

MaxSeg™

The Market Segmentation Solution that Delivers Impactful Results



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Market segmentation is rooted in the idea that markets are composed of sub-groups, or segments, with unique needs and behaviors that distinguish them from each other. Each distinct group represents a different opportunity and requires a different approach for optimizing the opportunity. The basis for identifying and classifying buyers into distinct groups varies, with myriad examples across sectors and situations. (See table for a few examples.)

EXAMPLES OF MARKET SEGMENTATION INITIATIVES		
Industry/Sector	How Buyers are Segmented	Example of Segment
Travel (travelers)	Values and experiences sought	<i>Adventurer</i> : Segment desires individuality and emotional connection to the places visited
Consumer Tech Service (users)	Desired features, functionality and price sensitivity	<i>Personalization Seeker</i> : Segment is willing to pay more for customization and wide range of features
Professional Association (members and prospective members)	Goals member desires to satisfy through joining	<i>Believer</i> : Segment places a high priority on the intangibles, including support of the non-profit mission and societal role
K12 School (parents)	Beliefs and values about education and expectations of a school	<i>Values Parent</i> : Segment seeks educational experience that instills strong values
Wireless services (businesses)	Functional needs satisfied by using wireless service	<i>Customer Champion</i> : Segment places strong emphasis on customer service and responsiveness, which is enabled with mobile voice and data

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When clients ask Rockbridge to conduct a segmentation study for them, there is a common recognition that their market is not monolithic and therefore needs to be segmented by the unique mindsets that exist within their market. Yet, the reasons for segmenting a market differ (see table below). In some cases, the client focus is long-term and strategic and is used to prioritize investments based on the size

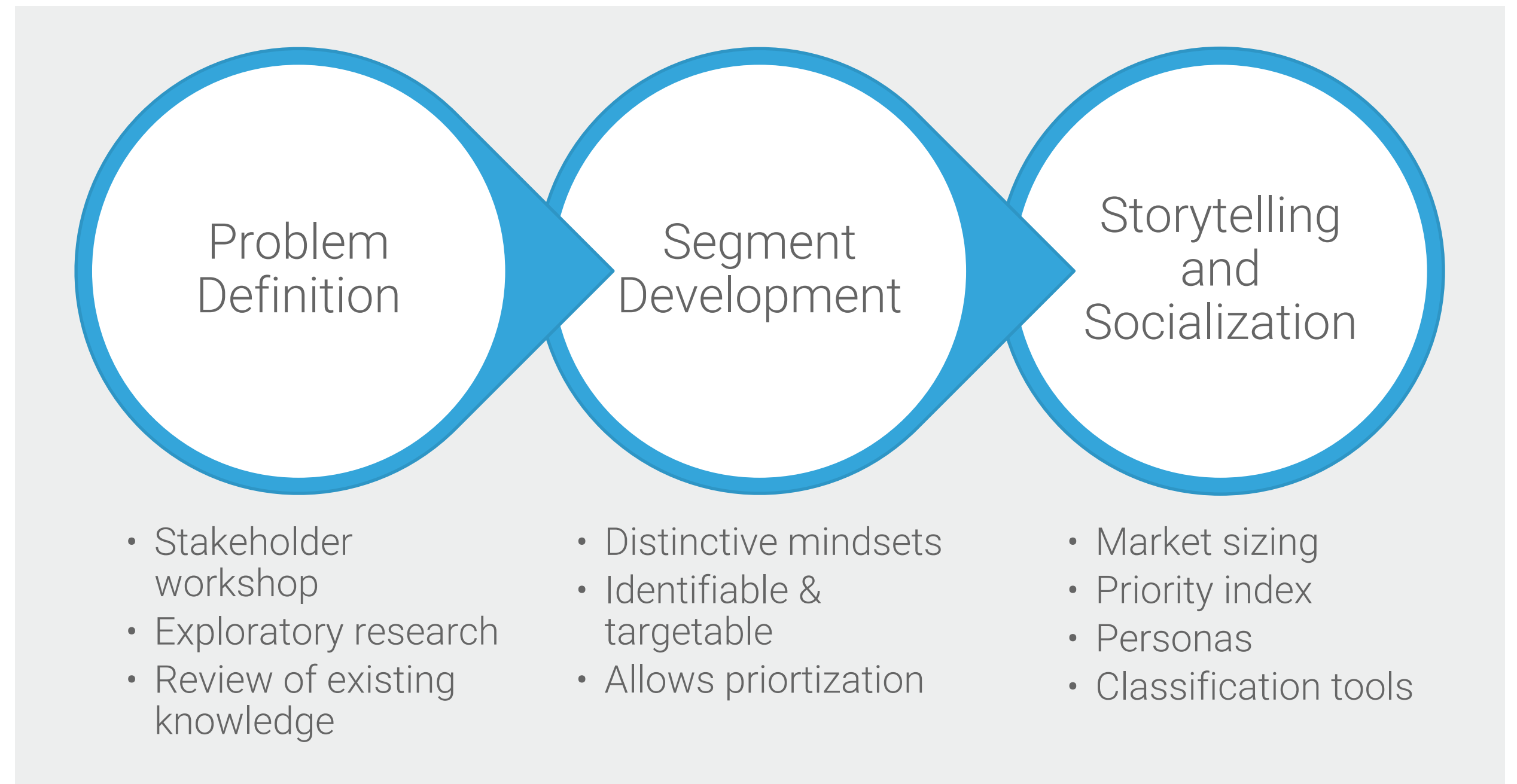
and potential of the most lucrative target markets. Or, a segmentation may help a client with their value proposition by identifying a differentiated brand promise for target segments. Many clients use segments for tactical purposes, such as tailoring marketing messages by segments to ensure maximum impact or translating segments into personas that can be used to guide product and service design.

