

SEGMENTATION –

TATION

WHAT'S THE POINT?

The theory says that if you understand customers' needs you can better tailor your product or service to meet them. If customers were all the same a 'one size fits all' approach would meet the needs of everyone and would maximise efficiency. This idea worked perfectly for Henry Ford. In 1908 his Ford Motor Company introduced a car for the masses, the Model T. It was the epitome of a no-frills utility vehicle – simple, sturdy, stripped of accessories and selling for the low price of \$825. To build it cheaply Ford pioneered mass production, eliminating the skilled crafts that dominated early production and replacing them with simple, repetitive tasks that could be performed by unskilled workers. By 1910 Ford had dropped production of his other two models and produced only the Model T for the next seventeen years. By 1923 mass-production efficiencies had lowered the price to a mere \$265, and half of the autos in the entire world were Model Ts.

Ford's market dominance petrified the competition, especially General Motors, soon a distant second in sales. In 1920 GM appointed a new manager, Alfred Sloan, whose first task was to devise a strategy to crack Ford's lock on the market. Sloan decided that GM should offer not cheaper cars but better quality cars in greater variety. He correctly predicted that consumers with rising incomes who were buying a replacement for their first car wanted something better and above all different for the next one. Brisk

sales of his first new model, a Chevrolet, convinced Sloan that to compete with Ford it was not necessary to lead in engineering, but merely to offer consumers better looking cars with more variety. The dozens of different GM models were all built on three platforms, but the same shell was made to look different by the addition of superficial features like headlights, taillights, and chrome trim that were unique to each model. And colour! Before long Ford's basic black cars were eclipsed by GM's dazzling variety of brightly coloured models. In the mid-1920s Sloan also introduced the annual model change based on small cosmetic tweaks to give consumers the look of newness and progress, which soon propelled GM past Ford. In 1927 the Model T was discontinued due to plummeting sales, and market segmentation was born, although it was 1956 before Wendell R Smith would coin the term.

But is it any good? Does it work? For many years it's been commonplace for companies to divide customers into groups in which customers in one group share similar characteristics that are not shared by customers in other groups. But which characteristics? You could segment customers according to their hair – black hair, blond hair, red hair, no hair. Customers in the black hair segment would all share that characteristic and would differ on hair type to those in the other 3 segments. Might work for shampoo but would it help you to sell them more carpets, wine, holidays, or insurance policies?

Crucial is the selection of a suitable base. Some bases, like age, gender and geography are easy to implement but not much use since they're poor predictors of customers' preferences and a poor basis for reaching people with relevant communications. In 1956 there was a big step forward when the IPA, the advertising agency trade association, introduced the National Readership Survey (NRS) which quantified the readership of newspapers and magazines but more importantly profiled it. This resulted in 6 socio-economic segments labelled A, B, C1, C2, D and E, which formed the backbone of most companies' segmentation strategies for decades. There were 2 reasons why the NRS was such a great step forward. First, it was based on customers' preferences. They chose to read certain publications. Readers of the Daily Mail were more likely to be alike than 45-54 years olds, and they were likely to have different attitudes and lifestyles than readers of the Guardian. Second, and even more important, it provided a perfect basis for reaching them with your communications. In more recent times the fragmentation of media and the rise of the internet led to the decline of NRS which has now been replaced by PAMCo, which covers print and digital media.

It is the proliferation of everything – products, services, messages, and customer preferences as well as media, that has made it increasingly difficult for companies to devise and implement segmentation that works. In the next issue of Customer Insight I will present a practical guide for segmenting your own customer base and using it to make a worthwhile difference to your product or service and your customer communications.



Nigel Hill
Chairman
TLF Research