



**Customer Segmentation Fundamentals:  
Six Steps to Creating Customer Profiles  
and Gaining Market Advantage**

A Mapping Analytics White Paper



## **Customer Segmentation Fundamentals: Six Steps to Creating Customer Profiles and Gaining Market Advantage**

Knowledge of your customers' needs and wants is the foundation for marketing and sales success. A well-crafted customer segmentation analysis of consumers will provide this knowledge and can serve as a blueprint for your entire organization. Corporate strategists, marketers, salespeople and product developers all can use the same customer segmentation analysis to drive decisions leading to greater revenue and profitability.

The results of customer segmentation analysis can be used to:

- **Choose Better Store Locations**

Customer segmentation is a key analysis for accurately projecting the size of your total market opportunity, and projecting revenue and customers for new locations. Few companies can make successful site selection decisions without first gaining in-depth knowledge of their customers through a segmentation analysis.

- **Understand Untapped Market Potential**

An accurate profile of your customers allows you to analyze market areas or neighborhoods to understand how well you are doing in those areas — called your *penetration* — as well gain insight into the market potential and appropriate mix for your products and services.

- **Improve Targeted Marketing**

By identifying the customer segments that are most important to your business, you can focus marketing, media choices or business activities on those customers and prospects most likely to purchase your products. You can improve response rates and ROI by precisely marketing to segments with offers that will appeal specifically to them.

## The Customer Segmentation Process

---

The fact is, not all customers are created equal. Some are better than others: they buy more, and more often; they contribute more profit to your bottom line. Profiling your customers to create segments will help you identify your best customers and those prospects you should target.

Creating customer segments (or profiles) — and then using those segments effectively in your operations — is a multi-step process:

*To profile customers, you can use a custom neighborhood segmentation system or a commercially available one, such as STI: Landscape™, Mosaic®, Tapestry®, or PRIZM®.*

1. Start with your customer list and locate your customers by address \*
2. Apply a neighborhood classification system to classify and describe the neighborhoods your customers live in
3. Use the concepts of **Base**, **Penetration Rate** and **Penetration Index** in your analysis
4. Develop a **Strategic Opportunity Grid** to identify your best segments
5. Add syndicated survey data from Mediamark Research, Inc. (MRI) to better understand and target customer segments
6. Use the results of customer segmentation analysis to improve sales, marketing, and product development

\* If you don't have a customer list you can use MRI consumer survey questions to identify the product most like yours and the segments most interested in it, then use these segments as your customer segments.

## Neighborhood Segmentation Systems

---

*Neighborhood segmentation systems are also called lifestyle segmentation systems, cluster systems or neighborhood classification systems. By any name, they are at the heart of customer segmentation analysis.*

Neighborhood segmentation systems are created using proprietary methodologies applied to a host of demographic and consumer data variables. They classify and describe neighborhoods at the block group level across the entire U.S.

These systems are based on the concept of 'birds of a feather flock together.' In general, people who live in the same neighborhoods share similar characteristics, including demographics, lifestyles and purchasing patterns. All of your customers — because they live somewhere — fall into a specific segment. You

can identify a customer's segment by matching your customer address list to a neighborhood segmentation system. The resulting segments can be powerful predictors of consumer behavior.

The figure on the right shows a "distribution profile" of a customer list. It shows the number of customers in each segment (or cluster) and the percent of customers in each segment. This neighborhood segmentation system uses creative descriptive names, such as 'Charmed Life' and 'Still in the Game.'

The count of customers in each cluster isn't in itself enough to indicate which clusters are your best. We expect higher numbers of customers in clusters which inherently have more people in them.

Therefore, instead of comparing your customers to the entire country, you need to compare them to a more defined and relevant geographic base in order to achieve accurate segmentation results.

