

Segmentation: Data With Focus

KnowledgePlex Expert Chat
August 24, 2005



Agenda

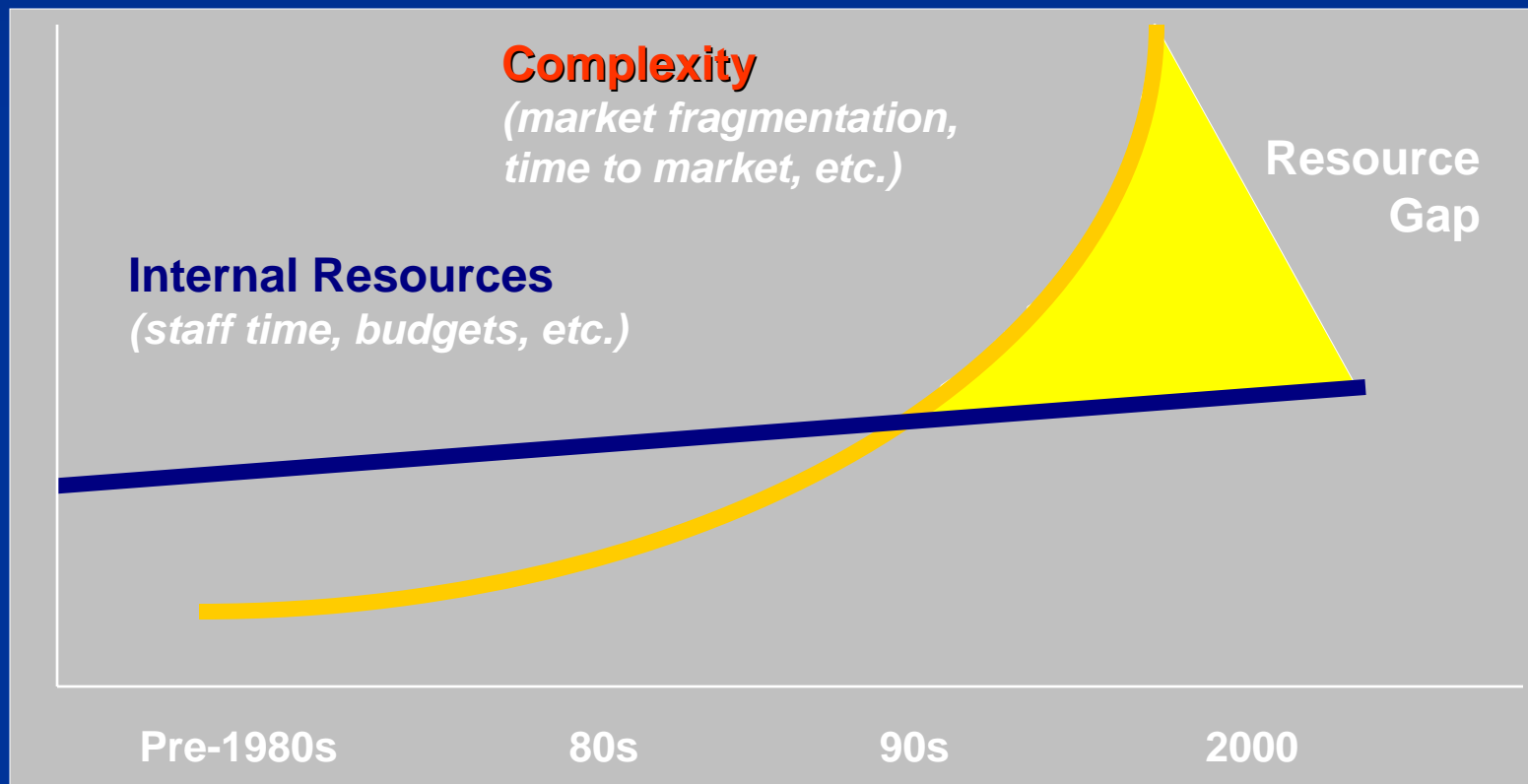
- Why segment at all?
- What is consumer segmentation?
- What are its origins?
- What are the standard systems?
- Can you do it? How?
- How can it be used for community development?

