

Profiling, Targeting, And Segmentation

By John M. Coe, President & Founder, The Sales & Marketing Institute

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In marketing, as in many other disciplines, the first question is, “where do I start to solve the problem?” Frequently, marketers start where their strengths lie or where they feel comfortable. Database marketers start with data, creative types start with the creative, etc. Frankly, that’s why so much marketing misses the mark and does not produce the desired results. Years ago, I was watching Ron O’Brien (a two-time NCAA diving champion and coach of many of our Olympic divers, including Greg Louganis) learn a new dive. After his many attempts to “hit” a 3-1/2 forward somersault with two twists, I asked, “How do you learn a new dive?” His answer was both insightful and appropriate, and one that I’ve taken to heart. Ron said, “If I put my head in the right position, the body soon follows.”

When we develop marketing campaigns, we frequently miss the mark and should take Ron’s advice. But what is our head position? My advice to marketers is that profiling and targeting, combined with a segmentation process, is it and if we get it right, our marketing “body” will soon follow – and so much more easily, as well.

The reason I believe this process is so important is that in B2B (business to business), much marketing planning and execution is done with little solid information and/or according to anecdotal input. It’s not uncommon to have a company “identify” a target market and launch a program based on only several sales successes. Everyone gets excited and charges off to call on more of “these kinds of companies” without further analyzing the overall market to see if, in fact, that is a segment worthy enough to target.

As we move from sales-driven strategies to more integrated ones, there needs to be a much more disciplined method of targeting and segmentation. Overall, it’s a three-step process.

- ▶ **Profiling** – Where have you been?
- ▶ **Targeting** – Where are you going?
- ▶ **Segmentation** – Who’s going to get you there?

This report deals with profiling, targeting, and segmentation, which are the three critical first steps in any marketing program, and the required “head position” to achieve maximum results. Companies that have not yet undertaken this three-step process may well find that it’s a difficult, but also a very rewarding, effort.

Profiling: Where Are You Now?

The first step, profiling, not only confirms what you know about your market, but also adds insight regarding where you have had success in the past in a more quantitative manner. Once the profiling analysis has been completed, it can be used as one of the inputs to target future marketing efforts.

Anecdotal examples of success almost always come from sales. While most companies have a strong sense of which markets are good targets as well as where success has been achieved in the past, in almost all cases this market “insight” has not been well detailed and quantified. Too

often I hear of a new customer who is in the “XYZ” industry, and find that a major marketing and sales initiative was launched to find similar customers, without any marketing analysis being conducted. This is typical for a sales-driven company. For many years marketing’s job was to create advertisements, develop brochures, build trade show booths, and perform similar duties. Its mission was not to define for the sales group anything about the customer base or where sales calls should be directed. This was the job of product and sales management, and frequently the determination of who were the potential customers was left solely to the salesperson covering the territory.

Profiling: The Process

Profiling should be a basic marketing process that is performed routinely by all companies. Unfortunately, my estimate is that fewer than 20% of B2B firms have actually profiled their customer and/or prospect base. In fact, recently I was consulting with a very successful software company on its marketing programs and found that this 20-year-old high-tech company with more than 16,000 sales transactions had never profiled its marketplace. Here’s how the marketing communications manager answered the “Where do you sell?” question: “We sell large FORTUNE 500 companies and government agencies.” That was it; no other detail on the makeup of the market was forthcoming. Management didn’t even know how many of the sales came from the same company, since the sales records were by location and were not tied to a corporation or parent company. As a result, the marketing objective was to sell more “large deals,” but nobody knew where these “deals” were, as no real market analysis and profile had been developed. Therefore this high-tech company was flying blind, except to direct the sales organization to “large companies.” Needless to say, that company is now engaged in a detailed profiling project to identify the best industry segments.

So, where do you start the profiling process? First and foremost, the customers need to be profiled, for the obvious reason that past success is almost always a predictor of future success. So then the question arises – on what do we base the profile?

In my experience, two demographic pillars support the basic demographic profile: industry type and company size.



While there are other profiling approaches (e.g., sales revenue or some other key characteristic), this basic demographic profiling is a required first step. The support behind this approach is that these two data descriptions are also the “data bridges” to outside databases from business information compilers. We need these data bridges to find companies that match the profile in these compiled databases. It doesn’t do any good to develop a great customer profile and then find that no other data source has this information. You become “market-ing-locked” if this happens. Once this demographic profile is established, other, more company-relevant, profiling approaches are insightful and actionable.

Industry Type

The standard definition of industry type has been the Standard Industrial Classification, or SIC, for the past 70 years. In 2000 this definition became a legacy system, as we are transitioning to the North American Industrial Classification System, or NAICS code. The newer NAICS coding has several major advantages over the old SIC coding:

- It includes the new technology companies that were not specified in the old SIC codes. For example, Cisco did not have a specific SIC code that described their company’s products, and was assigned the famous 99 NEC, or Not Elsewhere Classified, number.
- The new coding system is NAFTA-consistent and encompasses both Canadian and Mexican firms. It is also the basis of an initiative by the Department of Commerce to establish a worldwide coding system that, as of this writing, is not yet in place.

There are other improvements and revisions to this new system of classifying companies. To keep updated on the transition, visit <http://www.census.gov/epcd/www/naics.html>.

Note that even though the government has officially changed to the new NAICS coding, the industry has not. At this time very few companies who have coded their database with the SIC code have taken the time and expense to re-code to NAICS. Therefore, as market demand has not caught up with capabilities, the transition is not as widespread as would be expected. However, if you are now considering which coding system to use, my recommendation is to go with NAICS. The transition to NAICS is available from data compiling firms, as they have built “data bridges” from the old SIC codes to NAICS.

Once you understand the industry coding system, several other issues need attention before you proceed. First, how deep into the industry description should you go to define the company type? This decision, in part, rests on how many customers you are profiling.

