



Online Marketer's Segmentation Guide

OMNITURE®

SEGMENTATION GUIDE

ENGAGING CUSTOMERS ON THEIR TERMS

Most experienced online marketers could probably write the curriculum at their local universities for classes related to various strategies and tactics of online marketing. However, it seems that many online marketers tend to ignore the valuable lessons that database and direct marketers have learned over many years of practicing their craft. These traditional marketers know that marketing is, at its very core, about connecting with prospects and customers in a meaningful way—on the customer's terms. The online marketer's challenge is to make sense of the vast information that traditional offline marketers could only dream of to connect and build relationships that benefit not only their organization, but also their visitors and customers. This guide will help you identify your key segments and, more importantly, provide you with tools and knowledge to better manage those segments.

So, how do you effectively develop relationships with thousands of individuals that come to your site? The truth is, while one-to-one marketing is a worthy goal—in many cases, it just isn't practical. Just as the catalog or direct marketer looks at clusters codes, lifestyle overlays, the online marketer needs to create meaningful groups or segments that are significant as well as manageable. As an online marketer you can then develop the marketing strategies and tactics that will strengthen your relationship and keep them interested in what you have to offer.

Segmentation Benefits Customers

Today's customers expect—no, they demand relevancy. If what you're trying to communicate doesn't connect with them and their issues in a split second, you've lost them. Knowing who your customers are and what they need is a requirement to compete in today's competitive online world. Anticipating what they want and providing value at the right time, place and format is what is needed to win...

What distinguishes online marketing from various forms of database marketing is the incredible wealth of data and the velocity at which everything moves. Consequently, businesses that are able to successfully measure, segment and digest thousands or even millions of customer transactions in a fast and efficient way will realize significant competitive advantage. The proper use of customer information and segments will benefit customers too. Customers should perceive the information and offers they receive from you as a benefit (if it's relevant) of having a relationship with your company.

How do you touch a customer's life through segmentation and a database? There are many ways, some of them so simple that we may overlook them. For example, when I visit Blockbuster.com, they greet me by name and more importantly provide me with recommendations based on my previous selections and the scores I have given to movies. Personalization is nice, but recommendations are valuable. Blockbuster is able to make these recommendations because of the data they have collected about me over time and through tracking my behavior.

Not too long ago, I was shopping for light fixtures online. I even put an item or two in my shopping cart, but decided to leave the site before placing the order. When I revisited the site a few days later I was offered a discount on lighting fixtures and I was provided additional information on a new line of lighting fixtures that the store was now carrying. This was an unexpected benefit and made my shopping experience easier.

Finally, the other day I received an email from an online women's clothing store. It was a brief email from the department manager, reminding me of my wife's upcoming birthday and it contained an offer to gift-wrap and send a dress by one of her favorite designers, in her favorite color and size in time for her birthday. I snatched up the offer. This business is providing a valuable service for their customers and I bet it's a very profitable one too. It made me glad to be in their database. And it was all made possible through

customer intelligence and smart segmentation. When done well, segmentation and database marketing will make your customers feel content about having a relationship with you.

As online marketers, we often think of optimizing our marketing investment simply in terms of yielding the highest results such as sales, orders, or some other success metric to the lowest common denominator of everyone on the planet, thus gaining the biggest possible results. Over the last few years—we've pushed every single ad, message, promotion, and new site design we can think of to the entire world and we treat every person as though they are the same person. For example, how often do we say in meetings or to ourselves, "I found a new control!" "This new promotion, copy, call-to-action, or price, etc., beat the old control by some statistically significant percentage, thus our overall sales should increase proportionately." Then we proceed to "roll it out" to the entire world.