MANAGEMENT REASONS FOR CONDUCTING A MARKET SEGMENTATION STUDY

STRATEGIC		TACTICAL
Size the market		Tailor messaging based on segments
Prioritize investments by segment		Tailor products, pricing and CX based on need
Plan long-term investments in products, channels and CX		Use personas to guide CX and design decisions
Formulate a value proposition rooted in market needs		Improve performance of direct marketing and CRM efforts
Identify “swim lanes” for brands		

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Rockbridge offers a powerful approach to segmenting consumer, business and professional markets – MaxSeg™. Our MaxSeg™ solution consists of best practices and specialized tools based on decades of experience and state-of-art segmentation science. Our solution uses primary data – talking to customers and prospects in structured surveys – but also incorporates secondary data such as CRM and marketing database elements in order to boost the actionability of the resulting segmentation. The heart of MaxSeg™ is our methodology for developing segments that are actionable (distinctive, targetable, and linked to the bottom line), but we ensure greater impact through careful problem definition that involves our client at the onset, and a suite of deliverables at the conclusion of the effort that ensures maximum value, usage and acceptance of the results.



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Problem Definition: The First Step in the Market Segmentation Process

A critical ingredient for a successful segmentation solution is the involvement of client stakeholders at the start of the effort in formulating the research agenda. Stakeholders may include marketing and sales, brand leadership, product management, channel leaders (e.g., branches, stores, call centers, digital channels), digital marketing, usability and CX managers, and external stakeholders including agencies. MaxSeg™ includes a workshop agenda that allows us to ask pertinent questions about the market environment, competition, strategy, current knowledge about customers and prospective customers, and expectations and intended uses of the output. This step provides valuable input that strengthens the study, while ensuring acceptance of the resulting segmentation solution when the study is ready to be socialized.

The problem definition phase also involves examining existing data, such as previous research, legacy segmentations and market reports. When there is uncertainty about buyer needs and behaviors, Rockbridge will propose exploratory research to identify hypotheses that inform a structured survey. For example, for a new product category or one that is not heavily researched, we will conduct qualitative research with the target market using traditional research methods or our OpinionPond™ platform to learn more about the underlying functional and emotional benefits and values that drive buyer behavior.

“If markets are to be segmented and cultivated, they must meet certain requirements. Segments must be Measurable, Substantial, Accessible, Differentiable, and Actionable.”