In the old SIC system, a four-digit level fit most situations, which equates to the six-digit level under the new NAICS codes. Many B2B companies only sell to hundreds of companies, so a six-digit NAICS level will most likely be too granular and not provide the insight necessary to identify the best industry concentrations or clusters. On the other hand, if you need your customers to be truly defined in as detailed a description as possible, then the six-digit level is best. This is a decision that needs to be made before a profiling process is undertaken.

In addition, a customer base that is composed of large companies requires further consideration, since they will most likely have numerous NAICS codes to reflect multiple operations and product lines. Just think of how many NAICS codes IBM or DuPont have that describe their business units. On this issue, the site or location of the customer may be a tip-off as to what code should be assigned – but not always. Because this is such an important piece of data, in some cases a manual check may have to be made of the specific code assigned to the customer. Incorrect coding will lead to faulty profile analysis. The good news is that companies' NAICS codes rarely change or decay over time, so once you've accurately recorded the numbers, you can rely on them. Determining the right NAICS code and assigning it may be a daunting challenge if the customer base numbers in the thousands, but it is worth the effort, as this basic demographic piece of data will be used over and over again to set marketing strategy and sales direction.

Company Size

The next key issue is how to define the size of the companies to be profiled. To most people, this means sales revenue. While this definition may be the most desired, it poses several problems for accurate profiling. Here's why: Most companies in the U.S. are private. In fact, only about 10,000 of the more than 10 million companies in the U.S. are public and are required to file factual information on their sales revenue. This means that at least 99% percent of all U.S. companies keep their sales figures confidential. Don't get me wrong – revenue numbers for private companies exist in compiled databases, but they are often estimates, modeled on some other factor, such as number of employees at the company and nature of the industry.

Therefore, to determine the size of the company, the number of employees may be a better gauge. This information is usually not considered secret. In public databases, it is often reported within a range of employee sizes. When developing your own information, it would thus be satisfactory to also use ranges, as exact employee size is not as important as the general size of the company. The standard employee size range breakdown is as follows:

1-4 employees	100 - 249 employees
5-9 employees	250 - 999 employees
10-24 employees	1,000 – 2,499 employees

25-49 employees	2,500 – 9,999 employees
50-99 employees	10,000+ employees

Unlike the NAICS code, the size of a company often changes from year to year and therefore becomes a data element that needs continual updating. Nevertheless, I prefer using the employee count as the company size criterion, since this question will most likely be answered fairly accurately. While data compilers do update revenue number and employee size definition in their databases, the question regarding number of employees is one that we also can ask our customers and prospects and receive a reasonably accurate answer to update our records. The sales, customer service, and telemarketing groups or other types of customer contacts can include this question, and therefore, we don't have to solely rely on data compilers for an update.

Another choice on size of company should be made at the outset of the profiling process. While the preceding employee size categories are standard in the industry, it may be wise to combine several categories, so that when a market profile matrix is created there are fewer cells in the overall grid. Here's a typical example of three segments – small (e.g., 1-49), medium (e.g., 49-999) and large companies (e.g., 1,000+). The specific size definitions depend on the marketing situation you face and how granular you want this definition to be. (By the way, the government's definition of small companies is now 500 or fewer employees, so be careful in throwing around these terms, as a "small company" definition for one person may not mean the same thing to another individual. In fact, one of the most important issues in B2B marketing is to have common definitions of terms.)

How To Profile

The profiling process relies on matching your customer or prospect record to public information from data compilers and enhancing your record with the selected information (e.g., NAICS code and company size). That may sound easy but it's not! The problems lie primarily in matching your customer record with the same company record in the public database. In many cases, the way in which the customer or prospect record was inputted may not match the way in which the same company record is listed in the outside database. Let's use DuPont as an example. Here are a few ways DuPont might be listed:

- DuPont
- DuPont & Company
- DuPont de Nemours
- The DuPont Company
- DuPont (fill in the name of the division and all the variations)
- E. I. du Pont de Nemours and Company (the official name)

If your spelling differs from the spelling used in the outside database, the software matching process may not find the match due to this small but significant difference. Several years ago I used the DuPont example in the seminar sessions, and one of the attendees sold to DuPont. So, when she went back to work, she looked DuPont up on their customer database and found 73 listings – an obvious problem if they wanted to see what their total sales were to this customer. Among the 73 listings were several duplicates of the same plant as well as multiple listings.

This does not even take into account the problems attendant upon company mailing addresses vs. “official” address. Large companies can have as many as three legal addresses. There is the “front door” address (usually the one that the public databases carry); the billing address, which may be a PO Box; and even the shipping address, which could be the receiving dock. The last two addresses are frequently found on customer records, particularly if they come from accounting. As you can see, the variations can potentially cause the computer-matching software program to conclude that the two records are different, even though they are actually the same company and location.

Because of this problem, match rates found between customer records and outside databases are usually only in the 60%-70% range, even though the information on the internal company

information also appears in the outside public database. As a result, many computer service bureaus have written special algorithms in an attempt to solve the non-matching problem. These programs work better than consumer matching software, but still not well enough to get much above the 80% matching rate on the first pass.

Now that you're aware of the problem, what do you do? First of all, insure that the address of the customers in your database is postal-certified by running them through CASS certification and, of course, the National Change of Address (NCOA) process. Then, assuming that you are using an outside computer service bureau or database provider to perform the matching and enhancement process, be aware of these issues and inquire as to their unique processes and capabilities to deal with the matching problem. When the matched and enhanced list is returned, the second step may be to manually enhance the non-matched records. This may require a look-up process, as it is important to have the NAICS code and company size definition on as many records as possible, and certainly all the large customers, to properly complete the profiling process.

