles and adjust the overall segmentation strategy. Ultimately, the strategy should include multiple iterations of testing, evaluation and refinement to drive segment performance.

DEVELOP SEGMENTS

- Data exploration
- Clustering
- Assign segment names
- Build segment profiles
- Validate actionability

EXECUTE SEGMENT STRATEGIES

- Segment profiles & insights
- Quantify financial & marketing opportunity
- Specific goals & objectives for each segment
- Market test

ANALYZE

- Measure
- Continuous learning

BACKTEST

ADJUST STRATEGY AS APPROPRIATE

Examine your value proposition

Optimize marketing spend and engage customers through the right channels

Explore and map the overall shopping experience

Understand strategies being deployed by your competitors

Using segmentation to change behavior

With a better understanding of what customers are doing, retailers can integrate segmentation with market research to comprehend why certain customer segments behave the way they do. Are there any key insights that can be acquired through this discovery process that signal a need for changes to business strategy?

Once segmentation has shown how segments perform, research through focus groups or quantitative studies can help retailers discover why they behave this way.

As customer needs and attitudes are uncovered, develop a customer migration strategy for the segments that represent an opportunity. Improving some of the areas that affect consumer engagement within specific segments could present an opportunity to drive incremental sales and migrate some customers to a higher segment.

Success metrics

The primary objective in developing a customer segmentation strategy is to maximize the performance of all customer segments. Typically, the benefits of a series of marketing actions will take time to realize. To truly determine whether the customer segmentation was successful, several metrics or key performance indicators should be evaluated over the long term.

SUCCESS METRICS - should be agreed upon and tracked from the beginning of segmentation.

- Customer migration
  – How has the customer portfolio changed?
  – Is there an increase in the percentage of high value segments?
- Attrition rate
- Profit per customer
- Sales per customer
- Trips per customer
- Shopping categories

Combine segmentation with predictive modeling

Customer segmentation provides a snapshot of the current value of a customer. It does not predict the future behavior or value of a customer and how their performance can change over time.

That is why it is important to use customer segmentation in conjunction with behavioral models to better target customers. Modeling helps identify which customers to target within a given segment. For example, if a high value customer is showing behaviors that they are about to leave your brand, a proactive retention strategy can be implemented. Alternately, if a high value customer is about to accelerate their spend, you may not need to market to that customer as rigorously. As we saw in the customer A and B comparison on page 3, two segments may look alike in terms of overall spend, but they can be very different in terms of profitability. It's not just about predicting the sale, it's about understanding what customers are doing and the drivers of their behavior. Modeling and segmentation help marketers maximize their budgets by optimizing their spending to deliver higher ROI.

Targeting your best customers

Segmentation also enables you to treat your best customers better. Once these discrete groups with similar behaviors and characteristics are identified, reinforce their behaviors with effective marketing initiatives:

DEVELOP HIGH-VALUE CUSTOMER ENGAGEMENT STRATEGIES to drive cross-shopping, foot and online traffic and reduce customer attrition.

DEPLOY MARKETING dollars to maximize ROI on your most productive segments.

DRIVE MORE COST EFFECTIVE MARKETING through tailored programs/ strategies and messaging to migrate customers to higher segments for higher incremental sales, cross-shopping and increased profitability.

MEASURE THE EFFECTIVENESS of campaigns by determining which offers, channels and messaging drive the best performance for each segment.
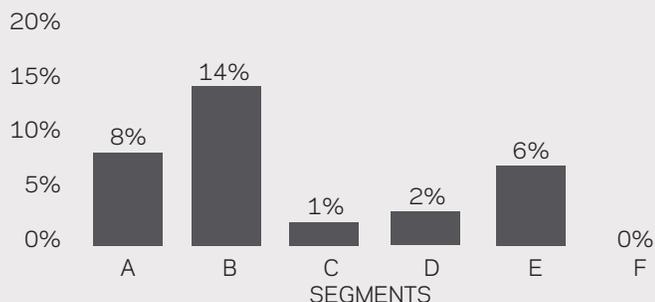
Case study results

The results of effective segmentation strategies can be compelling. The processes outlined have resulted in increased sales and decreased attrition, as displayed in the following case study. A total of six segments were used to market differentiated offers to customers. Tests were implemented over a 12-month period to determine:

- Which offers delivered incremental sales for which segments?
- Can lower value segments migrate upward?
- Which segments respond well to multiple contacts?
- Can attrition be lowered through a robust CRM strategy?
- Do specific segments only shop when targeted with discounted offers?

Key findings and insights:*

Six segments were tested to assess the incremental sales lift for an offer vs. the control population. Incremental sales lifts of the test are illustrated below.

Average % incremental sales lift for targeted offers vs. control

The most profitable segment (Segment B) delivered the highest incremental sales when targeted with multiple offers, making the most of the marketing dollars.

Segment C was not stimulated by coupon offers and would tend to shop at full price. Therefore, the number of interactions with that segment could be minimized to achieve a greater sales impact on the overall customer portfolio.

By understanding which segments performed well when targeted, the retailer was able to adjust their contact strategy to increase incremental sales and response rates. Marketing spend was then optimized by redistributing dollars to higher performing segments, contributing to higher overall sales.
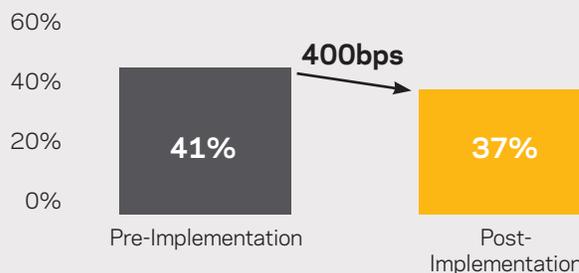
Key testing insights were built into the marketing plan to align customer preferences and behaviors and prioritize segments. This led to an increase in both average ticket and visits to the store, and an 8% increase in the annual spend per customer. In addition, the percentage of customers in high-value segments increased by 250bps.

Change in average sales per customer

A more targeted customer engagement strategy on high value segments and a focused migration strategy on medium value segments caused customer attrition to decline 400bps within 12 months of implementing the segmentation approaches.

Customer attrition rate

Customer segmentation is a powerful tool that, if utilized effectively, can deliver incremental sales, grow profitability and reduce customer attrition. By acquiring deeper insights around customers, tailored strategies can be developed to align customer behaviors and preferences with marketing actions. It is important to measure the impact of segmentation over a longer horizon as it takes time to influence behavior and drive meaningful results.

To enhance the value of segmentation, it is important to consider an integrated approach that uses both analytics and research to help uncover the needs and attitudes of your customers.

Focus on what really matters.

With 80 years of experience in consumer financing, Synchrony Financial, built from GE heritage, is one of the most successful retail lenders in the U.S.

Synchrony Connect provides customized retail analytics, research, market intelligence, and creative marketing solutions to help you improve margins, deepen your customer relationships and build profitable growth. Our solutions can help you improve your business performance and profitability by distilling the most meaningful market and customer insights and translating them into high-impact business actions.

Contact your Synchrony Financial representative or david.liebskind@synchronyfinancial.com to discover how we can help you grow your business.

Engage with us.

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