– Philip Kotler, The Father of Modern Marketing

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Segment Development with MaxSeg™

The process for developing a segmentation involves several research steps, including authoring questionnaires, developing a sampling plan, data collection and data analysis. Throughout the process, the development is guided by three principles that ensure the results are actionable:

1. **Distinctiveness** – the segmentation should identify a group of distinct mindsets that make sense to managers in guiding decision-making, while adhering to statistical criteria whereby segment members are highly similar to one another, but clearly different from members of other segments. When a segmentation falls short on this criterion, users may have trouble understanding the differences between segments and it will be challenging to classify individuals into segments in follow-up research.
2. **Identifiable and Targetable** – in order to put a segmentation into action, organizations need to be able to

identify segment members in their customer base and the market at large. It is helpful if the segments are distinctive in terms of demographics or firmographics, engage in different purchase processes (i.e., channels and information sources), and have different affinities to potential co-brand products (e.g., is this a Dunkin' or a Starbucks group?). Another way to identify segments is through database targeting, which can include CRM data for existing customers or commercial marketing databases that can be used for prospects. We will discuss with a client the opportunities for linking to databases early in the process so that we can ensure the necessary information is included in the sampling and data analysis phases.

3. **Allows Prioritization of Opportunities** – it is important to quantify the value of each segment in order to identify which segments should be targeted, how much should be invested in these segments, and whether any segments should be dropped from future plans due to limited opportunity. The most

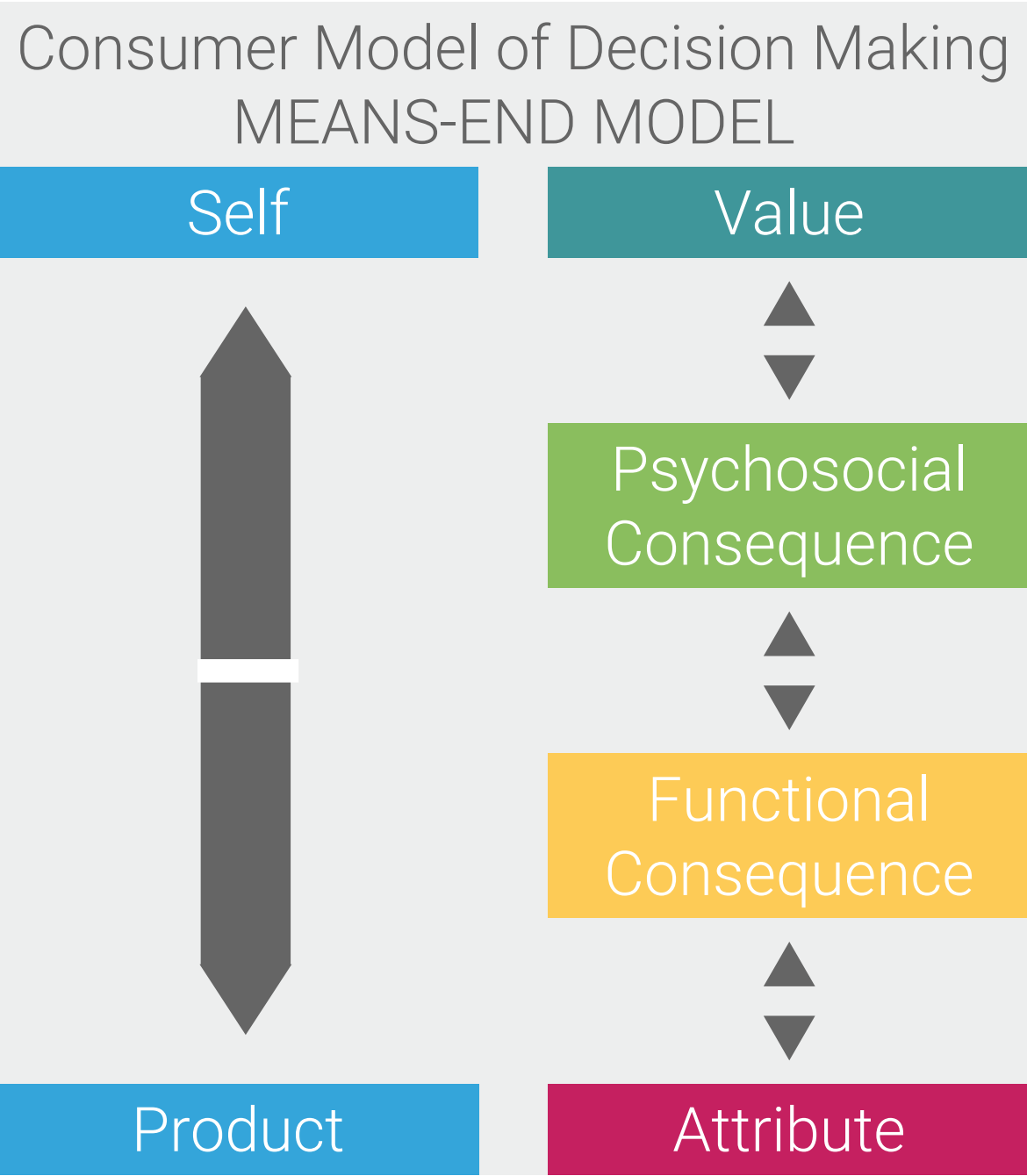
obvious indicators are current and planned purchases; for example, a segment might constitute 20% of the market but 40% of sales. However, other economic factors should be considered such as price sensitivity, profit margins, and ancillary purchases; for example, a hotel chain would place more value on guests who pay higher room rates, book directly with them (avoiding a commission to a third party provider), and spend on services like dining. Prioritization should also consider soft factors that would affect prioritization, such as affinity with the client brand, or for a cutting-edge digital service, readiness to adopt and evangelize technology. We consider all these factors in the questionnaire development phase and incorporate the appropriate metrics for prioritization. If this criterion is not addressed properly, a client risks blindly targeting segments based on their share of the population while not emphasizing segments that represent a better investment of resources.