Changing Landscape

- Demographic Changes
 - Aging population
 - “Melting Pot” changing to “Patchwork Quilt”
 - Delayed marriages; families starting later
 - All heads of households are working
- Generational Shifts
 - Baby Boomers preparing for retirement
 - Generation X entering financial mainstream
 - Older generations stretching financial retirement base across greater number of years
- Changes in Purchasing Behavior
 - Rise of technology at home and in the market
 - Consumers shifting the way they save and spend money

Changes Increase the Challenge

Institutions seek better ways to provide the right service to the right client at the right time.

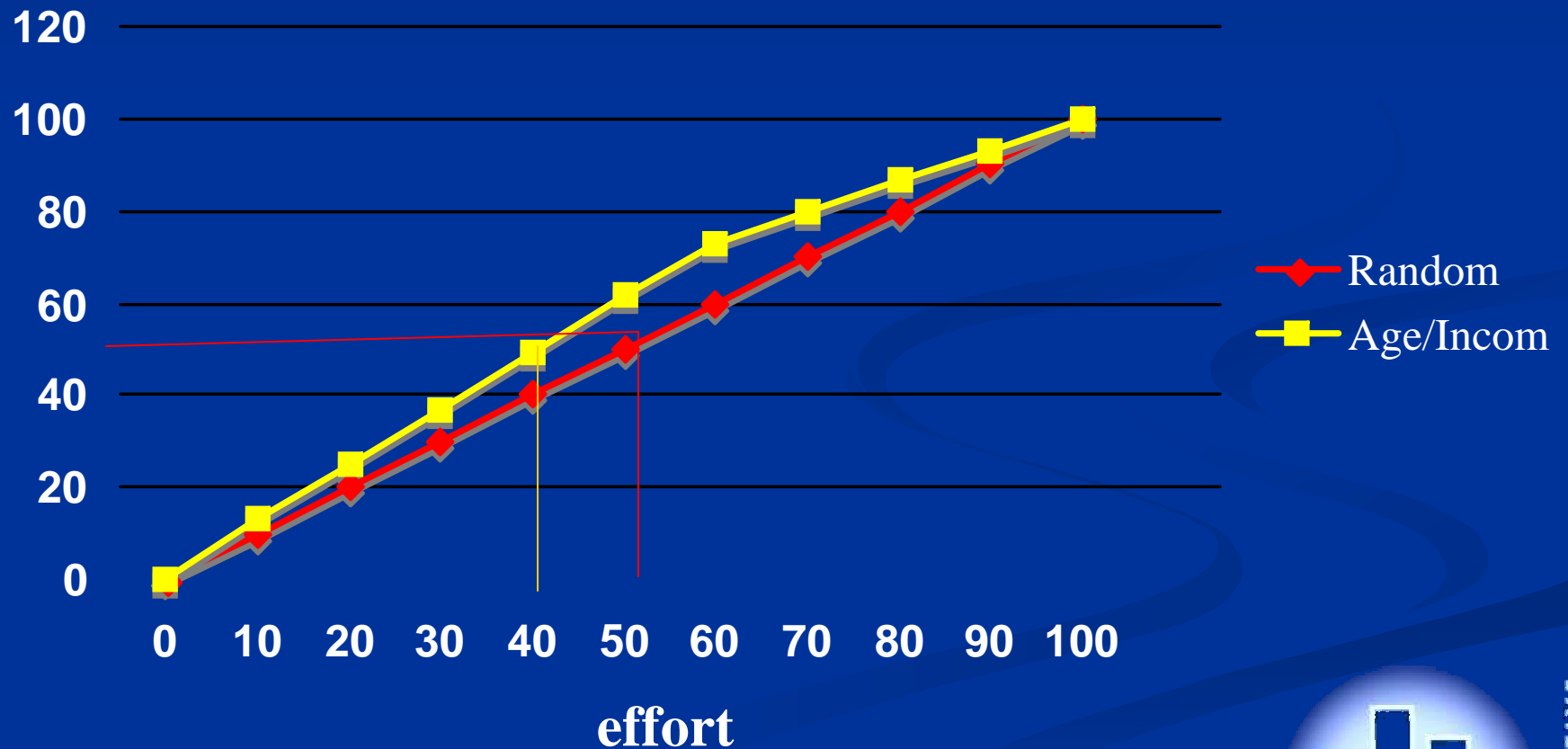


Segmentation Simplifies Your Efforts

- Good segmentation acts as a strategic framework to manage the resource gap
- A unifying theme helps everyone better sort and understand vast amounts of data
- Every effort can be communicated clearly and consistently to your clients, regardless of the effort's objectives