Let's stop and think about this for a moment. What would happen if we could find the promotion, copy, call-to-action, or price that was relative and appropriate for every single customer or visitor? WOW—Now that would be a significant breakthrough! The right message, to the right person, at the right time, at the right place—true one-to-one marketing! Right. Good Luck—but we may not be too far off. (In reality, a combination of behavioral, psychographics and demographic targeting may accomplish this. Discuss later.) What if we were able to test all of our available marketing variables across several key segments? Do we believe the yield would be greater than simply optimizing to the lowest common denominator of everyone on the planet that hits our site? Many online marketers already do this without realizing it through online media or keyword buying. Let's say that your marketing guidelines say you can spend a specific amount per order, per lead, per customer, etc. and then you proceed to test every online display placement or keyword that meets that criteria at a statistically significant (or least directionally significant) quantity.

All of the placements or keywords that achieve your metric are kept and all those that don't are turned off. Hopefully this example is a gross under exaggeration of our efforts—promotions, copy, products, pricing, site design, all affect the ability of a particular keyword or placement to achieve the metrics—and hopefully many of these variables are tested exhaustively before giving up on promising placements before simply "shutting them off" because they don't meet

the criteria. But, this isn't the point—by simply shutting off placements or keywords, you are in essence segmenting your efforts for one of two reasons or the combination thereof: 1) the placement is too expensive to work, or 2) the audience (or segments) are not responding and thus are not the right fit for the particular marketing variables that were promoted. If it is working, there were at least enough visitors within the placements or keywords that did respond favorably and thus a defacto segment is born—sometimes even unbeknownst to us and surrounded in full ignorance.

Marketing Segmentation 101

Let's circle back to the basics and receive a definitional hand from Wikipedia—the epitome of our online wikis. Wikipedia states the following about our topic:

Market segmentation is the process in marketing of dividing a market into distinct subsets (segments) that behave in the same way or have similar needs. Because each segment is fairly homogeneous in their needs and attitudes, they are likely to respond similarly to a given marketing strategy. That is, they are likely to have similar feelings and ideas about a marketing mix comprised of a given product or service, sold at a given price, distributed in a certain way, and promoted in a certain way.

... Small segments are often termed niche markets or specialty markets...

The process of segmentation is distinct from targeting (choosing which segments to address) and positioning (designing an appropriate marketing mix for each segment). The overall intent is to identify groups of similar customers and potential customers; to prioritise the groups to address; to understand their behavior (looks like our friends with a Queen's English vocabulary got a hold of the latest and agreed upon definition—good for them); and to respond with appropriate marketing strategies that satisfy the different preferences of each chosen segment.

Improved segmentation can lead to significantly improved marketing effectiveness. With the right segmentation, the right lists can be purchased, advertising results can be improved and customer satisfaction can be increased.

Successful Segmentation

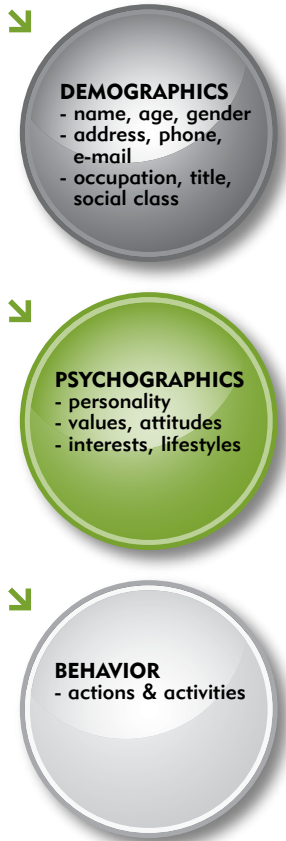
What are the requirements for successful segmentation? It doesn't matter if you want loyal, profitable, growth-oriented or (whatever your positive spin) segments, each of your segments should encompass the following:

1. Similarities within the segment
2. Differences between segments
3. Segments are measurable and identifiable
4. Segments are accessible and actionable
5. Segment should be large enough to be profitable

These criteria can be summarized by the acronym ADAMS:

- A Accessible:** it must be possible to reach it efficiently
- D Differential:** it must respond differently to a different marketing mix
- A Actionable:** you must have a product for this segment
- M Measurable:** size and purchasing power can be measured
- S Substantial:** the segment has to be large and profitable enough