Cluster ID	NAME	# of	
		Customers	% of total
1	Empire Builders	2,034	7.8%
2	Grand Masters	1,492	5.7%
3	Marquis Class	1,950	7.5%
4	American Knights	844	3.2%
5	Urban Squires	1,098	4.2%
6	Regents	609	2.3%
7	Charmed Life	241	0.9%
8	Sitting Pretty	240	0.9%
9	Kindred Spirit	111	0.4%
10	Middle of the Road	64	0.2%
11	White Collar Status	62	0.2%
12	Blue Collar Starts	16	0.1%
13	Social Whirls	91	0.4%
14	Managing Business	125	0.5%
15	Nest Builders	51	0.2%
16	Gainfully employed	58	0.2%
17	Strapped	20	0.1%
18	Gray Eminence	128	0.5%
19	Fall Years	31	0.1%
20	Still in the Game	-	0.0%
21	Gurus	1,825	7.0%
22	Wizards	3,223	12.4%
23	Apprentices	2,002	7.7%
24	Hard Act to Follow	332	1.3%
25	SM seeks SF	727	2.8%
26	Solo Acts	360	1.4%
27	Down But Not Out	228	0.9%
28	Urban Moms	182	0.7%
29	Apron Strings	62	0.2%
30	Solemn Widows	16	0.1%
31	Educated Earners	473	1.8%
32	Suburban Singles	163	0.6%
33	Hard Hats/Hair Nets	66	0.3%
34	Bonds and Babies	592	2.3%
35	Great Generations	664	2.6%
36	Couples with Capital	505	1.9%
37	Kith and Kin	195	0.8%
38	Sublime Suburbia	146	0.6%
39	Stocks and Scholars	1,264	4.9%

Landscape Segmentation System, STI, Inc.

## Base, Penetration and Index

*For segmentation purposes, your **base** is a geographic area where the people living there could reasonably purchase your product.*

The **base** is the area from which customers could reasonably purchase your product; it is the area from which your customers come. Your base might be your store's trade area, a region of the country, or the entire nation. It can be defined as a market, a group of markets, radii around stores or a specialized grouping of ZIP Codes.

To perform accurate segmentation analysis, you must compare your customers to the appropriate base population, rather than to "everyone." Why? Because the

lifestyle clusters prevalent in your base population can be very different than the clusters prevalent in the overall U.S. population.

In the example on this page, Empire Builders represent 5% of your base but only 1% of the U.S. population. Conversely, Fall Years represent 1.9% of the U.S. population but only 0.1% of your base.

Cluster ID	NAME	Base Count	%	US Count	%
1	Empire Builders	262,052	5.0%	2,181,138	1.0%
2	Grand Masters	113,930	2.2%	2,899,856	1.4%
3	Marquis Class	207,846	4.0%	3,811,888	1.8%
4	American Knights	231,439	4.5%	4,869,084	2.3%
5	Urban Squires	99,825	1.9%	2,612,828	1.2%
6	Regents	101,056	1.9%	3,700,597	1.8%
7	Charmed Life	50,880	1.0%	4,014,845	1.9%
8	Sitting Pretty	74,888	1.4%	4,215,105	2.0%
9	Kindred Spirit	59,450	1.1%	4,001,249	1.9%
10	Middle of the Road	31,751	0.6%	2,870,588	1.4%
11	White Collar Status	66,747	1.3%	2,856,038	1.4%
12	Blue Collar Starts	14,620	0.3%	2,499,120	1.2%
13	Social Whirls	21,679	0.4%	1,264,310	0.6%
14	Managing Business	31,586	0.6%	2,202,769	1.0%
15	Nest Builders	18,051	0.3%	2,595,541	1.2%
16	Gainfully employed	29,275	0.6%	4,053,159	1.9%
17	Strapped	14,921	0.3%	2,722,461	1.3%
18	Gray Eminence	28,460	0.5%	3,709,503	1.8%
19	Fall Years	6,913	0.1%	3,917,169	1.9%
20	Still in the Game	-	0.0%	1,094,269	0.5%
21	Gurus	202,770	3.9%	2,434,264	1.2%

The **penetration rate** is the percent of a segment that is already your customer.

In the figure below, the column 'Penetration' represents the percent of the total cluster population of your base that is already a customer. In other words, how much you've 'penetrated' that cluster, expressed as a rate. The 'Penetration Index' shows the likelihood of a specific cluster being in your customer group. For example, your penetration of the Grand Masters cluster is 1.31% and Grand Masters are 2.62 times more likely than the 'average' cluster to be your customer.

The **penetration index** is the likelihood of a specific segment being in your customer group.