Now, let's see how this type of analysis might appear once completed. The following table shows a real example of an attendee profile that was done for a seminar firm that held sales training courses. This firm had initially rented lists to fill

4-Digit SIC	4-digit SIC Code Description	Number of Attendees	Ranking of 4-digit SIC Clusters
2752	Commercial printing	181	1
3089	Plastics products, nec	156	2
1731	Electrical contractors	151	3
5044	Office Equipment (Wholesale)	140	4
6022	Commercial banks	139	5
7311	Advertising agencies	130	6
7011	Hotel and motels	125	7
2711	Newspapers	121	8
8721	Accounting firms	120	9
2522	Office furniture	118	10
7361	Employment agencies	117	11
7313	Radio and TV	115	12
4813	Telephone communications	113	13
2834	Pharmaceutical preparations	112	14
1711	Plumbing and heating contractors	111	15
6211	Security brokers	110	16
6531	Real estate agents	85	17
7331	Direct mail services	72	18
8021	Dentists	55	19
2761	Business forms	41	20

the seminars based on geography (the Midwest) and response criteria of individuals who had attended a similar seminar. These response lists had no industry selection criteria. After a number of seminars, the firm wanted to improve their targeting and list selection criteria by analyzing the actual attendance by industry, as they were expanding the seminars to other states. The first step was to match the attendee list with a compiled database, and enhance it with the SIC code. The match rate of the entire file was only 67%, which was satisfactory for this analysis. The first chart ranks the top 20 industries by four-digit SIC cluster based on the total number of attendees.

This first result, by attendee count, clearly uncovered four-digit SIC code clusters. The firm's initial reaction was to rent lists based on this analysis and select all the companies in each of these four-digit SIC codes in the states where their new seminars were planned. While this might have improved their response and attendee conversion rate, we did not stop there, as this is a one-dimensional analysis.

Penetration Analysis - The More Insightful Picture

This above example was based on the number of seminar attendees present per the four-digit SIC description. As a comparison of how many customers are in one industry type vs. another, it is a solid approach. If the total number of customers is relatively small, and there are less than 10 per cell, then the analysis may well stop here. On the other hand, having many customers in one industry may not provide the most accurate or insightful picture.

The next step, or penetration analysis, compares the industry cell counts against the total market by the same cell definition and determines a "share" of the total, which will be a more accurate measure of market opportunity. The problem for most B2B marketers is that the total number of customers is frequently not large enough to calculate reasonable percentages (remember the old rule of significant figures). If there are enough customers in each cell then a penetration analysis will provide a much clearer picture of where market success has been greatest.

Let's return to the example and calculate a penetration analysis and see how the ranking of customer cells changes.

As can be seen clearly, there are different rankings based on the penetration analysis. As an example, only one out of the top five "old" rankings remained in the top five. Four new SIC codes rose to the top as the most "penetrated" clusters.

As a penetration analysis is developed, a key issue is defining the scope of the market. As an example, this seminar company chose to compare the attendees in the three states to the same geographies where the seminars were given. Any good database of U.S. companies can easily be sliced by geography, making the penetration analysis more relevant to the actual customer acquisition effort. If the base number for this analysis is too large, then the analysis will not have statistical reliability, as the percentages will be too small. It's your market situation

New Rank	4-Digit SIC	4-digit SIC Code Description	Old Rank	Attendees	Total Bus. in Market	% Pen. of Market
1	2522	Office furniture	10	118	279	42.29
2	2834	Pharmaceutical preparations	14	112	290	38.62
3	2761	Business forms	20	41	149	27.52
4	7313	Radio and TV	12	115	468	24.57
5	5044	Office equipment (wholesale)	4	140	1,039	13.47
6	7331	Direct mail services	18	72	720	10.00
7	2711	Newspapers	8	121	1,345	8.99
8	3089	Plastics products	2	156	2,657	5.87
9	7311	Advertising agencies	6	130	2,575	5.05
10	2752	Commercial printing	1	181	3,785	4.78
11	6022	Commercial banks	5	139	3,256	4.27
12	4813	Telephone communications	13	113	3,050	3.70
13	7361	Employment agencies	11	117	3,417	3.42
14	6211	Security brokers	16	110	3,605	3.05
15	7011	Hotels and motels	7	125	6,619	1.89
16	1731	Electrical contractors	3	151	9,625	1.57
17	8721	Accounting firms	9	120	9,351	1.28
18	1711	Plumbing, heating	15	111	14,568	0.76
19	8021	Dentists	19	55	10,533	0.52
20	6531	Real estate agents	17	85	22,464	0.38

and customer/prospect count that will drive the decision as to whether to try a penetration analysis or not. In addition, don't forget that this analysis can form the basis of other calculations. The most common of these is sales revenue by industry. Once the analysis is done and most, if not all companies are placed in their respective industry cells, it's a simple matter to then add up the total sales volume to obtain another insight into which industry has the highest revenue. Further calculations of product sales or even gross margins by industry are also common.

Several final thoughts on profiling: Most of this description has dealt with customers, and rightly so, as customers have displayed a real behavior – they bought! At times the profiling for inquiries or leads might also prove to be helpful, as typically there are far more leads than customers, resulting in more reliable statistics. In addition, inquiries, being fresher, might be more reflective of current market interest and provide additional insight than a customer base that has been achieved over a long period of time. One caveat to consider is that many companies have directed sales activity to target specific markets, and like other things in life, this can prove to be a self-fulfilling prophecy. Naturally you should see success where these marketing efforts are concentrated and this will be reflected in the number of customers in each industry cell. Therefore, the analysis is not solely a reflection of customer interest in your product or service, but rather a result of dedicated sales effort. Just be aware of this influence so that your marketing insights and conclusions from this process are not “uninformed.”

Targeting – Where Should You Go?