The segmentation variables are categorized into several, large “buckets” and examples of each are as follows:



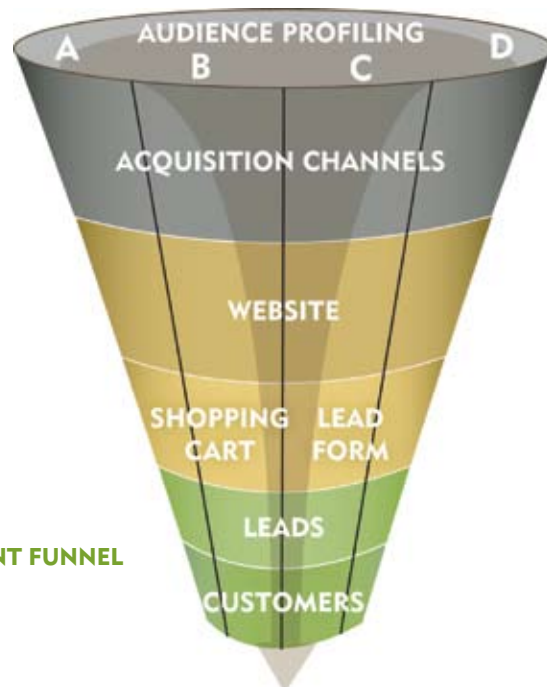
In a nutshell, demographics tell us who an audience is, psychographics describe their attitudes and opinions, and behavior tells us what they are doing.

Remember the “Four Ps of Marketing” from your first marketing text book? They become the basis of our testing variables to identify our individual segments (from Wikipedia, again):

1. **Product** (service) is whatever it may be that is being sold/marketed.
2. **Price** refers to not only the actual price but also price elasticity.
3. **Place** has evidently replaced distribution simply by where or what area the marketing campaign is going to cover, as well as what types of distribution channel (retail, wholesale, online, etc) will be used. Today the idea of place is not limited to geographic profiling but also demographics and other categorizing variables. This has only occurred over the last ten years with the expansion of internet use and its ability to target specific types of people and not just people in a geographic area.
4. **Promotion** simply refers to what medium will deliver the message and what the overall marketing strategy is offering as a benefit.

By combining these variables in different ways, we are enabled to build specific segments. Once we have combined sufficient information to create a clear picture of a typical member of a segment, we refer to this as an audience **profile or persona**, and in turn develop hypothesized tests made up of multiple combinations of the marketing mix to develop more relevant experiences to each segment. In essence, this allows us to deliver the right message, to the right person (really segment), at the right place, at the right time through multiple and relevant engagement experiences.

We can visualize this with the engagement funnel example below as it relates to our websites. Multiple segments, represented by A, B, C, and D, feed into the top of the engagement funnel as separate and unique experiences. These unique experiences include customized variables from the marketing mix including varying media properties as well as relevant messaging, custom layout / design, and optimized offers within the ads, website, and shopping carts or lead processes. The goal is to continually refine the marketing mix at a segment level; if a part of the same segment reacts differently to the variables, a new segment creation should be considered.



Segmentation for Your Site

See more information about Omniture Discover 2.0—a newly-released multi-dimensional segmentation application. (Last page of this guide)

Because online marketing is highly trackable, the easiest segmentation variables to get at and measure tend to be behavioral in nature. If registration or purchase information is collected with a shopping cart, lead form, or account registration, additional psychographic and demographic data can be associated to enrich the behavioral data to optimize the marketing mix for each customer segment. The metrics by which sites optimize performance may also be used as segmentation dimensions.

eCommerce and Retail sites optimize heavily around not only getting the visitor to place an order, but also to increase average order size through promotional cross sell techniques. As a result, many resources are dedicated to assisting visitors find products via Onsite Search technologies as well as combining complimentary products via shopping cart optimizations. Segmentation dimensions for such sites could include:

