

NANO TOOLS FOR LEADERS®

MARKET SEGMENTATION: CONNECTING DATA TO DECISIONS WITH CUSTOMER ANALYTICS

Nano Tools for Leaders® are fast, effective leadership tools that you can learn and start using in less than 15 minutes — with the potential to significantly impact your success as a leader and the engagement and productivity of the people you lead.

Contributors:

- Eric T. Bradlow, *The K.P. Chao Professor; Professor of Marketing, Statistics, and Education; Vice-Dean, Wharton Doctoral Programs*, The Wharton School, University of Pennsylvania
- David J. Reibstein, *William Stewart Woodside Professor; Professor of Marketing*, The Wharton School, University of Pennsylvania

THE GOAL:

Create long-term sustainable advantages through market segmentation and granular data.

NANO TOOL:

Creating a sustainable advantage is challenging even in the best circumstances. But it can be particularly difficult when there is minimal differentiation between you and your competitors, when you are competing almost exclusively on price, and/or when you're doing business in a stagnant market.

Many organizations are already collecting the kinds of data that can help them identify that advantage, but they're often not making the connection between that data and their decisions. Market research can be a powerful tool for strategic decision making, helping to identify the varied desires, motivations, and actions of consumers, who can then be grouped accordingly. Armed with those consumer groupings, firms can assess alternative segments to target and ultimately serve that segment(s) with a unique offering.

HOW IT WORKS:

The principles above were implemented by Shell Oil in the early 2000s after recognizing that short-term tactics would only lead to a "prisoner's dilemma" (in which two players are likely to avoid cooperative strategies that might actually be in their best long-term interests) and declining long-run industry viability. To create a long-term competitive advantage, Shell employed a process which typifies advanced marketing research, including:

- Qualitative research containing focus groups, and managerial and 1-1 customer interviews to uncover the anthropological drivers of gas-buying experiences.
- A survey conducted on a representative sample of gas buyers to understand their habits, psychographic profile, and wants and needs at the individual/granular level.
- A conjoint analysis study which allowed Shell to uncover what customers valued (e.g., price, cleanliness, safety, etc.) in the gas-buying experience. This served as the basis for forming customer segments.

- The segmentation study based on the aforementioned information, where they grouped customers that valued attributes similarly and then identified possible brand identities.
- A “war-game” simulation with executive participation, to select the identity with the greatest potential for success. Its choice of the “Quick and Easy” position was a sound one, although implementation was slow and Mobil capitalized on Shell’s work by introducing Mobil Speedpass.

Shell’s efforts illustrate the need for advanced marketing research with corporate integration for implementation. This effort was led by Professor Reibstein.

ACTION STEPS:

1. **Identify** benefit segments using market research. Recent advances in customer analytics (wcai.wharton.upenn.edu) have moved beyond focus groups and surveys to provide the ability to segment customers based on observable actions. Information can be obtained through website behavior linked to purchase behavior linked to user-generated content, and even linked to one’s social network — all at the level of the individual customer.
2. **Create** homogeneous customer groups or benefit segments according to the benefits those customers are seeking and the actions that they are taking.
3. **Associate** the segments with media consumption, demographics, and other business relevant observations in order to characterize them and know how best to reach them.
4. **Assess** the groups in order to select a target segment, asking:
 1. How attractive are the segments — size, margins, growth, cost to serve, etc.?
 2. How capable is the firm to serve these segments better than competitors both today and tomorrow?

SHARE YOUR BEST PRACTICES:

Do you have a best practice for creating sustainable advantage through customer analysis and market segmentation? If so, please share it on our blog at Wharton’s Center for Leadership and Change Management.

<http://whartonleadership.wordpress.com/>

ADDITIONAL RESOURCES:

- **“Thirty Years of Conjoint Analysis: Reflections and Prospects,”** Paul E. Green, Abba M. Krieger, and Yoram Wind, *Interfaces*, Vol. 31, No. 3, May-June, 2001.
- The [Wharton Customer Analytics Initiative](#) is the preeminent academic research center worldwide focusing on the application of customer analytics to business problems. WCAI conducts research projects, develops new areas of study, and helps businesses understand how to leverage the individual-level data that they collect about their customers’ online and offline behaviors.
- [“Automatic Marketing Research,”](#) Thomas Y. Lee and Eric T. Bradlow, 2010.
- [“Mine Your Own Business: Market Structure Surveillance Through Text Mining,”](#) Ronen Feldman, Jacob Goldenberg, Oded Netzer, 2011.
- [“Benefit Segmentation in Industrial Markets,”](#) Rowland T. Mariorty and David J. Reibstein, *Journal of Business Research*, Vol 14, Issue 6, December 1986, pages 463-486.

- **Eric Bradlow** teaches Customer Analysis for New Product Launch in [*Essentials of Marketing*](#).
- **Dave Reibstein** is academic director of [*Wharton Marketing Metrics™*](#) and co-academic director of [*Competitive Marketing Strategy*](#). He also teaches in [*Essentials of Marketing*](#).

ABOUT NANO TOOLS:

Nano Tools for Leaders® was conceived and developed by Deb Giffen, MCC, Director of Innovative Learning Solutions at Wharton Executive Education. It is jointly sponsored by Wharton Executive Education and Wharton's Center for Leadership and Change Management, Wharton Professor of Management Michael Useem, Director. Nano Tools Academic Director, Professor Adam Grant.