

What's the one right solution to customer segmentation in a particular market? It doesn't exist. The same universe can be segmented in several different ways depending on the business objectives for the brand. However, even though there's no single right solution, there is one right criterion for evaluating segmentation approaches, and that is achieving the proper balance between insight and actionability. The result will be effective marketing and sales strategies that lead to measurable business impact.

For decades segmentation has been an indispensable tool in brand marketing. Marketers can't maximize a brand's potential if they assume that the needs and preferences of all audiences are the same. In the world of prescription drugs and medical devices, for instance, it's critical to segment providers, patients and payors in order to develop targeted, effective sales and marketing strategies for each group. That being said, it's common to see

marketers try to implement segmentation schemes that simply don't work. Despite the time and money spent on the project, the results fall far short of expectations. Worse yet, in too many cases the segmentation solution ends up not being implemented at all: the theory may be attractive but it's not practical to put it into operation. In short, it's not actionable.

## WHAT TO SAY?

### The perils and pitfalls of brand positioning and messaging

Needs-based segmentation is the most effective way to develop brand positioning and messaging, but uncovering the true needs and motivations that drive human behavior is no easy task. The approaches used most often today are based on analysis of either attitudinal or behavioral variables, both of which in isolation can have significant shortcomings.

Purely attitudinal segmentation schemes, which are often adopted by creative-leaning brand marketers, can backfire when what the audience says isn't aligned with that it does. For instance, a group of physicians may say that they treat disease aggressively; but their prescribing patterns do not indicate a preference for the most potent drug when compared with other physicians. Another problem is that purely attitudinal segmentations are typically very difficult to use when classifying physicians in the target universe into their respective segments.

Purely behavioral segmentation approaches, the darling of simplicity-oriented sales managers, are likewise inadequate when considered on their

own. Physicians may look as if they behave the same way in terms of market shares or volume but their behavior may be driven by very different reasons. Some may prescribe a drug because they prefer its milder side-effect profile while others may just be motivated by its favorable formulary status or a different patient mix. Similarly, physicians may look very different in terms of prescribing patterns, but their behavior is based on the same reasons, such as managed care coverage. Thus, behavioral patterns alone are not sufficient to illuminate the underlying needs.

Finally, product attribute ratings are often not predictive of actual behavior. People tend to overstate rational characteristics (e.g., fewer side effects, more clinical data) and understate the true importance of emotional attributes or intangibles. Physicians typically don't readily admit that convenience, patient requests, or a great relationship with the sales rep is driving treatment decisions.

## MAXIMIZING BRAND POTENTIAL

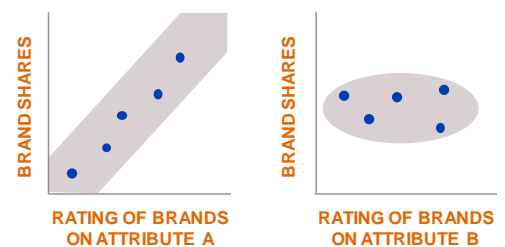
Effective segmentation impacts many aspects of brand marketing:

- Who to talk to → for playing field/target universe definition
- How often → for resource allocation
- When to talk to them → for launch or competitive defense planning
- What to say → for positioning and messaging
- How to say it → for channel selection, media mix planning and message tone

## BRAND ATTRIBUTE RANKINGS AND BEHAVIOR:

### Are they linked?

Not always. Focus on attributes that closely correlate with market shares; they're likely to be the ones that matter.



*In this example, the correlation between product attribute A and market shares indicates that it is a more relevant motivator than attribute B.*

The result? Most of the messages in the healthcare marketplace look remarkably alike. True brand differentiation rests on deeper insights using derived measures rather than stated answers to survey questions.

A methodical synthesis of multiple approaches is needed to find a solution that best aligns preferences, attitudes, and behavior into insightful and actionable segments.

## BALANCING INSIGHT WITH ACTIONABILITY

A successful segmentation requires uncovering what audiences truly think, and linking that to what they do. This implies:

- placing emphasis on customers' derived preferences, and
- leveraging those attitudes that best explain behavioral differences

Identifying segments with significantly different needs and motivations forms the basis for a winning brand positioning and messaging strategy. At the same time, the more differentiated the segments are in terms of their behavior and other observable characteristics, the easier it is to project the segmentation results from the research sample to the entire customer universe.