- » Performing an offsite product search within a search engine (knowing the keywords)
- » Onsite product search
- » Product page views
- » Cart additions/abandons/removals
- » Shopping cart process stage abandons
- » Check outs
- » Selecting varying shipping & handling rates
- » Response to order confirmation upsells
- » Entering promotional codes

Additional segmentation dimensions can be quantifiable in nature; for example, segmenting purchasers by average order value tiers to identify characteristics that the tiers share in common. To add qualitative data to such metrics, conduct surveys to gauge and correlate additional psychographic and demographic data to better build profiles representing each segment. Behavioral segments who respond to a specific email campaigns or site promotion by adding products to the shopping cart, but later abandon and don't purchase, could be better understood through exit pops or email surveys asking why they decided not to purchase due to price, usability, excessive or slow shipping, credibility or privacy issues, etc.

Once retail/commerce statements are understood, actions may be taken to optimize less profitable segments. For example, those who added products to shopping carts, but didn't purchase could be remarketed to and sent a promotion (i.e. discount) for the same products. Just like the discount offer I received when I was shopping for lighting fixtures.

EXAMPLE: Segmenting visitors into "browsers" and "buyers" based on past purchase history is another key segment for many online retailers. Doing so allows you to identify content preferred by the more valuable "buyers" segment and to place more attention to those pages and content while simplifying the navigation to these pages you effectively improve the overall customer experience.

TIP: Many web sites have some form of registration process on their site. Often these forms ask some relatively non-intrusive questions, such as "What year were you born?", "Gender?" or "Marital status?" Answers to these questions can be used to further segment visitors as large demographic aggregates.

Lead Generation sites, where complex and prolonged sales take place offline, optimize the marketing mix around behaviors that eventually lead to the closed sale. Such behaviors along the way may include:

- » Viewing product demos or product-related webinars
- » Viewing product pages
- » Filling out lead/inquiry forms
- » Downloading product information
- » Holding a meeting with a company representative

Demographic and firmographic (same as demographic but elements specific to companies), data may be appended to each visitor resulting in the further clarification and understanding of segments and profiles via third-party data appends. Through lead / inquiry forms or surveys, further psychographic, demographic and behavioral data may be appended such as company size, location, and purchase stage.

Companies may find behavioral correlations such as a high-propensity to hold a meeting with a company representative after having downloaded certain product sheets or viewing product-related webinars. By understanding such correlations, marketers can then remarket to segments that haven't downloaded such product sheets or attended the webinars, promoting such activities.

Advertising and Media sites' goal to acquire and direct new visitors to as many pages and pieces of content as possible in order to generate advertising views for paying customers. Online marketers for media sites may find it useful to look at:

- » Referring domains as well as search keywords and phrases to overall traffic volumes
- » New visitors viewing of individual pages and content
- » Conversion metrics that will lead to increased retention and loyalty, such as newsgroup sign-ups, alert features and chat
- » Campaigns that are successfully driving desired demographic or behavior profiles traffic to your site

Advertisers to your site may also be interested in knowing how their ads are resonating with key demographic and psychographic segments. For example, "How are their ads performing with females vs. male audiences?" "What are the top pages and content requested by different ages and income categories?" "How do those who indicated that they are 'conservative investors' like a new ad?"

Customer Support sites will likely key in on the visitors ability to find specific kinds of information. As the online marketer for a self-service or support site you may want to look at segments including:

- » "Information found" conversion rates by various visitor groups
- » Key words and phrases requested by new visitors
- » Time spent on top pages by new or returning visitors

The performance metrics listed above for the various business models are simply a place to start, you may need different metrics and many more

depending on your specific needs. The key to any metric for any segment is to answer the question, "Is the information actionable?" If the indicator does not have the potential to drive action, it is probably not a good key performance indicator for your business.

Remember—continue to test and continually refine marketing mix variables at segment levels, the return will be much greater than optimizing to the lowest common denominator of the entire planet! For those of you who understand this concept, but don't practice—you're simply leaving profits and growth on the table. For those of you who don't know much about segmentation, test a few of the hypothesis that have come to your mind while reading this. And for those of you who practice and know all-things segmentation, please let us know what else we could expound upon for version 2 of this guide. You've just been successfully segmented into three groups—under which one do you fall? Good luck segmenting!