Of all the marketing processes, the one that will take the least verbiage in this report, but is absolutely critical for any firm's success, is the targeting process. This process relies on four different inputs that point to the target markets for subsequent sales and marketing effort. This marketing planning process uses these four inputs, but is more a matter of actually “doing it” rather than writing about it, as B2B situations are quite different from one another. The following brief description outlines these four basic approaches to targeting, but only disciplined internal discussions can produce the final list of target markets and their priority for campaigns.

A brief warning is in order at this point. The result of the targeting process is a definition of the target markets that represent the best chances for sales success – that's obvious. But there can be a fine line between a target that is too large and undefined vs. one that is too small and granular. As an example, I frequently hear marketers and/or management individuals announce that they want to pursue “small businesses” or “the mid-market” as a target. Unfortunately this description is undefined and covers

too many companies to constitute a true target market. Yet I see large budgets being spent (particularly in the banking industry) in an effort to sell these types of “target markets.” These efforts typically do not produce the results desired or expected. On the other end of the spectrum are target markets that are too small to constitute a market of any size. Frequently, these target markets are derived from a sales success, and the one or two companies sold are then held up as the kind of companies to target. So marketing accepts this description and proceeds to develop a campaign to reach this “market” and does no further checking to determine if it is really a market large enough to justify a sustained marketing effort. Results may be achieved for those few companies that fit the description, but at a high cost per sale.

Two criteria should be considered before deciding if the market described should become an official target. The first to use is the economic value this target market represents to your company. Obviously, the greater the value, the more everyone will see it as legitimate and worthy of sustained marketing and sales effort. The second is the difference it would make to the potential customers if you approached them with more relevant communications and offers based on your targeting. One of the keys today in breaking through the clutter and insuring that your message is heard is the degree of relevancy it contains. By targeting you can develop these relevant messages and offers that will better connect and drive the desired behavior.

Inputs For Development Of Target Markets

Here are the four inputs that are generally used when developing target markets:

1. **Profiling Results.** The effort to profile has several purposes, but the most important one is the targeting process. At minimum, the profile will uncover the industry segments in which success has been achieved. While the profile of the customers and/or prospects may be too granular if the four-digit SIC or six-digit NAICS codes are used, this coding system rolls-up to a broader definition of each industry by going to less granular definitions. In all the years that I've done profiling for companies and even while I was at IBM, there never was a time that it didn't produce an “ah-ha” from the product management, marketing, or sales group. Frequently, the comments made were, “I never knew we sold these types of companies” or “I didn't realize that these firms represented this much of our business.” Obviously, this new insight altered the targets for next year and drove marketing investment.
2. **Markets Of Known Opportunity.** Most companies focus on these markets, as they are already known as target markets in which there is a proven sales opportunity. For this input, the

definition of the target market can become difficult. As an example, if the target is “small businesses” then we have to be more specific. Frequently, the definition of a good target is not one that can be easily quantified with a convenient list of companies. Recently, a sales force automation client was targeting mid-market companies with at least 10 salespeople. Mid-market wasn't so difficult to define by employee size, but finding a list by how many salespeople work at companies was next to impossible. So, one of the first lessons in targeting is to define the target in a manner that can be tied to outside databases and company lists. Otherwise, the definition may be internally correct, but it's not actionable.

“*One of the main jobs of product or market management is to define the marketplace and opportunity even before effort is expended on product development.*”

3. New Product Introductions. Every company has new products or services they are planning to introduce, and for many of these introductions, new target markets may well come into the picture. One of the main jobs of product or market management is to define the marketplace and opportunity even before effort is expended on product development. That's in the ideal world. Unfortunately, far too often the product development is driven out of technology, with the hope that a large enough market exists for a given product or service. Sometimes, a market develops that is entirely unexpected. My first job at BF Goodrich Chemical found me working as a product manager for a product that was developed as a denture adhesive (not successful) and was sold in large quantities as a thickener for cosmetics (very successful).

4. Competitive Opportunities. The fourth, and least frequently used targeting approach, is based on competitive opportunities. All sales and marketing people know that competition exists and are prepared to address it individually when it arises in the course of a sale. In fact, many marketing organizations perform a thorough competitive analysis, and forward it to sales, so that they can individually offer appropriate counter features and benefits when faced with a specific competitor. This is a common view and usage of competitive intelligence. On the other hand, why shouldn't marketing define the broader market in terms of the competitive product or service being used, and then position the communications directly against that competitor or type of competition?

Here are two examples that make the point:

- Direct Competition is always defined as those companies that offer the same and/or equivalent product or service.

Recently, a large Chicago regional bank saw an opportunity to “steal” away small business customers of another large regional bank that was being acquired by one of those mega banks (names withheld for obvious reasons). Clearly, they saw the opportunity based on the perceived loss of service for these small businesses and positioned a series of service offerings and messages to convince those “acquired” customers to move their “relationship” to their “more local and friendly” bank. Not only did the advertising campaign address this, but also a highly targeted direct mail effort as well. The key was to obtain the names of those business customers of the acquired bank. The campaign was launched to good results. A current and real life story of targeting by competitive opportunity.

For another example, a number of years ago, I worked with a less-than-truckload national freight company. They had several national competitors and had the vision to ask the sales people to record which competitor shared each key account. The rationale was quite straightforward – it was the labor contract with the Teamsters. If one of their national competitors was engaged in either tense labor negotiations or a strike, then a targeted message could be quickly sent to those key customers in an attempt to gain “share-of-customer.” They used this tactic several times with great effect, much to the dismay of the competitor.