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Survey Development. Satisfying the three criteria above begins in the questionnaire design phase of an engagement. MaxSeg™ relies on survey measures that have demonstrated value in guiding strategy, are grounded in meaningful theory of buyer behavior, and have been tested for reliability across scores of engagements. In MaxSeg™, the framework for creating segments differs based on whether the market consists of consumers whose decisions are driven by more emotional criteria, or organizational buyers who seek to solve problems.

In a B2C market, the purchase decision is highly personal and individualized and the MaxSeg™ model for is based on a **means-end framework**. This framework recognizes that decisions are made to satisfy needs beyond the concrete features of a product or service, and include realizing intangible functional benefits (e.g., saving time, learning, avoiding disputes, security), but also emotional psycho-social benefits (e.g., feeling smart, reducing anxiety, gaining control) and overriding values (e.g., living the good life, success, religious conviction). Means-end is an established theory with decades of validation that effectively explains behavior

in a manner useful for acting strategically. The model works well in a consumer (b2c) industry (examples include travel, internet/phone service, consumer products, entertainment, education) and for professional decisions (e.g., professional association membership, employer choices).



In a B2B market, organizational decisions tend to be more focused on solving problems and maximizing value because

multiple people participate in the decision and the beneficiary is an entity rather than the decision-maker. Even if decision-makers have personal agendas such as advancing their career, the most useful basis to segment the market for strategy purposes is through the business goals that the product or service addresses. For organizational studies, such as decisions for businesses, institutions or trade associations, MaxSeg™ relies on a what we term a **“Net Benefit Model.”** Under this framework, we capture the importance of and success in meeting business goals that can be met through our client’s product or service. For example, for a wireless communications service, goals may include increasing productivity, connecting employees more closely, or being accessible to customers. Buyers of a digital enterprise solution may be concerned with minimizing overhead, making better decisions from data, or minimizing security risks. When these pain-points and opportunities are captured and used to segment an organizational market, different segments emerge with vastly different goals driven by factors like industry, size and maturity.

