

Principles of segmentation

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

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.

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.

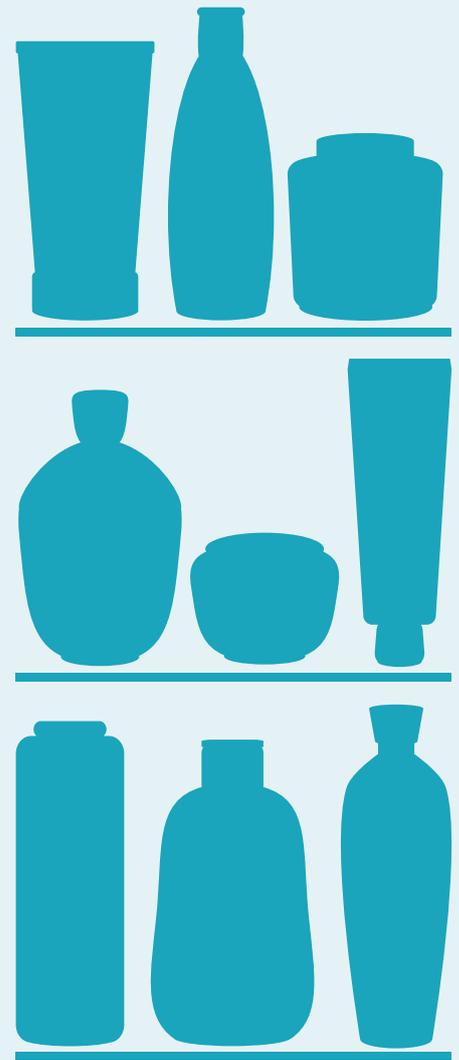
Assess the segments you have for size (are there enough people to merit targeting them?) and attractiveness (are they likely to respond?), and decide which ones you will target.

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 ... ●



Katy Raines

Partner, Indigo-Ltd
e katy.raines@indigo-ltd.com
w www.indigo-ltd.com
twitter IndigoLtd

Segmentation in practice: getting started

Joanna Sigsworth and *Katy Raines* outline a pragmatic approach to customer segmentation

Town Hall and Symphony Hall (THSH) in Birmingham are two large-scale receiving venues presenting over 620 varied performances a year, focused largely on music. Since the re-opening of Town Hall in October 2007, the organisation was keen to undertake a comprehensive segmentation of its customer base to better understand its audiences, and to further develop its audience-focused approach to its communications. Despite still being in the early stages of this project, the initial segmentation has fleshed out a whole set of factors about audience attendance patterns, which will now inform a tailored new approach to our marketing and communications.

The basic stages of the segmentation project were: creating the segments, understanding the segments, selecting and testing the segments and monitoring the segments. So far, THSH have completed stages 1 and 2 of this process, and are about to embark on re-modelling their communications in order to test and monitor.

1. Creating the segments

We began by undertaking behavioural segmentation through data analysis using the box office system. This helped us to define broad segments, based firstly on art form and then on frequency. As we have found that the best predictor of a person's likelihood of re-attendance is their past behaviour, it made sense to begin the segmentation at this point.

Art form

Key to this segmentation was re-categorising all THSH's events into three broad 'interest strands' based on



the motivation for attendance at the event, rather than a technical art-form definition of it. We found that people were attending largely in one of three interest strands:

- **Serious Classical:** Western classical music events that appeal to classical music fans, but that have a lower likelihood of appealing to crossover audiences.
- **Populist:** Mainstream events in all genres that have mass/populist appeal.
- **Serious Non-Classical:** This is incredibly mixed in terms of genres, but was broadly serious non-Western classical music.

Ninety percent of the audience attended within one of these interest strands (i.e. didn't cross over to another strand), which gave us confidence that we had identified specific clusters of customers.

Frequency

By looking at typical customer frequency patterns, we then defined what a 'oncer', 'irregular' and 'regular' attender were for THSH.

The segmentation model

By combining the interest strand profiles with the frequency profiles, we were left with 11 unique customer segments.

One of the key findings of this exercise was for THSH to understand its large Populist audience better – we knew relatively little about them in comparison with the smaller but more loyal Serious Classical attenders.

Once we had clusters of customers based on their behaviour, we needed to understand more about each cluster so that we could test our assumptions, and begin to create communication approaches appropriate to each cluster.

		INTEREST STRAND PROFILE			
		Serious Classical	Populist	Serious Non-classical	Crossovers (2+ of the other standards)
FREQUENCY PROFILES	Oncer	Segment 1A	Segment 2A	Segment 3A	
	Irregular	Segment 1B	Segment 2B	Segment 3B	Segment 4B
	Regular	Segment 1C	Segment 2C	Segment 3C	Segment 4C

2. Understanding the segments

In order to obtain a detailed understanding of each segment we undertook secondary and primary research.

Profiling the segments (secondary research)

For each segment we identified:

- size and value to the organization (from box office system)
- typical art forms/genres attended and any crossovers
- typical purchasing behaviour
- geographical profile
- demographic profile (from ACORN)
- Arts Council *Arts Audiences: Insight* comparison

We found that the interest strand profiles we had created corresponded very clearly to other similarities between the people in those segments. For example, Serious Classics were different from Populists in many ways: they were a different age and had different ACORN and *Arts Audiences: Insight* profiles.

Understanding the segments (primary research)

The one bit of the jigsaw that was missing for us was the specifics of

each segment's attitudes to and perceptions of what THSH had to offer, as well as their attendance at other arts organisations and communication preferences, so we undertook some primary research.

This took the form of a simple web survey to assess current attendance at other arts organisations in the region, other leisure behaviour, perceived frequency/loyalty to THSH events, and media consumption.

Again, what we found was that people in the same segment had very similar preferences, habits and behaviours in relation to these areas, but were considerably different from the other interest strand segments. For example, Serious Classics read completely different newspapers from Serious Non-Classicals; they had different interests in their leisure time, and frequented different cultural establishments.

We also conducted in-depth focus group research with four key segments for which we had very little information. What we found reinforced everything we'd learned about the segments so far, and confirmed that they were indeed quite distinctly different groups of people, while being largely similar to the others in their segment.

Through the segmentation process, we are confident that we have a bespoke and robust model that has identified real clusters of people who share similar behaviours, profiles and attitudes. THSH is now planning stages 3 and 4 – the selection of segments, testing, monitoring and refining communications – aiming to complete them by December 2010. The project is still in its early stages, but is already paying dividends with much more to come. ●



Joanna Sigsworth
Marketing Manager, Town Hall & Symphony Hall, Birmingham
e joanna.sigsworth@thsh.co.uk



Katy Raines
Partner, Indigo-Ltd
e katy.raines@indigo-ltd.com