“*Indirect competition is particularly dangerous to companies, as they focus so much time on direct competitors that they frequently miss these undercover rivals, and lose entire markets before they know what's happened.*”

- Indirect Competition is defined as the offset product or service that replaces the need for your product or service, but is not the “direct” competition. In the last 10 years, technology has been responsible for many of these indirect competitive situations. Indirect competition is particularly dangerous to companies, as they focus so much time on direct competitors that they frequently miss these undercover rivals, and lose entire markets before they know what's happened. One classic example back in the 1980s was FedEx vs. fax, as they were two ways to deliver hard copy documents to a distant location. For those old enough to remember, FedEx even opened fax centers when fax machines were not common (one was across the street from my office on Michigan Ave. in Chicago) in an effort to compete, but abandoned it quickly, as fax machines were bought quickly by all businesses. This form of competition changed the structure of their market forever and is a classic example of indirect competition.

For the purposes of selecting target markets, the definition of that indirect competition that might be an easy target and those companies who are using that product or service can become a great targeting opportunity. It does require accurate data on usage, but that can be obtained in a number of ways, including a telemarketing survey. Once the required data is obtained, it can become a great target market as the degree of relevancy of the message and offer is very high.

There they are – four methods to develop target markets. This process is absolutely critical, as it directs much of the following marketing activity. This is usually done at planning time and sets the stage for segmentation, as typically these “targets” are too large and need to be sub-segmented for effective marketing communications.

Segmentation For Communications

Knowing more about your target company and individuals within the company leads to messages with a high degree of relevance and therefore impact. No longer will undifferentiated advertising and marketing messages get through the clutter and the time crunch faced by everyone. Simply, the higher the relevance, the more the communication will break through this clutter and register with the intended targeted decision maker or influencer.

Salespeople have been making their message highly relevant for decades, as they choose what they do and say based on their current knowledge of the customer and/or prospect. In fact, much of professional sales training is focused to equip them with the skills, both technical and professional, to “size” up the target company and individual and proceed accordingly. Therefore, if the marketing group is to fully integrate with sales and assist in the coverage of the territory, then they need to communicate more like salespeople. The problem is that marketing communications is not a face-to-face activity. It needs a process to develop and build the basis for any communication with targets, companies, and individuals. The process of more finely segmenting the market, coupled with recording this information in a database, are the primary methods for the marketing group to replicate the sales interface as closely as possible.

Clearly, this process of segmentation, data gathering, and communication using this data is not the same as a sales call, and is certainly not a replacement for it, but it's a dramatic improvement over the past methods marketers have used to develop communications to targeted audiences. The capability of using a database has enabled marketers to act more like salespeople and come closer to that one-to-one communication.

Segmentation

The three most common forms of segmentation used are macro, micro, and one-to-one. The one we will focus on is micro-segmentation, as this is the active ingredient in highly relevant marketing communications.

Micro-Segmentation - Definition And Benefits:

Micro-segmentation is just what it implies – a further splitting of a market segment into smaller groups or clusters that are communicated to with highly relevant messages and offers. These micro-segments and clusters are composed of companies and/or individuals that have something in common with each other as they relate to your selling situation.

The benefits to micro-segmentation are multiple. The key ones are:

1. Reducing the size of the target audience, which likewise lowers the communication budget.
2. Creating the opportunity for very relevant messages and offers based on the clustering criteria – the more highly relevant the message, the better chance it has to break through the clutter and connect with the target audience, driving the desired behavior.
3. Focusing on the customer or prospect and, as a result, creating the much sought-after “customer driven marketing” processes that companies frequently talk about but don't actually do!
4. Once the micro-segmentation process has been completed, it can be used to define the data elements required in the database.
5. Finally, a defined micro-segmentation matrix of the market can be used to screen inquiries as they are received to see if they fit the criteria of the best segments and therefore deserve to be more aggressively followed up on.

There are other benefits of this process, but there are also some dangers. The key ones are:

1. Too many micro-segments can create too many projects to effectively manage. Frequently, once exposed to the concept, managers can go a bit overboard and want all markets finely segmented with individualized communications sent to each. While this is technically possible, it's not practical based on the

physical number of projects and associated cost that is required to develop the message, execute, and follow up with each micro-segment. It's far better to hit a few important clusters thoroughly than try to launch too many communications with insufficient quality and follow-up.

2. The criteria selected for the sub-segmentation is wrong. At times, one person's view of a market may be flawed to the point of not truly understanding how the market is really structured. Good market research and even profiling should provide the insights to select the criteria that will accurately reflect the market structure. But many segmentation schemes are created based on one or two individuals' "opinion." The small business sector is particularly hard to segment. The lesson here is that once selected, the criteria used for segmentation are difficult to alter. So, be sure that it really reflects a difference between sets of companies that, when translated into different messages and offers, produces results.
3. Many sub-segmentation schemes sound great in concept but when it comes time to record them in a database, it becomes apparent that the data required to describe the segment is either not widely available or easy to update. Here's a classic example. Salespeople, at times, want detailed information about a potential customer that gives them a reason to call. In the chemical industry, for instance, the pounds or gallons of the product purchased would be a great way to segment the market, yet this type of data does not exist on available public databases. Even if we were to telephone all potential customers and obtain their consumption data, this information would change quickly over time and is not updated easily. Therefore, a segmentation scheme based on product consumption doesn't work unless there is public reporting of this data – a rare find, to be sure.
4. Even the best segmentation scheme needs support of others in the organization. As the sales group is the eyes and ears of the company, they need to support any segmentation approach. Simply, they must use the information and knowledge that are derived from the segmentation scheme in their daily sales activities and provide feedback on results. The most common disconnect with a sales group is based on their geographic coverage vs. an industry-based segmentation approach. Individual salespeople may or may not have these types of customers or potentials in their territory, and if they don't, then they really don't care about what marketing feels is important. If salespeople don't buy into the segmentation definition, they won't record the information and nothing you can do will change that.