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The survey questionnaire needs to include other areas that satisfy the three criteria for a successful segmentation. Ensuring a segment is *identifiable and targetable* requires information that can aid marketing efforts, including demographic profiles and buyer behavior including information sources, purchasing channels (e.g., types of stores or websites), influencers, and social media apps. In a professional and business context, useful information can include variables such as industry, occupation, region, revenue and employment size of the organization, and professional/ trade association affiliations. Another useful way to target is through affinity brands that can be considered for brand partnerships. In a technology market, it is useful to identify ecosystems and platforms. The variables included usually come up in discussions with our clients about how they communicate with customers. The resulting information at a segment level then guides the targeting of communications based on the segment profile.

Prioritization is another important success principle that a questionnaire must cover.

Identifying the right variables requires a discussion with a client about the factors that determine the economic value a buyer. These factors vary by the type of business, but ultimately help to measure the likely profit from a customer (accounting for sales, price sensitivity, cost of servicing) and the feasibility of converting a prospect into a customer. For example, in a banking environment, the ideal target customers will consist of individuals who will acquire multiple products (savings, investments, credit), show a willingness to use self-service channels, and be receptive to the client's brand. For technology products and services, we also include a proprietary segmentation tool – TechQual™ – that identifies early adoption segments that are valuable because they generate higher early demand and are potential evangelizers. In a non-profit environment, clients are often interested in factors such as commitment to the organization's mission and willingness to volunteer.

Sampling and Data Collection. A core service in MaxSeg™ is developing a sampling plan and identifying list sources for target markets. It is valuable to apply a

segmentation to existing customers, not just marketing prospects, so Rockbridge provides a secure platform to collect survey responses using customer lists. Rockbridge's senior team applies decades of experience in creating sampling plans that allow a statistically reliable segmentation analysis and includes adequate data points for profiling individual segments. In the sampling stage, we may also include database information that can augment the analysis and help in development of targeting algorithms. A rich source may be our client's own CRM, but this information is captured in an anonymized fashion to protect customer privacy.

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Segmentation Analysis: Identifying segments. After a survey is administered and we have data in hand, the next step is to segment the results by allocating respondents into groups with similar mindsets and behaviors. To meet the principle of *distinctiveness*, members within a given segment need to possess more similar viewpoints to each other than to members of other segments. In addition, we ensure segments are distinctive on targetable variables and metrics that help to prioritize segments. Rockbridge identifies segments analytically using state-of-the-art statistical clustering algorithms. Our data scientists have a range of statistical tools at their disposal, but the best practice tool we most often use is Latent Class Analysis, which identifies naturally occurring clusters within the data following a process that can be replicated. MaxSeg™ also includes protocols for transforming variables to ensure balanced treatment of emerging themes and to correct for noise from how people complete questionnaires.

