

Principles of segmentation

Katy Raines finds out what dandruff has got to do with the arts

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Segmentation seems to be the thing (apart from social networking) that everyone's into at the moment – partly, I suspect, since Arts Council England published their *Arts Audiences: Insight* segmentation findings last year, and we all want to make sure we're on track.

So this short article is an attempt to demystify segmentation and show you that you're probably already doing it, but may not know it (more about the dandruff later ...).

What is segmentation?

Segmentation involves splitting customers or potential customers into groups (or segments) within which customers are likely to share a similar level of interest in your product or service. This is either to offer them a different offering, or to communicate with them about the same offering in a different way.

Why do we segment?

There are two main reasons that organisations segment the market and their customer base: cost and effectiveness.

Cost: most organisations don't have the resources to tell the whole world about what they do, and even the big global corporations would segment the market before undertaking any promotion.

Effectiveness: by understanding more about your customers and talking to different segments in the most relevant way (possibly with different product offerings) it is more likely that they will respond and make a purchase. This means that your small marketing budget can go a lot further,

as you're increasing the 'hit' rate of the people you are talking to.

Another key benefit of talking to your customers in a more targeted way is that you will build better relationships with them. This can help in building their psychological loyalty, as well as their behavioural loyalty, which can demonstrate itself in their advocacy of your organisation to others they meet, as much as by increased visits or purchases. For more information on customer loyalty, you can refer to *JAM* 34, April 2009.

Who do we segment?

It's really important to get one distinction clear from the outset: which set of people are you interested in segmenting?

Market segmentation is where you look at the *whole population* and segment it in order to find the most likely people to use your product.

Usually in the arts this means finding the 'best bets' to try to attract new audiences for what we do.

There are many pre-existing market segmentation tools such as ACORN and Mosaic which can help you segment the market without spending a fortune. Arts Council England's *Arts Audiences: Insight* segmentation is one of the most useful for identifying potential new audiences.

Customer segmentation is where you look at only *your customer base* and segment people on the basis of what you as an organisation know or want to know about them. Usually in the arts this is where you analyse your customer database (if you have one) and decide on ways of communicating differently with customers in order to encourage



repeat attendance. If you're really sophisticated, you could get your database segmented using 'cluster analysis', but it's also quite possible with a good box office system and an inquisitive mind.

On what basis do we segment?

In theory, you could segment people on any basis in which they may differ from each other which is useful to you: age, gender, hair colour, height, weight, ethnicity ... and the list goes on. You only need to take a look at the range of shampoos on the shelf in Boots to see how many segments the shampoo companies have identified: people with red hair, blonde hair, dandruffy hair, brittle/dry hair, coloured hair, frizzy hair, curly hair, etc. By segmenting the market into these different types they can offer specific products to meet an individual segment's needs, and hence sell

much more shampoo than they would if they simply made one 'all purpose' shampoo.

In the arts world, we've largely concentrated on three main bases of segmentation: demographics (e.g. over 65 or under 25, with/without children), behaviour (visitor's frequency of attendance, how much they spend, when they attend) and attitude/motivation (people who share the same views, attitudes and beliefs). Segmentation is about deciding which aspects of the customers' demographics, behaviour and/or attitudes are worth pulling out as a common group of people.

Technology is now making it possible for segments to be much smaller, and to target people much more accurately based on their behaviour, rather than grouping them into segments where certain assumptions have been made.

Amazon.com, for example, offers recommendations based on your behaviour, but which are specific to you. This customisation of content, especially in websites where you are recognised (either by a login or a cookie) is particularly powerful in building relationships with customers, and is often talked about as the concept of a 'segment of one', implying that each individual customer can receive their own customised communications and offerings.

The segmentation process

Once we have divided our customers up into these clusters of similar types, we need to decide which of the segments to approach, and design a particular communication that best meets their needs. This is called targeting.

One mistake that I see many organisations make is that they

segment and then forget to prioritise – they try to communicate with all the segments equally (albeit in different ways). This is going to bleed you dry financially, and wear you out at the same time. You need to select the segments you're going to concentrate on, and design communications accordingly. The following three-step process shows you how to do it.

Define the criteria on which you will segment and create the possible segments. What your purpose is will determine on what basis you segment your audience. For example, if your purpose is to sell more tickets for the forthcoming contemporary dance production, you will probably create a segment of people who have attended similar productions before. However, you may also create other segments based on previous attendance. For example, your 'dance' segment could be split into people who have seen the forthcoming company before and people who have not.

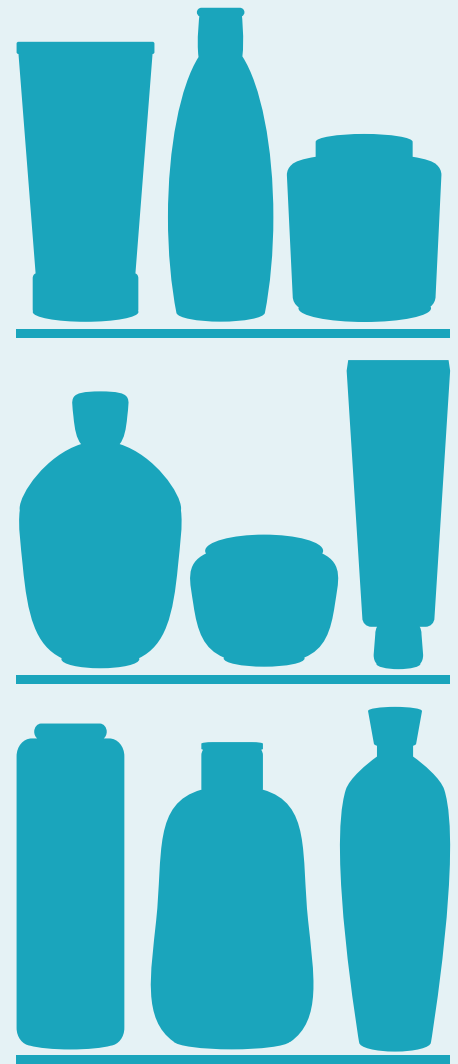
Assess the segments you have for size (are there enough people to merit targeting them?) and attractiveness (are they likely to respond?), and decide which ones you will target.

Develop customised communications or offerings to suit the segment. So, you can either customise your marketing communications (create different direct mail letters or adverts, choose different media channels, etc.) or your products – for example, you might create a package for families that includes a free workshop for the whole family with their tickets for a production.

How often should you segment your audience?

Some organisations segment their audiences annually. Tyne and Wear Museums have an annual benchmarking survey, which includes both demographic and behavioural information about their visitors (collected via face-to-face interviews). They use this to both monitor their performance against targets, and to inform how they prioritise their segments for future communications. In other cases, segmentation is often 'fit for purpose', i.e. a new segmentation for each campaign or season you are communicating.

If you're interested in a practical case study of how one organisation has begun the segmentation process, see the Town Hall and Symphony Hall case study in this issue of *JAM*. In the meantime, I'm off to check which shampoo I should be using ... ●



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