Resistance may also come from product management, if the segmentation approach is contrary to the traditional view of

the marketplace and how the company has grown over the years. Don't forget that we are attempting to bring change to the traditional sales and marketing roles and this "new-fangled" thinking may not be embraced readily. This is particularly true if the company has a strong product management focus. Product groups segment the market through the eyes of the product – not the customer. This has led to much tension in organizations, as the trend is clearly to move to a customer-based view of the market rather than a product-based view. Micro-segmentation is one of the key mechanisms to alter how a company approaches the market, and may be difficult for traditional product management people to accept. Universal support for any customer-based segmentation approach has to be achieved within the company or it just won't work.

Micro-Segmentation Approaches

There are many different approaches to develop clusters for marketing communications campaigns, whether the target is a potential or current customer. The following approaches may all be useful for your marketing and sales situation. Select from those that make the most sense and then build your process and database around the ones selected.

Demographic Segmentation

This is the most common way to segment and should be done by every company, as it becomes the basic data platform for most types of micro-segmentation. Here are the common data elements to consider:

- **Geographic:** We all know that the ZIP code describes the geographic location. The problem with ZIP codes in B2B is that they are too small a geographic area to use. Note that the first three digits of the ZIP code are called the SCF or Sectional Center Facility – an arcane post office definition. Thus the SCF usually becomes the smallest geographic description that is useful in B2B. This becomes important when selecting lists as the ZIP code is too granular a definition. Don't forget that an area code is also a form of geographic description, even though they are now being revised frequently.
- **Industry Type Or SIC/NAICS Code And Company Size:** These two demographic descriptions have been thoroughly detailed, and are the first basic building blocks to understanding and segmenting any B2B market.
- **Location Type:** The type of facility may be an important piece to help define your marketplace. Most companies are single-location firms, but as the size of the company grows so does the specialization of the site. Here are the most common site definitions for larger companies:

- **Headquarters or HQ**
- **Plant**
- **Research Center**
- **Retail store location**
- **Regional or District Sales Office**

Most compiled databases contain these definitions or similar ones. Your decision is to determine if site definitions are important and, if so, record them in your database.

- **Fiscal Year:** Most companies are on a calendar fiscal year. For example, the IRS requires that any private or Sub S Corporation conforms to a calendar/fiscal year. On the other hand, C Corporations are allowed to select their fiscal year, and about 80% are calendar/fiscal. The other 20% are spread among the other three quarters for their fiscal year start. Why could this be an important demographic data element? Well, if you're selling a product or service that needs to be in your target customer's budget, then you better communicate to this company before or during their budget cycle or you will miss the biorhythms that take place in a company during planning time. When I was with Quaker Oats, we were on a fiscal year that started on July 1. That meant if you wanted to sell me sales training programs, you better start talking to me in the spring. All too often, we make the assumption that the fall of the year is when companies are in the planning process and launch campaigns at that time. By having the fiscal year defined, you can then segment and communicate to those companies based on their planning cycle and beat the competition to the budget.
- **Year Founded:** In my seminars I listed this as a demographic element to consider but over the years it began to seem meaningless. That is, until I once said it was useless, and by coincidence, a marketing manager from a commemorative pen company piped up and said that it was a key demographic way to segment their potential customer base, as they sold pens to companies on their 1-, 5- or 10-year anniversary date. So I continue to list it. Additionally, some people claim that newer companies need different products or services than older ones, and if this also describes your marketing intelligence, then year founded is a demographic element.

Relational Demographic

This is an enhancement on demographic segmentation and is defined as factual information that is related to the sale of your product or service. The most common relational demographic elements are equipment or process in use by the customer. This single piece of information may well completely change your message, offer, and even your total marketing approach. It can be an extremely powerful piece of information, as it will make whatever you do more relevant to the targeted audience. In

fact, salespeople have been using this type of information for years without ever calling it by a name. It's just smart selling to adjust the approach and presentation based on information about the company. To make this clear, just think that you were selling a plastic material such as polyvinyl chloride, or PVC. Knowing if the company was an extruder, blow molder, rotational molder, or calendar operation would make a great deal of difference in not only what you said but even the type of PVC you would sell. Another example is if you sell sales and marketing application software. Whether the company has outside or inside salespeople and/or how many salespeople are there makes a big difference in the software opportunity.

While there may be numerous relational demographic facts for consideration, I recommend the following process. Call or visit one or two of your best salespeople and ask them the following question: "What single piece of information would you like to know about a company that would make the most difference in your sales effort?" Make sure they know you are looking for demographic information. They will often be your best source of input on this and many other database elements.

This relational demographic is an untapped opportunity for micro-segmentation and can be very powerful in constructing highly relevant communications. In addition, don't think that your competitors are not working on segmentation schemes and, just like you, they will add the standard demographic data to their files and be able to segment the market using this data. But, if you go one step further and establish a relational demographic field on the database and populate it, then you have a segmentation scheme that is not easily duplicated. In other words, you might be able to perform "stealth marketing" and outsmart the competition. Yes, it is true that the data will have to be obtained on a company-by-company basis, and will most likely involve the sales group. But, I guarantee that it will be worth every dollar of effort. To start, try for only just one relational demographic element and then use it to good effect and enjoy the results.

Sales Cycle Segmentation

There is a commonly accepted sales cycle in all companies. It may vary from industry to industry and depend on the nature of the product or service being sold, but it does exist. Therefore, one of the most logical forms of micro-segmentation is to define where a prospect or customer sits in the cycle and then communicate to them accordingly. As the customer knows where they are in this sales cycle, the message resonates with them.

Here's a general treatment of a sales cycle with brief descriptions. Don't try to create a new type of sales cycle, as the sales group will resist this effort. All you're trying to do now is define

what is vs. what should be. The sales cycle may vary by macro segments of your marketplace, so different sales cycles may co-exist within the same company.