Analytical techniques that can lead to successful results include sophisticated latent class regressions, latent class clustering, as well as simpler *a priori* rules. Each segmentation challenge is different and requires a careful comparison of multiple solutions often based on different approaches, trying to reach the best balance between creative insights and implementation feasibility.

A successful approach to segmentation identifies segments that are:

- clearly differentiated in their needs, attitudes, and behavior,
- likely to respond similarly to marketing initiatives,
- prioritized by financial potential, and
- projectable to the universe, so that the results can be acted upon.

## BUSINESS RESULTS

When the proper implementation planning steps are taken, an actionable needs-based segmentation can lead to results that would thrill even the most demanding brand director. In case studies of segment-tailored messaging, both sales representatives and physicians note significant differences in their interaction. Below are some results from follow-up research testing the effectiveness of our segmentation efforts:

### REPS NOTICE A DIFFERENCE:

- "Reps reported the segments to be very accurate (95%)."
- "Reps reported significantly more time with physicians."
- "Reps felt the segmentation approach made it much easier to close."

### PHYSICIANS NOTICE A DIFFERENCE:

- "40% report they gave more time to the rep during this call than any other rep they see."
- "The majority of physicians report they would increase the brand's prescribing based on the segment-specific interaction."
- "Highest message recall in recent history."
- "50% improvement in credibility rating of sales reps despite the negative label change on one of the products during the roll-out."

### SALES RESULTS IMPROVE:

- "Greater incremental TRx per call among targeted segments."
- "Continued rate of share growth on base business despite significantly fewer primary calls."
- "Higher ROI from tailored communications."

## TECHNICAL QUESTIONS TO ASK THE SEGMENTATION VENDOR:

- 1. How is the survey data set prepared?** The devil is in the details – data should be thoroughly examined to properly handle analytic issues such as weighting, missing values, outliers, repetitive response patterns, and rating scale differences among respondents. Failure to appropriately deal with any one of those issues may derail the whole segmentation analysis.
- 2. What analytic techniques are considered/used:** Beware of canned responses. All techniques have benefits as well as shortcomings; committing to a single approach upfront may lead to a disappointing outcome.
- 3. How are the variables chosen that are used in the segmentation algorithm?** This is, to a large extent, what determines the ultimate fate of the segmentation solution. For a successful outcome, selection should explicitly focus on the attitudinal, behavioral, and/or demographic variables that are most tightly linked to business objectives. This is especially important when using clustering techniques, as – unlike regressions – they don't offer the benefit of a dependent variable. Hence there is no guarantee that the variables that end up driving the segmentation will also be the most relevant ones to achieve the brand's business objectives.
- 4. How is the number of segments determined?** Statistics provided by latent class models are certainly helpful, but ease of implementation is typically the key driver of this decision. However, it is always a good idea to carefully examine the adjacent solutions (with one less and one more segment) to understand the trade-offs being made.
- 5. Is the solution stable?** The segmentation solution should (i) be replicable, (ii) not be overly sensitive to a few variables, (iii) remain meaningful over its intended shelf-life, and (iv) when adjacent solutions are cross tabulated, display a logical, orderly progression. The latter is an important but often overlooked measure of stability. If individuals seem like they are being randomly re-shuffled when comparing a solution to an adjacent one, it is hard to trust which customers belong together in which segment.
- 6. How accurate is the segment identification in the universe?** This is key to successfully implementing a segmentation solution and maximizing the effectiveness of marketing programs. To be commercially viable, the projection of segment membership from the research sample to the universe should be over 80% accurate – ideally without requiring a customer profiling effort by the sales organization. This doesn't happen unless it is carefully planned for from the start of the segmentation effort.

TO DISCUSS YOUR BRAND AND ITS MARKETING CHALLENGES,  
CONTACT US AT [203.662.5100](tel:203.662.5100) OR [SEGMENTATION@MICHAELALLENCOMPANY.COM](mailto:SEGMENTATION@MICHAELALLENCOMPANY.COM)

© 2010 Michael Allen Company

  
Michael Allen Company  
GROWTH STRATEGY CONSULTING