



White Paper

A Guide to Data Analysis and Segmentation



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1. ABOUT THIS DOCUMENT

This document has been written to help marketers better understand email marketing and data segmentation. It is critical that companies understand and are aware of how data analysis and segmentation are crucial to their marketing campaign. With the evolution of email marketing, companies need to use a more sophisticated approach to stay one step ahead of their competitors when it comes to having their email read in an increasingly crowded consumer inbox.

This document aims to simplify how companies can easily recognise some of the appropriate strategies and methods to use when segmenting their email campaigns and analysing and reporting on their data and results. The 'Further Reading' section will also provide additional resources to reinforce the value of using this key email tactic in your campaigns.

2. ABOUT THE AUTHORS

This document has been published by the Legal, Data & Best Practice Hub of the Email Marketing Council of The Direct Marketing Association (UK) Ltd.

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3. EXECUTIVE SUMMARY

Effective email campaigns demand more than just capturing email addresses. The more information collected at the sign-up process creates more opportunities to personalise and target the email content relevant to each subscriber. This may appear to be a daunting task, however once companies have identified where to start – i.e. the information that they lack/require, the process of developing your strategy is relatively straightforward. When companies are able to comprehend and appreciate that by changing their email strategy, it will result in stronger consumer/subscriber relationships and improved campaign performances.

Segmentation allows you to break your database into smaller groups of people who share similar characteristics and enable you to target them individually (as a smaller, more personalised target audience). It is fundamental to ensuring that your email campaigns and offers within them are reaching the most appropriate audience and are relevant to them. By segmenting your emails, you should expect to see significantly higher results from your campaigns than if you don't.

Before introducing a segmentation model to your email program, you need to know what data you have available and which data might prove most effective in helping you to target your program. A deeper analysis of your data and customer behaviour can often be a crucial step in helping you to make the right choice for your business. Additionally, once you have started to segment your programs it is crucial to measure the impact and continuously adjust, modify, test and learn from your results. For this reason, when considering segmentation, you should also consider some kind of data analysis process, even if only a basic one.

Even though more than three quarters of email marketers claim to use segmentation¹ they tend to be basic techniques. 87% of marketers capture basic contact information on subscription but only 28% go on to capture demographic data (age, gender, location etc.).²

In order to provide a simple guide to help you start segmenting your data and analysing the results, this document will define 5 key areas that you should focus on:

- Setting your objectives
- Finding the right data
- Choosing the right segments
- Different segmentation models
- Utilising segmentation effectively

This document will explain in more detail the processes listed above, as well as describing the best methods and approaches to implementing segmentation, and the process of reporting and analysing your segmentation strategy.

¹ Forrester/MarketingProfs Global Interactive Marketing Maturity Online Survey

² MarketingSherpa 2010 Email Marketing Benchmark Report

4. SETTING YOUR OBJECTIVES

When setting your objectives, you need to decide what you want to achieve and what will make your campaign a success. There are usually a number of different options available to you and it is important to take a considered and pragmatic approach to deciding where to start. Start by thinking about your business, what the key factors of success are outside of the email program and decide what the most important success metrics are for you. If your goals are focused towards customer retention and satisfaction your choices could be very different from someone who measures success purely through direct sales from their campaigns. When you have set your objectives, prioritise them and start to think about what improvements to your email program might help you achieve them. Undoubtedly some of those goals will be harder to achieve than others so it is important to build up an idea of effort vs. reward. You should keep these objectives at the front of everything you do, even once you have implemented the changes to your program. Come back to them on a regular basis (quarterly or half-yearly) and ensure that they're still right for your overall business goals.

5. FINDING, SELECTING AND COLLECTING THE RIGHT DATA

Nearly all segmentation methods require you to have a certain level of knowledge or data saved about your customers. Most email marketers have a few additional fields beyond email address, but often it can be inconsistent and in multiple places. In the first step, look at your current email database and build a picture of the data you hold. Consider any additional fields or tables and what percentage of your customers you hold that data for. Also consider the time when the data you hold was collected. There is no benefit in building a segment from data which was collected many years ago and is out of date.