- Understand clients without having to collect individual preferences, attitudes and behaviors (“mass customization”)

Segmentation

Lift Chart



Origin of Commercial Geodemographic Segmentation

- 1970 Census - first release to public
- Data Analysts - Jonathan Robbins working for US Post Office on main frame to improve distribution efficiency
- Old problem - least route (costs) and most output (mail in slots)
- Used 1970 Census to see where delivery addresses clumped relative to streets
- Densities, knots and strings

Origin of Segmentation Distribution

- Result - Zone Improvement Program or Z.I.P.
- Result 2 - insight that people inhabiting clumps of residences revealed homogeneities
- When people across the street bought at the same time, they sold at around the same time - and to younger buyers, often with children - so whole side of street “suddenly” turned into toddler-heaven

Refinement of Technique...

- Regression
- K means
- Multivariate cluster analysis

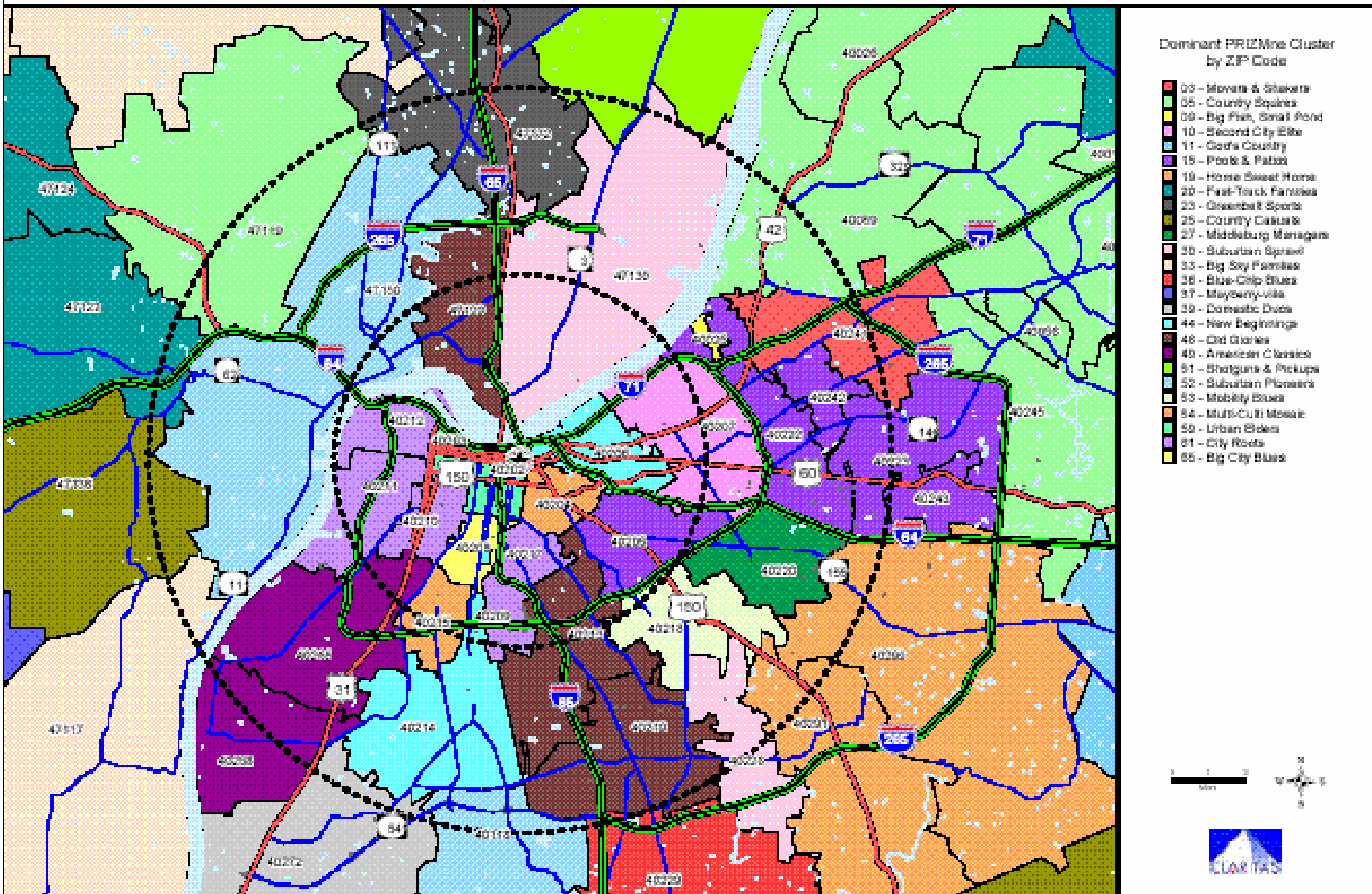
**...improves the accuracy of
segments for more complex
communities**