Under MaxSeg™, Rockbridge typically develops more than one segmentation

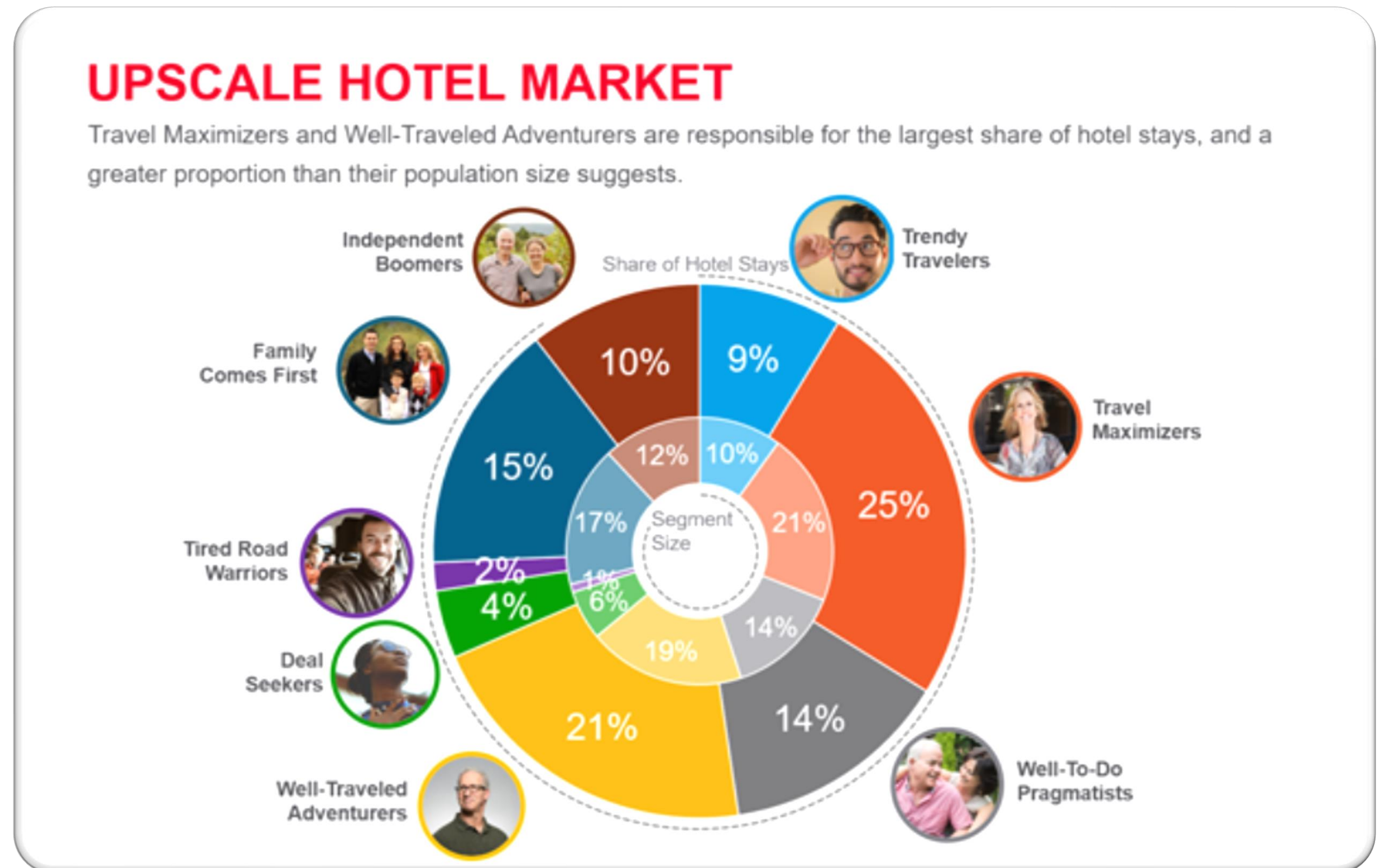
solution for review by our clients. For instance, we may create solutions with varying numbers of segments, allowing our clients to make informed decisions on the proper balance between a larger number of segments with greater distinctiveness versus a smaller number of segments that requires less resources to tailor strategy.

Storytelling and Socialization

Communication is critical to ensuring a segmentation study is actionable. The outcomes may guide target market decisions and strategic investments, so it is important that the study results be framed in a way that is accessible to management stakeholders and allows “socialization” throughout the organization. In a typical MaxSeg™ study, the Rockbridge team conducts stakeholder workshops where we educate the team about the differing mindsets and opportunities. At a tactical level, the communication must also support activities such as message development, product development and customer experience design.