Ask yourself the following questions:

- What fields do I hold within my email database?
- When was that data collected?
- What other areas of my business hold data that I can access (CRM systems, customer service database, POS data, loyalty program)?
- Can I see who is a customer and who is a prospect?
- Do I have an indication of my customer's interests?
- Do I have shopping information available for each customer?
- Can I see when they visited my site?
- What piece of data about each customer would help me provide the most relevant email to them?
- Are you able to match up people in one database and another (do they share a key)?
- How up to date is the data that I have? Using old or out of date data can be very detrimental to an email program.

Once you know what options are available to you, and how that might help your objectives, you can then start to make some decisions about how you can segment your emails.

If you don't have the right data available to you today, then you should start to consider what you collect in the future during your registration process. This is a prime opportunity to collect additional information about your subscribers (free of charge) that can be used to segment future emails. You need to consider all the points at which you collect data and how effective this data capture process really is. Collecting the preliminary data can be done either at the initial sign-up stage or you can gather basic information and send a welcome email, redirecting them to an incentive-based page so the users can enter further information about their demographics and interests. But remember, the more data you collect, the fewer subscribers you may get. So find the balance between quality and quantity. Any such data must be collected in accordance with the Data Protection Act 1998. Please see section 2.1 of the DMA Email Marketing Council's Best Practice Guidelines for further information.



The other alternative to this is the multistage sign-up process, where the recipient will agree to the use of their email address for marketing purposes, early on in the data capture process. If this recipient then drops off the process, you will be able to contact them at a later date, allowing you to request further information in the future. This staged approach allows you to move your data up the value chain and when the recipient can see the value of doing it.

6. CHOOSING THE RIGHT SEGMENTS

There is no right or wrong answer to how you should decide how many segments to choose for your program. The most important thing to consider is that for every additional segment you create within your email program, you will increase the effort required to build, test, deploy and analyse your results. Be pragmatic and don't try and run before you can walk. If you're currently sending an email program with no segmentation, then you should start slowly and build up step by step (ideally you should start with a minimum of two). If you create hundreds of unique segments you will struggle to deliver the programme and find the time to accurately measure what has been successful. In general try to keep the number of segments you build below 10. If your program is much more advanced already and you have a large team of email marketers, then of course there can be more, but don't underestimate the additional work you will create for yourself. In the book "Scoring Points" about the development of the Tesco Club Card program, DunnHumby, when first confronted with the sheer volume of data that was being generated, likened the challenge to "drinking from a fire hose !" Even the Tesco program initially started with only 4 basic segments while they sought to make sense of all the data that they had access to.

Each segment needs to be financially viable, they need to pay for themselves and achieve greater results than the non-segmented program.

7. DIFFERENT TYPES OF SEGMENTATION

To help you make the choice about which way to segment your data, it's helpful to consider the different types of segmentation models that can be applied. Data modelling and segmentation can become very complex, analytical and off-putting for many marketers, so for this document I've tried to give a broader overview and guide to the key directions you can head in.

1. Profile based segmentation

Profile based segmentation tends to be the simplest and most commonly used method for segmenting emails. Many people are using a form of profile based segmentation without realising. If you consider the common fields of data that companies hold for their customers within their email database (age, gender, postcode, key dates, interests, customer status) and start to separate those customers into groups based on that data, then you have a perfectly viable and often very successful segmentation model.

Areas that are often segmented by profiles include:

- **Age:** Many businesses would see very different customer habits that could be easily defined by age groups
- **Gender:** Sending a male and female version of an email is one of the most commonly used and successful methods for segmenting
- **Geographic location:** By knowing where your clients and prospects are based you are able to direct them to their nearest store or offers which are localised to their area – particularly helpful for holiday companies where departure airport is key
- **Key dates:** An upcoming event such as a subscription renewal or a recent action can also help to profile your database. Birthdays are also a good opportunity to send customers personalised emails with birthday greetings and tailored offers.
- **Customer or prospect:** When an email recipient becomes a customer, or you have an indication that that person is engaged with your company in a different way than before.

