Customer Segmentation

The most important factor for each business is to retain their existing customers and add new customers through various strategies, thus knowing your consumers is essential in the dynamic world of business and marketing. Segmentation is a crucial tool in this regard, it is the practice of grouping your consumer base into discrete groups according to particular similar attributes or patterns. Heuristic segmentation is a practical approach that focuses on experience and intuition instead of intricate statistical method to group customers, thus it stands out among other segmentation approaches.

e.g. Consider we have dealing with a sports brand; the brand employs us to deal find how its customer base is grouped as per different sports and how much prefer the brand for a particular product and the average range they're willing to spend on products. This is all can be easily accomplished through customer segmentation analysis.

What is Heuristic Segmentation?

The process of segmenting/categorising a market into groups based less on formal data and more on gut feeling, common sense, or subjective opinion is known as heuristic segmentation. Heuristic segmentation makes use of both practical experience and qualitative insights to discover significant consumer groups. Unlike other segmentation methods that mainly focus on data mining and statistical analysis, heuristic segmentation focuses more on aspect that hold more value than just numbers.

Customer Segmentation methods:

Value-Based Segmentation:

Value-based segmentation groups customers according to how much valuable they are to the company like very brand wants to keep a wealthy customer at all costs. A number of factors, including spending patterns, purchase behavior, and overall profitability, can be used to measure the value of each customer. Businesses then can customize their marketing strategies to retain and promote high-value customers and also develop methods to bring low-tier customers into high-valued category.

Process:

1. Establish Value measures: Determine the value measures, such as customer lifetime value (CLV), frequency of purchases, or profitability from each customer.
2. Data Collection: Extract information about customers from database or CRM systems on customer interactions, transactions, and other details.
3. Establish criteria for client segmentation based on value measures.
4. Segmentation Analysis: Using grouping/clustering approaches, divide the consumer base into different groups.
5. Segmentation Validation: Validate each segment by measuring how they affect profitability, client retention, and revenue creation.

6. Segment-Specific Strategies: To optimize value, engagement and customer retention, develop segment-specific marketing strategies. For example, provide high-value customers with customized prizes or medium-value customers with retention campaigns.
7. Monitoring and Modification: Keep on updating the performance of each segment on regular basis to check the working of marketing strategies and make necessary adjustments to them in response to shifts in consumer base.

Loyalty Segmentation:

The goal of loyalty segmentation is to split up the consumer base as per how devoted/loyal they are to a certain brand. It takes into consideration things like loyalty program member or not, and frequency of purchases. Businesses then develop methods to build connections, increase customer satisfaction by knowing the various levels of loyalty within their customer base.

Process:

1. Customer Loyalty Factors: List the main markers of a loyal customer base, such as social media involvement, loyalty program membership, and repetitive purchases.
2. Data gathering: Gather information on consumer interactions, transactions, and involvement on different indicators as mentioned above.
3. Loyalty Metrics: Determine the frequency of engagement, and loyalty points gained for each customer.
4. Segmentation Criteria: Segmenting customers based on their loyalty and grouping them into loyal, occasional, or new customers.
5. Segmentation Analysis: Analyze the data to segment customers into different loyalty segments by using clustering approaches.
6. Segmentation Validation: Validate the segments by assessing their correlation with loyalty factors.
7. Loyalty Programs: Develop loyalty programs personalized to each segment's needs and preferences.
8. Feedback and Improvement: Gather feedback from customer segments to continuously improve the programs.

Life Stage Segmentation:

Customers are grouped based on factors like age, marital status, and job level. It acknowledges that customer behaviour changes over time and that people with varying life phases may exhibit different buying habits. By customizing product offers and marketing strategies to fit particular group, companies may better connect with their targeted customer base and meet their requirements. For ex. A single person professional has different priorities as compared to a married professional or a retired professional. Classifying the customers into different life stages helps us to better match the marketing according to the targeted audience. Understanding where your customers are in life helps you offer them solutions that match what they want and expect. To do this, you need to gather and look at information about your customers' age, interests, and how they act, so you can group them into different life stages.

