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The Death of Consumer Segmentation?

Rethinking a Traditional Marketing Tool

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One of the most important paradigms governing today's marketing world is the constant drive to better segment a brand's customer and prospect base. Conventional wisdom says that the better we segment consumers, the better we can market to them. Consumer segmentation is viewed as a "best-in-class" practice across the marketing world.

But are we on the right track?

Consider a large, well-known fashion retailer that put a significant amount of effort into segmenting its consumer base by using geo-demographics, shopping behavior and lifetime value. Built in several years with considerable funds, this capability was designed to ensure higher messaging relevance for any communication between the brand and consumers -- the belief being that the higher return of the targeted communication would compensate for the vast investment that enabled the marketing team to micro-segment its consumer base whenever it wished.

The unpredictability effect

I am challenging that belief based on three observations. The first is that the rather static definition of consumer segments is becoming less reliable in our extremely volatile society, especially in today's economic climate. A consumer's lifetime value may have decreased significantly in the past six months, a fact not reflected by any segmentation method. A person might be out of a purchase cycle for a particular product because of a significant household change (divorce, first child) or into the purchase cycle of something previously unthinkable (a Madonna CD, hybrid car). These life-changing events are becoming more difficult to predict because consumers live their lives on a much less traditional path than they did 10 or 20 years ago.

Second, consumers are never just part of one segment. Rather, they feel, rightfully, that they belong to a multitude of segments. They can be the professional executive in the morning, the boyish sports fan in the evening, the churchgoing father figure on Sunday. All three are the same human being, but represent three different consumers and mindsets. This individual belongs to three segments with different behavior patterns, product affinities and interests -- depending on the time of day or the day of the week. This is particularly true for the growing multicultural groups in the U.S. who are moving through several segment identities every single day.

Finally, consumers are gaining more control of any marketing activity. And they like it. Yes, they like to receive relevant information, but even more, they prefer to choose their own relevant information. And in truth, it's easier to let them choose and decide what is relevant for them than to predict relevance based on any expensively calculated segment identity. This is a plea to marketers for a stronger focus on enabling the consumer to self-segment.

For the fashion brand retailer described earlier, this would mean a greater focus on following in the footsteps of Amazon in recommending segment identities by correlating the interest in one product to another. An investment in a smart product-affinity recommendation engine could be more worthwhile than spending huge dollars against micro-segmenting the consumer base.

ABOUT THE AUTHOR

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Experts in relevance

It's not surprising that two of the most successful product and retail companies, Apple and Amazon, are not masters of consumer segmentation but experts in building relevant products that consumers choose. Their marketing communication is segment-based but does not depend on pursuing an ever-increasing level of micro-segment-specific relevance. They are far more focused on building and communicating relevance relationships than in micro-segmenting consumers by any kind of attributes. Facebook, MySpace and even Google are behaving similarly. They are enablers of self-segmentation and self-identification through group and interest identities. They do not place targeted, direct communications at the center of their marketing activities, but rather enable consumers to self-target by their own individual choices and network preferences.

However, the shift from brand-controlled segmentation to enabled self-segmentation doesn't diminish marketers' need to understand their consumer base and to provide relevant information based on their knowledge. Consumer segmentation will continue to play a critical role in marketing, especially in identifying the right segment for a new product and incorporating segment-specific needs into the design of the product or service. It will continue to be critical in understanding the segment target for a particular product and relating the product's brand essence with the right communications strategy in a segment-specific manner.

Traditional consumer segmentation will also remain important in aligning media strategy and related intersection insights with the core segments of a particular brand, matching the right channel moment with the most appropriate segment.

But consumer segmentation and self-segmentation have now entered the stage of becoming equal forces in today's marketing discipline. And this new reality will force marketers to better balance marketing investments between targeting vs. enabling self-segmenting capabilities.

Four Ways Marketers Can Enable Consumer Self-Segmentation

1. Build correlation clusters between purchased products and services, and serve them up as recommendations (Amazon, Apple's Genius feature).
2. Offer networking opportunity based on self-acclaimed interests (Facebook, LinkedIn).
3. Design and provide content or a deal-alert function that automatically informs consumers about something new or interesting in the "opted-in" interest domain of a consumer (Google Alert, Orbitz Fare Alert).
4. Enable sharing of consumer-generated content or feedback in the context of your brand (BlueCross'

"Power of the Human Voice" campaign).