2. Behavioural based segmentation

A powerful way of segmenting your database is to look at click behaviour and browsing or purchase history. In comparison to profile based segmentation (which relies on customers to actually tell you about themselves), behavioural based segmentation is a highly valuable way of gaining information to help you understand how customers are behaving on a deeper level. This makes it possible to tailor and personalise messages to each individual and you can often learn more about a customer from what they do, rather than from what they tell you. Remember that if you are using cookies, gifs, or any other form of online behavioural advertising, you need the consent of the recipient.

A simple method for segmenting your customers could be on email activity. If you define the date of the last email interaction you easily build a number of segments which enable you to target and analyse customers based on their engagement level.

Segment A – engaged within the last month

Segment B – engaged between 1 and 5 months

Segment C – engaged between 6 and 9 months

Segment D – engaged more than 9 months

A similar model can be applied to purchase and browsing data. If used in combination you have a potentially very detailed view of your customers where you can identify the most active, recently purchased and engaged within your program by comparing them to those who are falling away and need urgent attention.

Two key strategies that can be implemented using behavioural based activity are:

- Engage with best customers on a regular basis, giving them the VIP treatment they deserve and will appreciate.
- Re-engage the customers that have lapsed. These users – i.e. segment D, should be treated in a completely different way. They were once interested in you and your products but are not engaging with you so you need to develop a strategy to win them back. A point to note - if people have disengaged due to emails at too high a frequency, then this needs to be assessed and it is important to make sure that they are segmented into a lower frequency emailing group than the main mail-out list.

To make the most of this type of segmentation, it can also be combined with the different types of data that you have collected on your customers. For example, if information on 'product lines purchased' is available, then a targeted campaign that is aimed at recent openers, clickers (segment A) and purchasers of these products could be developed. This type of sophisticated targeting and segmentation will have a direct and positive impact on the performance of your campaigns. The results you should be able to monitor will be significantly higher than a similar campaign sent to an un-segmented database of email addresses.

A more advanced behavioural segmentation method is known as RFM Model (recency, frequency, monitoring) or RFV (recency, frequency, value). It works in a similar way to the model described above, but in a more detailed and thorough way. This model has been in practice for many years and is particularly popular with direct marketers. It groups a database by assigning a code based on the recency of last purchase, the frequency that you purchase and the value to which is assigned to each customer. Each customer is assigned a segment code which enables them to be targeted individually or grouped with other segments.

Behavioural segmentation can also be used to understand customers' likes and interests where you might not otherwise know that data. Email and web analytics systems can group customers into product or interest related categories based on the way in which they interact with emails, web pages or products they purchased previously. Using this information can be helpful in building segments that allow you to target different products to these people. Be careful though, in some cases it can be very dangerous to assume that someone will only be interested in one type of product just because they bought it once before.

3. Lifestyle based segmentation

There are a number of ways in which you can use the data that you hold on your customers to build up a more accurate picture of the type of lifestyle and habits they are likely to have. This can be a very powerful way of determining how you should talk to these customers, what offers will suit them and, of course, how you can maximise the income from your program.

These segmentation methods are based on the finding of a deeper level of data analysis. Deeper analysis of your data will identify patterns that can be used to build customers into groups which tend to exhibit similar behaviours. These groups are most likely to be based on buying patterns, age groups, regions in which they live and the types of products browsed and purchased. As every company has a different set of customers and products, it's very often quite different factors which work for one organisation in comparison to another.

This level of analysis can be very costly and time consuming. It can often also be dependent on other data being available within your organisation. There are however data products available which can be used to simplify and speed up this process. By matching your customer's postcode or other data against a product such as Mosaic or Cameo and Acorn allow you to match your customers against lifestyle data which has been built up over a number of years on people who live in those areas.

8. METHODS OF IMPLEMENTING SEGMENTATION

Once you have chosen your segments you need to consider the different methods available for using these segments. Some of the methods available for implementing segmentation include:

- Create separate content for each segment when you are segmenting on a strongly differentiated area (e.g. one type of email for males, a different version for females). This allows for clear targeting and for the most specific information to be presented to the viewer. The content can be based on user profiles, behaviours, engagement levels, customer status (e.g. regular spenders, VIP members) or email metrics.
- Create segments based on areas within a generic creative giving the option to include information you feel necessary for all recipients to receive as well as targeting them with products that are specific to their own taste/interest.
- Date triggered programmes provide you with a great opportunity to contact and reward customers on a certain date (e.g. gym membership expiry, birthdays), whilst simultaneously reminding customers of your brand and reinforcing the benefits at a time when they are most responsive and likely to purchase.
- Different segments can benefit from different frequencies of email communication, based on their point in the customer lifecycle for that product or service. You could increase email frequency at the point when they are likely to buy, and reduce when they are less likely to buy.