Commercial Segmentation Systems

- Geo-Demographic Systems - *where they house their demographics*
 - MOSAIC - Experian (credit bureau)
 - PRIZMne - Claritas (data for marketing)
 - PSYTE - MapInfo (GIS company)
- Psychographic Systems - *what they think and believe, motivators*
 - MindBase - Yankelovich (marketing surveys)
- Behavioral Systems - *what they actually did in the past ... and predictably will do again in the same circumstances*
 - P\$YCLEne - financial behaviors - Claritas
 - Investyles - investment behaviors - IXI
 - ConneXions - telco behaviors - Claritas

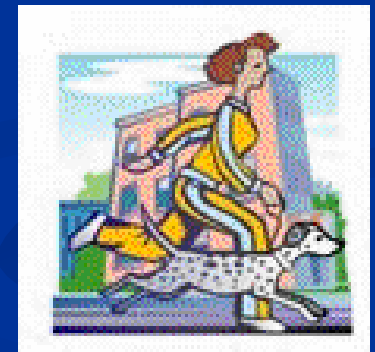
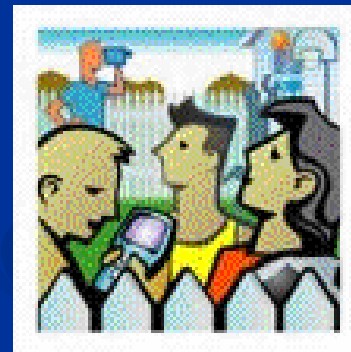
Louisville, KY: S. Hancock St. & E Market St.

5 and 10 Mile Radii Showing Dominant PRIZM Cluster by ZIP Code



City Centers Social Group

A mix of Americans—old and young, homeowners and renters, families and singles—who've settled in the nation's satellite cities. What they share is a middle-class status, some college education and a lifestyle heavy on leisure and recreation. The members of City Centers tend to be big fans of home-centered activities: computer surfing, video renting, TV viewing and playing games and musical instruments. Outside their homes, they go to movies, museums and bowling alleys at high rates.



Can You Apply Segmentation?