AUTHOR:

Mikel Chertudi, Sr. Director, Online Marketing

CONTRIBUTING AUTHOR:

Scott Marshall, Sr. Manager, Database Marketing

OMNITURE DISCOVER 2.0 AT A GLANCE

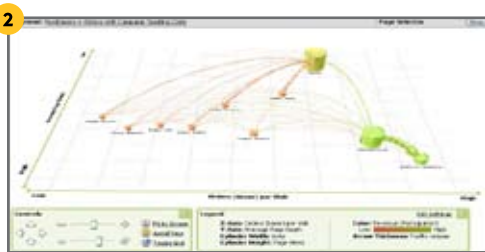
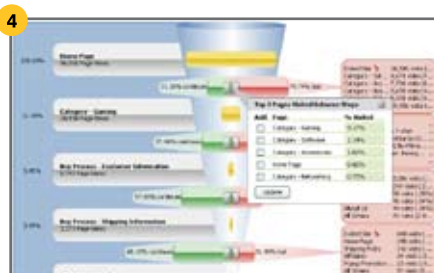
Discover provides a vehicle for deeper levels of understanding and analysis with instant viewing of click-stream data from any angle for previously undefined segments. Armed with this information, decision makers have the necessary insight to accurately assess and optimize their online programs and deliver greater profitability.

"We use Discover on a daily basis. The more we use it, the more opportunities we have uncovered. For example, using Discover's advanced segmentation capabilities we have been able to optimize user experience for targeted visitor segments to increase their overall page views contribution, drive a higher number of more qualified monthly unique visitors from our marketing efforts, and lower our costs per unique visitor. Discover has proven to be an incredible asset to our media business."

FairfaxDigital

"Being able to continuously drill down on traffic metrics to understand specific visitor segments, and the commerce activity associated with each segment, is invaluable. The deep-dive analysis of Discover 2.0 not only enables us to quickly identify site successes and problem areas, but also allows us to slice the data different ways to see how each visitor type responds to our online initiatives."

SallieMae



- 1 UNLIMITED REAL-TIME SEGMENTATION** enables users to create and simultaneously compare several customer segments and key performance metrics to quickly identify new valuable segments and increase the value of existing segments.
- 2 MULTI-DIMENSIONAL SITE ANALYSIS** allows users to visualize complex non-linear site navigation by customer segment using color, size, position, movement and volume to improve site design, navigation, content layout and customer conversion.
- 3 VIRTUAL FOCUS GROUP** provides a deep understanding of the unique experience of individual customers and the Web site, facilitating improved customer experience, and the ability to create focus group segments based on desired attributes.
- 4 ADVANCED FALLOUT ANALYSIS** allows users to dynamically build and analyze the effectiveness of online processes to improve conversion and understand multi-session conversion across various different content groups.
- 5 DYNAMIC PATH FLOW** provides interactive exploration of unique paths customers follow through the Web site to optimize campaign conversion, content placement and site navigation.

ABOUT OMNITURE Omniture, Inc., is a leading provider of online business optimization software, enabling customers to manage and enhance online, offline and multi-channel business initiatives. Omniture's software, which it hosts and delivers to its customers on-demand, enables customers to capture, store and analyze information generated by their Web sites and other sources and to gain critical business insights into the performance and efficiency of marketing and sales initiatives and other business processes. In addition, Omniture offers a range of professional services that complement its online services, including implementation, best practices, consulting, customer support and user training provided through Omniture University. Omniture's customers include eBay, AOL, Wal-Mart, Gannett, Microsoft, Oracle, GM and HP. www.omniture.com.

© FEBRUARY 2007 Omniture, Inc. Omniture and the Omniture and SiteCatalyst logos are trademarks of Omniture. All other trademarks and logos are the property of their respective owners. All rights reserved.