- **Suspect:** These are companies that you have some reason to believe should want or need your product or service. They have not indicated that they are interested, but do have the proper profile of a potential customer. Frequently, these suspects are on lists that you order from list compilers, can be found on trade-show attendance lists or even directories of companies in an industry association. No matter how or where you find these lists, they should be called suspects, not leads.

Unfortunately, some list compilers refer to these types of lists as “lead lists.” This does a major disservice to marketers, as none of these lists of un-contacted companies are “leads.” They are cold suspects and should be referred to in this way. Finally, at this stage of the sales cycle, suspects are most always companies and not individuals.

- **Inquiries:** An inquiry is an individual who has “raised his or her hand” in response to some form of marketing communication. They are not yet leads, as you have no idea at this stage whether or not they have serious interest or can even qualify to buy your product or service. Inquiries arrive from different sources and methods, and until they are qualified as leads they should be called inquiries. One of the biggest problems for marketers is to call an “inquiry” a “lead.” There is a big difference between an inquiry and a lead!
- **Lead:** Now we come to leads. Unlike the previous definitions, a lead is an individual who represents a company that can buy your product or service and is seriously interested to do so. There may be several lead categories, including the always famous “hot lead.” A common lead category is “demo,” which is usually a big step up from just someone expressing an interest and capability to buy. Needless to say, the definition of lead is the one where the most conflict has occurred between marketing and sales.
- **Proposal/Quote:** In most B2B situations, there is a proposal or quote sales step. This is where the process of obtaining new customers is quite active and handled by the sales group. As

this is such a sales-intensive process, it may be important to cease marketing communications during the proposal phase as not to confuse or disrupt the “close.” It is at this sales cycle step that many salespeople suppress or “red flag” a record in the database as a message to marketing to stay out. This is very understandable and should be honored, but the “red flag” should be removed once this process is completed and the prospect either is sold or not.

- **First Purchase:** Customers are not just defined as “customers,” since they remain in the sales cycle and need further definition as to the type of customer. The first of these customer definitions is “first purchase.” The reason that this “first purchase” category is important is that when someone buys from your company for the very first time, there may be a need to focus even more on them to retain their business. Customer satisfaction calls, welcome letters, etc., all should be directed at first-time customers to do one thing – insure the second purchase. Studies have indicated that in commodity areas (e.g., office products) there is little correlation from first purchase to second purchase. Companies may, in fact, be trying you out and, in their mind, do not really think of themselves as customers yet. A big mistake companies make is to assume that the salespeople will pick up the new customers and treat them properly. In truth this may be the exact time more marketing communications is required to help confirm the decision to buy. The same studies have indicated that there is a strong correlation to repeat and long-term purchase once a customer has bought for the second time.
- **Repeat Or Good Customer:** Simply, a general customer definition that distinguishes this customer group from the new or first purchase group. Here is an opportunity for more granular customer definitions based on your business model.
- **Past Customer:** Here’s a question all marketing and sales departments must answer – when does a customer become a “past customer”? Is it some artificial accounting period like a year? Or is it when the customer feels they are not going to buy from you again and, in their mind, are a past customer? At IBM, one industry group was asked this question and answered as follows – if a company hadn’t bought within an 18-month period then they were officially a “past customer.” When these same “past customers” were surveyed the surprising result was that almost 50% responded that they thought of themselves as an IBM customer. A disconnect to be sure and if we had begun to communicate to them as “past customers,” we would have surely been sending the wrong message, and ironically creating a self-fulfilling prophecy.

Behavioral Segmentation:

To coin a phrase, it's what people do rather than what they think that matters. As a direct marketer, this is music to my ears, and yours as well, as we spend our energy to drive behavior or responses. I know advertising and public relations experts are concerned with creating top-of-the-mind awareness and positive brand image and there is much value in that goal. But, as a direct marketer, I want to cause individuals to do something vs. just thinking about doing something. To be effective, we have to capture the actual behavior and then respond to it appropriately.

A micro-segment of individuals who have responded for a Web seminar have something in common that we then can use as the basis of our next communication to drive – you guessed it – more behavior. Here are some behaviors to capture. In your selling model there may well be others. If so, add them to the list.

- **General Inquiries:** At times, advertising and even PR generate general responses or inquiries to the company. While it is difficult to determine why they responded, there may be “gold” in these inquiries. They may arrive by phone or on the Web site, and it is usually important to also record the media that the individual used to inquire.
- **Responses To Specific Offers:** As most marketing communications today will have a specific offer, it is important to not only record the inquiry, but also the offer to which the individual responded. They likely will remember and so should you.
- **Trade Show “Stop Bys”:** I call this category “stop by,” as that's exactly what most trade show results are – nothing more than someone stopping at the booth, and allowing their card to be taken or badge to be swiped. While there are good leads in these “stop bys,” most will not even remember doing so. Just ask yourself how many booths you visited at the last industry trade show and how many you can specifically recall? Not many, I'm sure. Thus, this should be a separate category of behavior.
- **Seminar Attendance:** Whether it's a Web or traditional seminar, the experience is quite different for the individual vs. just inquiring for an offer or stopping by a trade show booth. This category of behavior also shows a serious commitment on the individual's part as everyone's time is scarce, and to attend a seminar means that they are very interested in the topic. Always record the date and topic of the seminar for future reference and usage.
- **Multiple-Responders:** Individuals who respond multiple times and in a variety of ways may be, by themselves, another

important category. Rather than just keep all individual behaviors separate and therefore miss individuals who are multiple responders, their actions all should be brought together. This group may, in fact, be the most likely to buy as they demonstrate continuing interest.