- Yes, if you have client data to analyze
- Yes, if you have resources in-house
- Yes, if you wish to communicate to specific populations

Segmentation:

division of clients into homogeneous groups, each being as distinct as possible from all other groups

- **Geographic** - based on regional variables such as geographic boundaries, climate, population density, population growth rates
- **Demographic** - based on variables such as age, income, gender, occupation, family status, education, etc. etc.
- **Psychographic** - attitudes, values, lifestyle
- **Behavioral** - based on variables such as usage rate and patterns, loyalty, price sensitivity, benefits sought

Good (useful) segments are:

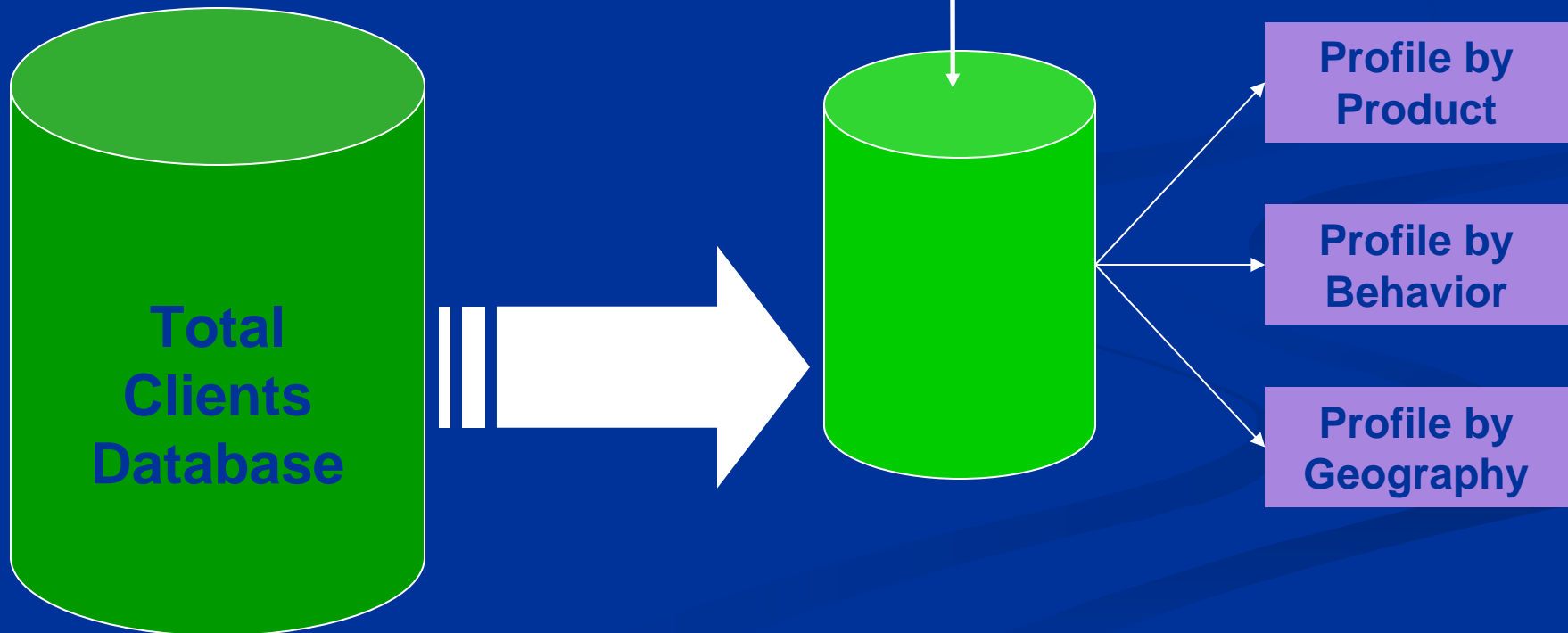
- Measurable
- Accessible by distribution and communications channels
- Different in their response
- Stable (don't change too frequently)
- Substantial enough to move the needle (lift)