The amount of segmentation achievable using any of these methods can allow for very sophisticated targeting. The methods also give the option to include multiple stipulations when defining the areas of your database you would like to include.

9. REPORTING AND ANALYSIS

There are many techniques and variations available to report and analyse your segmentation strategy. Each situation is unique so you need to choose the best technique to suit your data. Common reporting techniques include:

- **Integrated campaign reporting:** involves collating email delivery and response data into your web analytics campaigns reports for a comparative analysis of your email campaigns with other marketing channels (paid search, organic search, display advertising, affiliate programs). This will create a true online cross-channel overview. To understand how customers behave you need to be able to recognise response and click-through rates for each campaign and encourage these behaviours. This will help you to determine which customers were interested, what products were purchased or why they were abandoned³.
- **Segmented remarketing programmes:** for your emails to have an impact and provide relevant automated communications you can operate trigger messages to launch email campaigns based on site activity, promote high value products, re-activate inactive users and build targeted content areas for customer segments⁴.
- **Cluster analysis:** categorises data into segments of groups that have similar characteristics. This approach is effective in defining market and customer segments. The segments are determined from analysis of the data, so outcomes are not biased by previous trends or stereotypical beliefs.

Key themes to keep in mind for your segmentations strategy going forward are:

- It is becoming easier and tools are simplifying segmentation analysis both for web and email marketing (marketers are increasingly becoming data savvy as these tool are becoming more readily available)
- The pace is getting faster (real-time tools that are aware of users' location and can geo-segment and trigger based on location – thus reporting that can keep up with the pace)
- Increasing data and sophistication is leading to a need to simplify vast views through dashboards (Marketers increasingly need to get wise to consumer devices as powerful dashboards to drive business intelligence across wide range of data is a key aspect of reporting - reporting needs to keep up with this)
- Integration of data and tools that allow you to see the 360° of retention marketing.

³ The Marketing Site.com, 2010

http://www.themarketingsite.com/live/content.php?Item_ID=10849&Revision=en%2F0&Start=0

⁴ The Marketing Site.com, 2010

http://www.themarketingsite.com/live/content.php?Item_ID=10849&Revision=en%2F0&Start=0

10. TEN STEPS TO SEGMENTATION

By dividing your database into segments you can conquer them through focused, targeted and personalised communications which will result in the formation of better relationships and an improved response to your email campaign.

Below I have listed eight ideas that will make incorporating your segmentation strategy simple and straight forward:

1. Start with a strong offer: New subscribers are a perfect audience as they open and click more frequently than older ones. So take advantage of this and use this opportunity to send a really good, targeted offer to secure loyalty early in your relationship.
2. Get to know the interests of loyal customers: Make sure you make a clear distinction between new subscribers and clients. Use the knowledge you have built up of long-term customers wisely and provide them with relevant offers which will result in a better campaign performance and increased loyalty.
3. Explore all segmentation avenues: You can base segmentation on a wide variety of different categories including geography, demographics, geo-demographics and psychographics. Also take a look at the frequency or date you last contacted your database and target this section accordingly. A good example of a strong demographic segmentation is birthday emails. Birthdays are a great opportunity to give a non-sale oriented, personal message to build enthusiasm with your brand and email marketing messages. It is a good time to engage with your customers and encourage increased sales over the year, as an email marketing programme tied to birthday messages can provide one of the best advertising response rates.
4. Segment your database into cold, warm and hot leads: Take a look at your database and segment it according to cold leads (people you don't have a relationship with yet), warm leads (those you have had dealings with in the past or who have expressed an interest in your organisation) and hot leads (current clients or recent purchasers). Don't ever assume that the same offer will appeal to these 3 different groups.
5. Use automated emails wisely: Some people are slow to react so automated emails can be very handy to remind customers who may not have reacted to a previous offer. The result is an increased performance of your campaigns. Automated emails can also be very useful following certain customer actions. For example, asking for a brochure, basket abandon, or getting a quote. This segment is people close to purchase, and an automated email or emails can successfully improve conversion.
6. Make the segments specific: The more specific the target group, the better the results.