- **Purchase:** This list would not be complete without at least referencing those who purchase and become customers. As this is a progression that is likely based on prior behaviors, it may be important to tie their past actions to becoming a customer. For instance, if people who attend a seminar have a high conversion rate to customer then you have found an invaluable marketing insight.
- **Calls To Customer Service:** Here's a behavior that many marketers miss, as they are focused too heavily on the acquisition side. Customer service calls may be just that – calls for assistance. On the other hand, they may represent additional up-sell or cross-sell opportunities, depending on the nature of your product or service. Think about how these calls can be translated into knowledge for future sales efforts or loyalty campaigns.
- **Others:** There may be many other behaviors unique to your company that should be recorded for future reference in communications to those individuals. As an example, attendance at company-sponsored events like golf tournaments would be valuable, as those who played a round of golf or attended a pro tournament as a guest of your company can be communicated to in a highly relevant manner. They will vividly remember doing so and therefore you should remember as well. Think of all the behaviors relevant to your sales process and allow for them to be recorded on the marketing database, as it will pay dividends.

Competitive Segmentation:

All products and services are sold in a competitive environment and, as discussed in the targeting section, competition should be carefully defined for that purpose and for potential marketing communications as well. As a quick review, I've listed the two forms of competition mentioned in the targeting section and added two others.

1. **Direct Competition:** This form of competition is always the one everybody focuses on, as it's the most obvious and consumes the attention of product management and sales in an effort to beat it. This was discussed in the targeting section.
2. **Indirect Competition:** One of the most difficult forms of competition to manage is indirect competition. Following up on the indirect competition FedEx faced from fax machines,

they are now seeing indirect competition from the Internet and all that can be done today to send documents via e-mail. And they aren't the only ones seeing a reduction in business, as the US Post Office is now reporting that first-class mail is declining for the first time in their history. Guess why? Defining your indirect competition, and then determining if a prospective or current customer is using this solution may again allow for specific messages and offers to address it squarely.

3. **Budget Or Lack Of It:** Not competition exactly, but more of a roadblock. Many times your target customer does not have the budget to purchase your product. It may be that they will never be able to spring loose the dollars, but more than likely it is a matter of timing. Recording the details behind the budget roadblock can lead to more effective communications.
4. **Status Quo:** "Why should we change?" is a very tough form of competition faced by all salespeople. Your product or service fills a specific need, and assuming it's not a breakthrough, like FedEx, then the need is already satisfied to some extent by an existing product or service. Yes, your solution is better but – why change? Knowing this is the hurdle to clear to make a sale is critical to future marketing communications.

Defining the competitive set and recording it on the database provides great opportunity for micro-segmentation and subsequent and highly relevant marketing campaigns.

Analytical Segmentation:

While this is not a white paper on advanced database marketing, a brief mention should be made about the use of analytics to segment the market. The problem in B2B is that the data needed to adequately support analytic techniques is poor, and therefore the results can be inaccurate or at worst misleading. The primary purpose of these analytic techniques in direct marketing is to predict the likely response rate and conversion to sale between one set of customers and another. In other words, which segment of the customer database might respond better to a specific offer or message? The most common analytical segmentation is RFM, or Recency, Frequency, or Monetary.

RFM has grown up to be an extremely important process in the catalogue business and, of course, can be used for business cataloguers as well. It applies only to customers, as an actual sale is necessary to perform the RFM analysis. Here's a brief summation of the technique. Take the customer file and analyze it as follows:

Recency – the customers who have bought the most recently are at the top and cascade down based on oldest purchase date.

Frequency – the customers who have bought the most are at the top of the list and those just once at the bottom.

Monetary – the customers who have purchased the most in the form of dollars are at the top and decline to those who have bought the least.

For each list, cut it into quintiles, or fifths, and assign a score to the top fifth of 5, then 4, etc., until all customers have received three scores. Total them up and the ones with the highest score will more likely respond to your next promotion at a higher rate than those with lower scores. Sounds plausible and in consumer marketing, it has been validated many times.

The problem in B2B is that many business models do not fit this simplistic look at the sales relationship. As an example, what about customers who are on yearly contacts and release shipments monthly – have they bought once or 12 times? How about distributors who are, in effect, buying to meet end-user demand? What about sales of capital equipment where one sale can be in the millions, and will not be repeated for several years if not longer? But, if this fits your business model then use it, as it can be a very powerful predictor of future behavior.

Even though RFM may not apply for your business situation, there is one element that you may want to seriously consider when constructing a list of customers or even prospects for the next campaign. This element is recency. The more recent the inquiry or purchase, the more likely you are to get a response or additional purchase. This is the most predictive of the three elements in the RFM formula.

Need-Based Segmentation:

There's been a lot written about need-based segmentation and, in theory, it makes great sense. Now if it only could be executed! Let's first distinguish between assumed needs and real ones. In basic sales training, you are supposed to "assume a need" of the potential customer based on what you know about the company and his or her business. Then, through probing, you determine if that need is real or if other needs are more important. We, as marketers, can do the same thing and assume a need for a certain micro-segment, and then position and pitch our product or service in relation to that particular need.

The problem in B2B is that need for a purchasing agent is quite different from that of a plant manager. It rarely is true that all the decision makers and influencers will share the same needs in the same priority. In addition, "needs" are situational and can change with management or economic changes. What would happen to an

organization upon the change of top management from a revenue-growth CEO to a cost cutter? I think you get my point – need-based segmentation is difficult to execute.

Job Functions Or Functional Psychographics:

As we market to individuals who play various roles in their respective organizations, an excellent way to market is to think of all the individuals who share the same function as a micro-segment. Then instead of marketing vertically to companies with different individuals and functions, segment horizontally and develop campaigns directed at functional job segments across all companies. The message to a CFO vs. a plant manager about your product or service may be quite different, even though the product is not.

Summary

The profiling, targeting, and segmentation process is a disciplined process for all B2B marketers to embrace today, as direct marketing and the results it drives are becoming increasingly important to achieving revenue results. This report hopefully has given you a head start on your competition in developing solid database/direct marketing campaigns.

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