Cluster ID	NAME	Base Count	%	# of Customers	% of total	Penetration	Penetration Index
1	Empire Builders	262,052	5.0%	2,034	7.8%	0.78%	155
2	Grand Masters	113,930	2.2%	1,492	5.7%	1.31%	262
3	Marquis Class	207,846	4.0%	1,950	7.5%	0.94%	188
4	American Knights	231,439	4.5%	844	3.3%	0.36%	73
5	Urban Squires	99,825	1.9%	1,098	4.2%	1.10%	220
6	Regents	101,056	1.9%	609	2.3%	0.60%	121
7	Charmed Life	50,880	1.0%	241	0.9%	0.47%	95
14	Managing Business	31,586	0.6%	125	0.5%	0.40%	79
15	Nest Builders	18,051	0.3%	51	0.2%	0.28%	57
16	Gainfully employed	29,275	0.6%	58	0.2%	0.20%	40
17	Strapped	14,921	0.3%	20	0.1%	0.13%	27
18	Gray Eminence	28,460	0.5%	128	0.5%	0.45%	90
19	Fall Years	6,913	0.1%	31	0.1%	0.45%	90
20	Still in the Game	-	0.0%	-	0.0%	-	-
21	Gurus	202,770	3.9%	1,825	7.0%	0.90%	180
22	Wizards	317,240	6.1%	3,223	12.4%	1.02%	203
23	Apprentices	315,736	6.1%	2,002	7.7%	0.63%	127

Annotations:

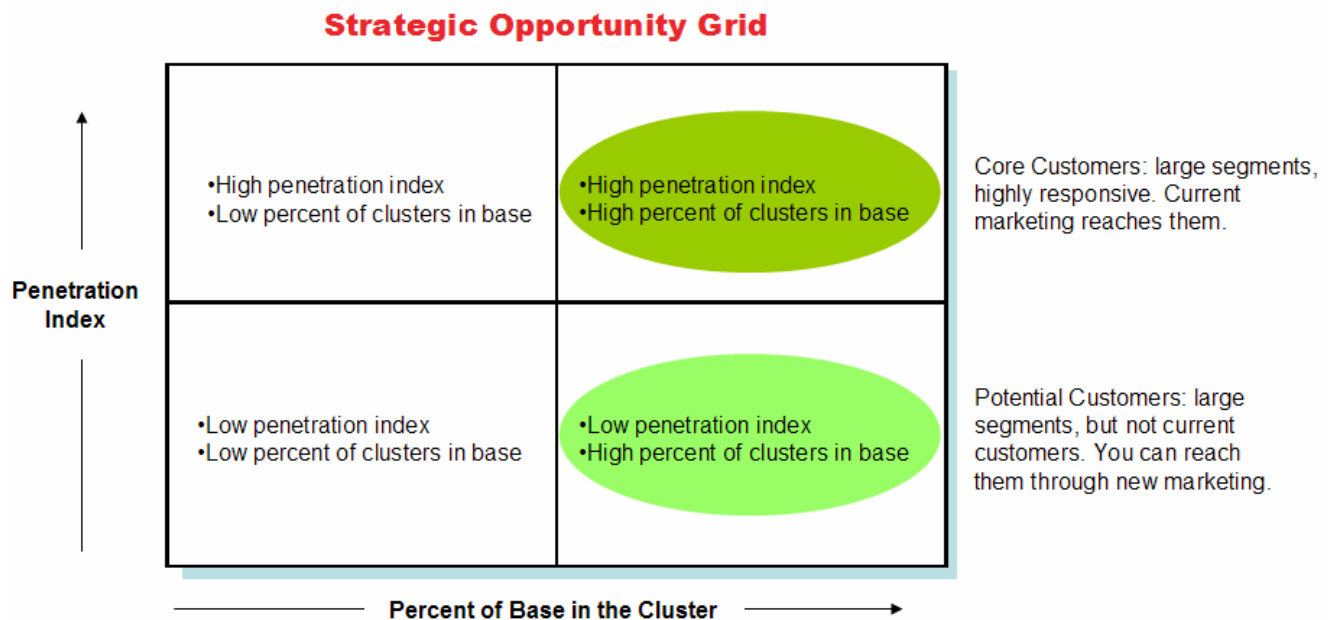
- Number of people in cluster in base area (points to Base Count)
- Percent of total base (points to %)
- Percent of total cluster population already a customer (points to Penetration)
- Indexed performance of cluster group against other clusters (points to Penetration Index)
- Number of customers in cluster (points to # of Customers)
- Percent of customers in cluster (points to % of total)

In simplest terms, **your best customers are those in the clusters where your penetration rate and index are high.** In reality, you may need to perform additional analysis. For example, you may have high penetration and high index clusters but the base of that cluster isn't large enough to draw valid conclusions.