Segmentation:

division into different homogeneous groups of clients

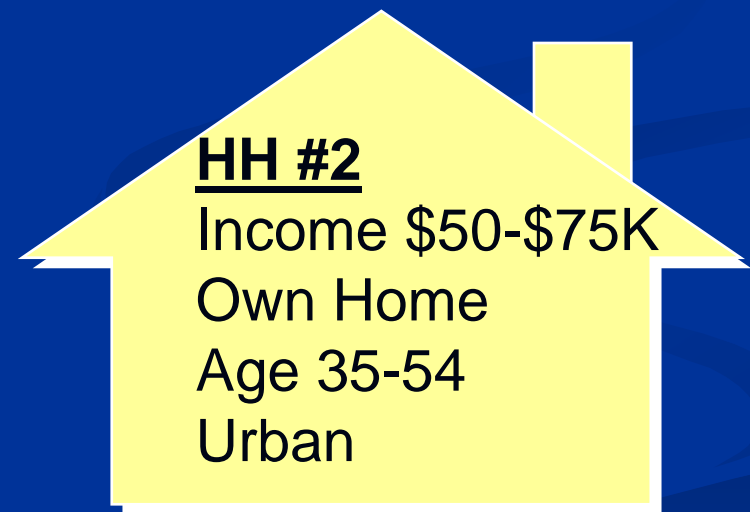
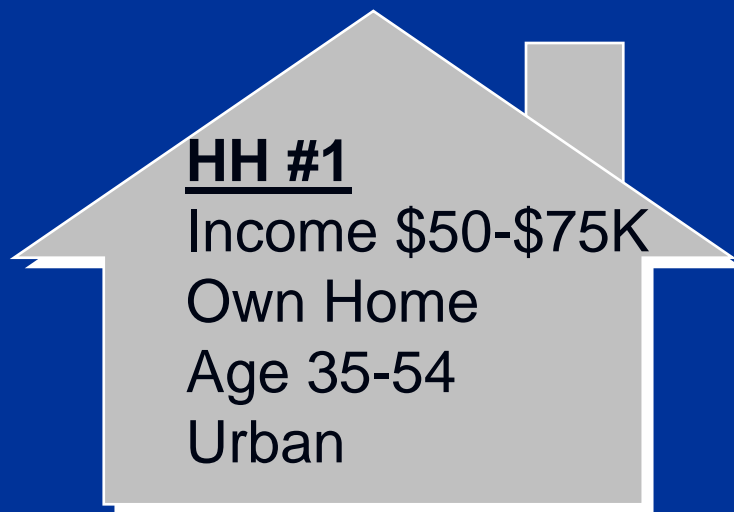
- The process...

...extract clients by selected behaviors, ownership, usage, geography, etc.



A Tale of Two Segments: Why Free Data May Not Be Sufficient

Same demographics for two *Lower Affluent* segment households...



...But Different Assets

HH #1

Income \$50-\$75K
Own Home
Age 35-54
Urban

Assets \$51,000

Low Asset Behaviors:

2nd Mortgage
Direct Auto Loan Service
Credit Union
Home Equity Credit Line
Student Loan

HH #2

Income \$50-\$75K
Own Home
Age 35-54
Urban

Assets \$277,000

High Asset Behaviors:

Real Estate Investments
Keogh
Stock/Bond Mutual Fund
Security Type IRA
MM Mutual Funds

What if you don't have data?

- Informal economic behaviors do not throw off data
 - Cash transactions
 - Barter
 - Unbanked
- Unregistered clients do not appear in administrative records
 - Undocumented immigrants
 - Minors of undocumented parents
 - Extended or non-standard “families”
- It is not available from a public data

Overcome data availability issues...

- Use of proxies
- Collect survey data and project
- Investigate private data providers
- Identify potential partners

**...to develop a system
customized to your needs**

Implications for Community Development

- Segmentation organizes the data geographically to better understand the dynamics of a market in reference itself and to others.
- Segmentation helps to focus precious resources on the key populations that can create success.

Thank you for joining us today.



Robert Haslach

Questions?



Alyssa Stewart Lee

The Urban Markets Initiative (UMI) at the Brookings Institution Metropolitan Policy Program aims to improve the quality of the information available on urban communities and use it to unleash the full power of those markets while connecting them to the economic mainstream.

For more information go to: www.brookings.edu/metro/umi.htm