These segments include young singles (20–30s), young families (30–40s, with one or more children and moderate–high income), mature singles (40–50s, no dependents, high income), mature families (50–60s, with grown-up children, high income), and seniors (60+, no dependents, low income).

Process:

1. Analyse on life stage groups - Create different life stages categories such as age groups, marital status, family composition, or professional level.
2. Collect data - Get data about your client's interests and his background to get idea of what they like and need and how they behave in different stages of life.
3. Life Stage Metrics - Establish metrics based on age groups, family sizes, income levels, and life events for each life stage category.
4. Establish segmentation criteria - Use metrics related to consumers' life stages to divide them into groups, such as young singles, married couples, families with kids.
5. Segmentation Analysis - Apply clustering techniques or demographic profiling to analyse the data and divide the client base into distinct life stage segments.
6. Segmentation Validation - Validate the segments by assessing their alignment with life stage behaviour and preferences, such as product preferences, purchase patterns, or media consumption habits.
7. Lifecycle Marketing- Develop targeted marketing strategies and different campaigns specific to different areas addressing their specific needs and challenges.
8. Lifecycle Mapping - Analyse the customer journey for each life stage phase, identifying touchpoints and opportunities to bring and influence customers at different stages of their life journey.

RFM Segmentation:

RFM stand for Recency, Frequency, Monetary, they are used to evaluate each customer.

Recency: The time difference between today and each customer's last purchase.

Frequency: The regularity of each customer's purchases as per given time period.

Monetary: The amount of money each customer spends on each purchase.

Businesses can identify categories such as rare purchasers, recent but low frequency consumers, and high-value regular buyers by measuring the above parameters for each customer. By concentrating on categories with the high potential for profitability and customer retention.

Process:

1. Recency, Frequency, Monetary Calculation: Using data, calculate recency, frequency, and monetary metrics for each customer.
2. Scaling the data: To understand data more efficiently, scale the RFM metrics.
3. RFM Score Calculation: Assign an RFM score to each customer based on their RFM metrics.
4. Segmentation Criteria: Grouping clients into high, average, and low-RFM categories, based on RFM scores.
5. Segmentation Analysis: Use clustering method to divide the customers into different RFM segments.

6. Segmentation Validation: Validate the segments by assessing their correlation with key business outcomes, such as revenue growth, customer retention, or lifetime value.
7. RFM Strategies: Develop targeted marketing strategies and tactics for each segment, such as personalized offers, promotions, loyalty programs tailored to customer as per their RFM scores.
8. Continuous Optimization: Continuously monitor RFM segments and adjust strategies based on changes in customer behavior, market dynamics, or business objectives, ensuring relevance and effectiveness over time.

Application of Heuristic Segmentation:

- **Targeted Marketing Campaigns:** Businesses creates specialized marketing plans that brings to the specific need and likes of customers of different group using heuristic segmentation. By understanding the unique qualities of each different groups, marketers can create different promotions and messages that roam about the audience which leads to better interaction and sales rates.

- **Personalised Customer Experience:** Companies can make their customer feel special by dividing their customers into different groups using different smart ideas. When customer feels that their company gets them, they might start liking the company more and often come back to them. This happens only when the company delivers things to its customer what they actually like and need and give them some reward and engage with them in a polite manner.

- **Optimal Resource Utilization:** By concentrating on the segments with the highest potential for development and profitability, heuristic segmentation aids firms in making more efficient resource allocation decisions. By focusing on the parts where a business can grow and make profits out of its services is the best way to help a business utilize its resources in an efficient manner. It means that picking the best parts and spending money and time there so that you get back more than what you put in.

- **Customer Retention and Improved Loyalty:** By identifying different consumer categories, brands develop strategies to improve customer retention and improve their loyalty metrics. Through loyalty programs like prime for Amazon etc, special discounts, companies tempt their customers to make more purchases and strengthen their relationship with the brand.

- **Product Development and Innovation:** The requirements and problems of customers are better understood by heuristic segmentation. Businesses can then develop goods and services that cater to the demands of particular segments and increase customer satisfaction and market success by doing so.