## The Strategic Opportunity Grid

---

The **Strategic Opportunity Grid** helps you identify your target customer segments (or clusters). The grid contains four quadrants, for the four combinations of High or Low Penetration Index for a cluster and High or Low Percent of Customers in the Base for a cluster (see figure below).



### **Core Customer Segments** (upper right of grid)

Core customer segments make up a higher percentage of your customers than they make up in the overall market area. For instance, a segment may make up 4% of your customers but only 2% of the market area. Core customer segments

also have an above average index to be your customer (>100). Think: loyal customers, a propensity to like you, good opportunity. You can to keep, grow and find more of these customers through your current marketing strategy.

**Potential Customer Segments** (lower right of grid)

Segments that make up a significant percent of your customers and of the market area, but do not index high, are potential customers. You have some of them as customers, but only because there are a lot of them out there. Think of them as wanting to be your customers, but you haven't effectively reached them yet. Reaching these high-potential segments requires a change in marketing efforts.

**Niche Customer Segments** (upper left of grid)

Segments that index high but do not make up a significant percent of the customers or your base are niche customers. They are likely to be good customers, but because there are not a lot of them, you must consider the costs of acquiring them as customers against the value they represent.

Segments in the lower left of grid are neither prevalent in your base nor high indexing. These are not your target segments.

## Adding MRI Profiles

---

*MRI Profiles allow you to better understand your customers' wants, needs and behaviors in order to deploy more effective marketing and sales strategies.*

Once you have segmented and identified your target customers using a neighborhood classification system and Strategic Opportunity Grid, you must better understand their wants, needs and behaviors in order to deploy more effective marketing and sales strategies.

MRI Profiles, highly respected throughout the industry, are based on syndicated consumer market surveys conducted by Mediamark Research, Inc. MRI Profiles allow you to compare a customer segment to the index of that customer segment for any specific product, service or lifestyle characteristic.

In other words, for any of your customer segments, how much more likely or less likely than the average person are they to purchase Brand X shampoo, read Y

magazine, listen to radio station Z, attend a sporting event or go to the movies. Or make one of hundreds of other spending and lifestyle decisions.

Using MRI Profiles, you will be able to better understand your customers' purchasing patterns, identify users of your products or similar products, and plan more effective media and targeting strategies because you will know how to market and what message to deliver.

## Driving the Results of Segmentation Analysis

---

The most brilliant customer segmentation analysis will only be useful if you can drive the intelligence you gain throughout your organization. Forrester Research recently reported that many segmentations are not properly implemented. This is primarily because the market researchers who perform the customer segmentation analysis are not typically involved in driving the use of the analysis through the organization.<sup>1</sup>

Follow these strategies to put customer segmentation analysis to successful use:

- Marketing, sales and product development personnel should provide input into the segmentation process up front. Ultimately, they will play a key role in driving the use of analytic results.
- Hold segmentation adoption sessions in your organization in which all the key players are educated and trained on how to use the segmentations.
- Pursue only the most attractive and reachable segments, rather than watering down marketing, sales and development efforts by trying to appeal to all segments. That's the whole point of customer segmentation: to discover where to focus resources to achieve the greatest ROI.
- Develop core messages for each key segment (or group of segments) and use them at customer touch points.
- Use segmentation insight for what is was intended for: to improve site analysis, trade area analysis, direct marketing, media targeting and cross-selling — with the goal of increasing growth, revenue and profitability for your organization.

*Pursue only the most attractive and reachable segments, rather than watering down marketing, sales and development efforts by trying to appeal to all segments.*

---

<sup>1</sup> "Market Research: Why Good Segmentations Fail", Brad Bortner, [www.livemint.com](http://www.livemint.com), 2008.

## About Mapping Analytics

---

Mapping Analytics offers analytical consulting, software and data to help businesses profile customers, accurately assess market opportunity, select successful retail and franchise sites, and plan sales and service territories, helping contribute to overall growth and profitability for our clients.

Founded 1989, Mapping Analytics is led by an experienced leadership team with a background in consumer marketing and proven success in geographic analytics, mapping, project management and application development. Our focus is business management, including sales, marketing, real estate, strategic planning, and GIS consulting. Our clients span virtually every business segment, from manufacturing/distribution, banking/finance, retail and restaurants to marketing/media/advertising, insurance, and health care.

To learn more about Mapping Analytics, please visit [www.mappinganalytics.com](http://www.mappinganalytics.com) or call toll-free (877) 893-6490.