Ensure there is a clear link between the segments and the subject of your mail out. Do not underestimate the value of personalisation.

7. Subject line testing: On a very basic level of use, segmentation can be implemented in order to test different subject lines depending on who the email is being sent to. Although this is only at a very basic level, it is still an effective way to use the segmentation due to the high level of impact a subject line can have on opening of an email. Successful subject line testing, does fall back on the data that you have about the subscribers, as the more relevant it is to the individual person, the more effective a subject line will be.
8. Bear in mind a few over-targeting pitfalls: if you define a profile too finely you run the risk of creating a micro-niche that is too small to yield worthwhile results so avoid putting too many behavioural segments together. By balancing reach and relevance you'll have the makings of a perfect marketing campaign.
9. Creating segment based areas within a generic creative: this method allows for a "best of both worlds" approach to how you implement your segmentation. Giving the option to include information you feel necessary for all recipients to receive as well as targeting them with products that are specific to their own taste/interest. A popular method of implementing this is to include a "Star Banner" on your creative that is dynamically populated based on the segmentation data you have collected. E.g. the area highlighted in red is the area that would be dynamically populated dependent on the customer's choice, in this case, that would be an interest in electronics. This has still allowed the retailer to include general travel products, ranging from child care to luggage; while keeping a focus on the area they know will be of most interest to the customer.
10. Testing: As with all aspects of email marketing, it is imperative that you test your emails to avoid any issues. Even the smallest changes can have a huge effect on the results. Test test test is the motto of any successful email marketing campaign.

11. SUMMARY

According to MarketingSherpa's 2010 Email Marketing Benchmark Report, there has been little change in the percentage of organisations collecting and using segmentation in the last three years. In 2007, 53% of companies were collecting extended business contact information compared to just 54% in 2010.⁵ Organisations are still not working towards increasing their focus on delivering these practices. This is regardless of the increasing significance of segmentation and ensuring that your email campaigns are relevant and personalised.

Important things to remember when segmenting your database include:

- Make the segments specific (the more specific the target group, the better the results)
- Ensure there is a clear link between the segments and the subject of your mail-out.
- Do not underestimate the value of personalisation. Segmenting is one thing but take this one step further and make sure you personalise your marketing message to each individual, either within the message, on the subject line – or both!

Using segmentation to ensure relevance is becoming a double whammy. It is an important method to increase ROI but with ISPs moving to engagement based metrics, the criteria for inbox placement, without segmentation the risk of never even getting into the inbox is growing. Segmentation is not as scary as it sounds. In simple terms, you need to divide your database into smaller groups of people who may share a certain characteristic and treat them as a separate audience for targeted emails. By doing this you can increase your response rates and ROI through focused, targeted and personalised communications which will result in the formation of better relationships and an improved response to the campaign.

⁵ MarketingSherpa 2010 Email Marketing Benchmark Report

12. FURTHER READING AND USEFUL LINKS

The following section provides a list of useful documentation and website links that readers can follow for further information on the points that have been dealt with above.

- DMA
<http://www.dma.org.uk>
- Forrester Research
<http://www.forrester.com>
- MarketingSherpa
<http://www.marketingsherpa.com>
- eCircle 'Segmentation Simplified' Whitepaper
<http://www.ecircle.com/en/resource-centre/whitepapers/segmentation-white-paper.html>
- Econsultancy Email Marketing Best Practice Guide
<http://econsultancy.com/uk/reports/email-marketing-best-practice-guide>
- The Marketing Site.com
http://www.themarketingsite.com/live/content.php?Item_ID=10849&Revision=en%2F0&Start=0
- Decision Analyst
<http://www.decisionanalyst.com/services/MarketSegmentation.dai?gclid=CPaSn83gaUCFYMI3wod4SU5Xg>
- RFM model explained
<http://www.clickz.com/clickz/column/1698689/rfm-part>