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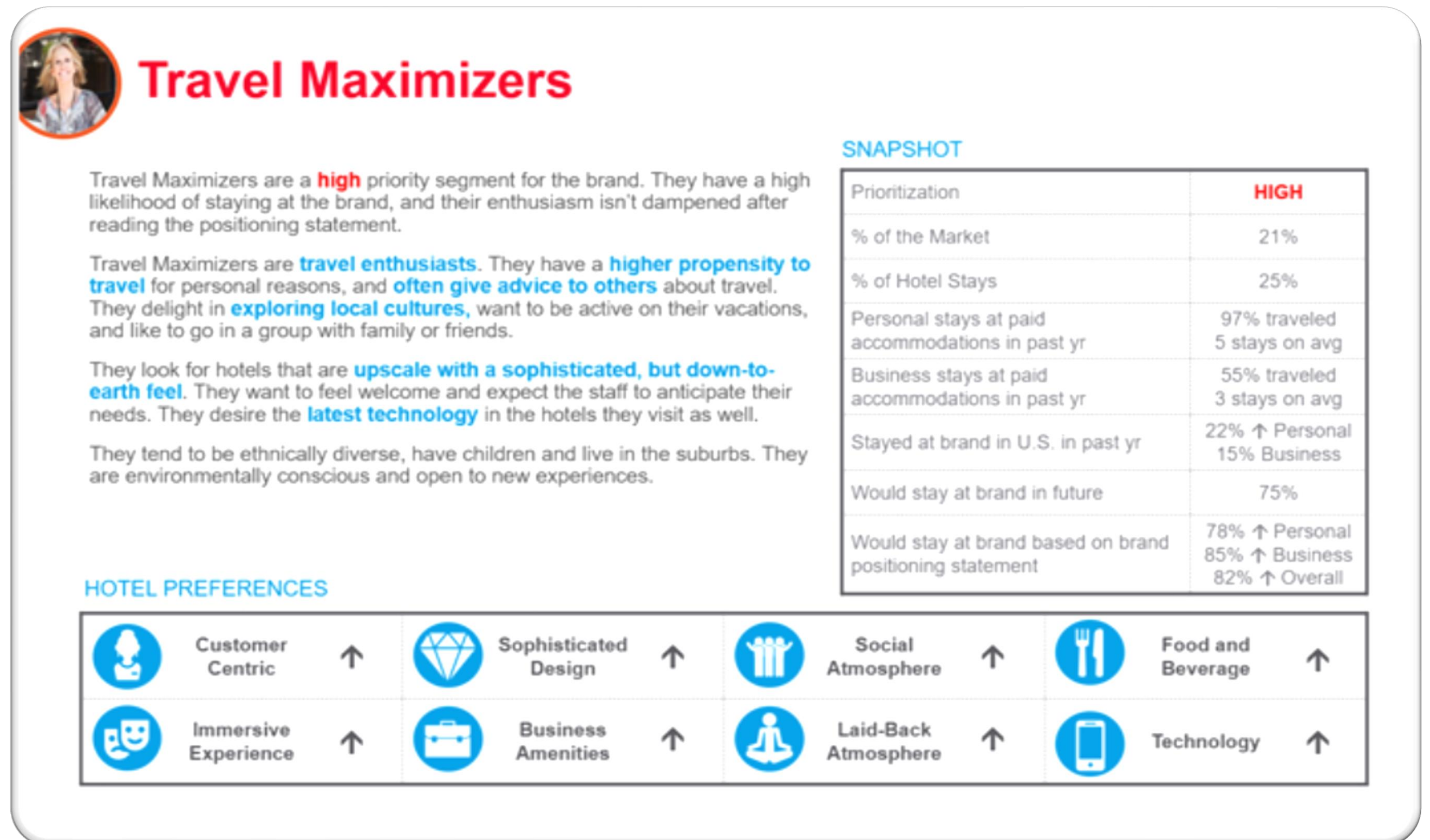
MaxSeg™ reporting always starts with an overview of the different mindsets in the market, usually comparing their distribution in the marketplace with the current customer base. Part of this overview includes estimates of the size of the Total Addressable Market (in total buyers and dollars spent), how these estimates break down by segment, and our client's penetration/share in each segment. Sound data science is required in producing estimates of market size and requires blending survey results with secondary sources on the consumer population and/or business establishments. When we know market sizing is critical, we take steps at the onset of the study to capture the necessary demographic/ firmographic and probability factors (e.g., accounting for multiple decision-makers) to allow the computation of market estimates. Senior decision-makers greatly appreciate being able to assess the upside profit potential for a market segment when deciding how much to invest in products, channels and advertising.



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To further guide strategy, MaxSeg™ uses a highly visual approach to tell a story about each segment. Management needs a concise way of assessing important questions such as:

- How does a segment think and behave? How are they different from other buyers?
- What goals do the consumers in a segment have when they purchase in the category? What point-points do they seek to address?
- How does their purchase process differ from the market as a whole? Where do segment members gather information and what influences their decisions?
- What do segment members look like on objective, targetable variables, including demographics, geography and database elements? In a b2b context, what do they look like in terms of business size and industry?
- What brands does a segment consume? What is their affinity and use of the client's brand?
- What is the current and future consumption opportunity for the segment?



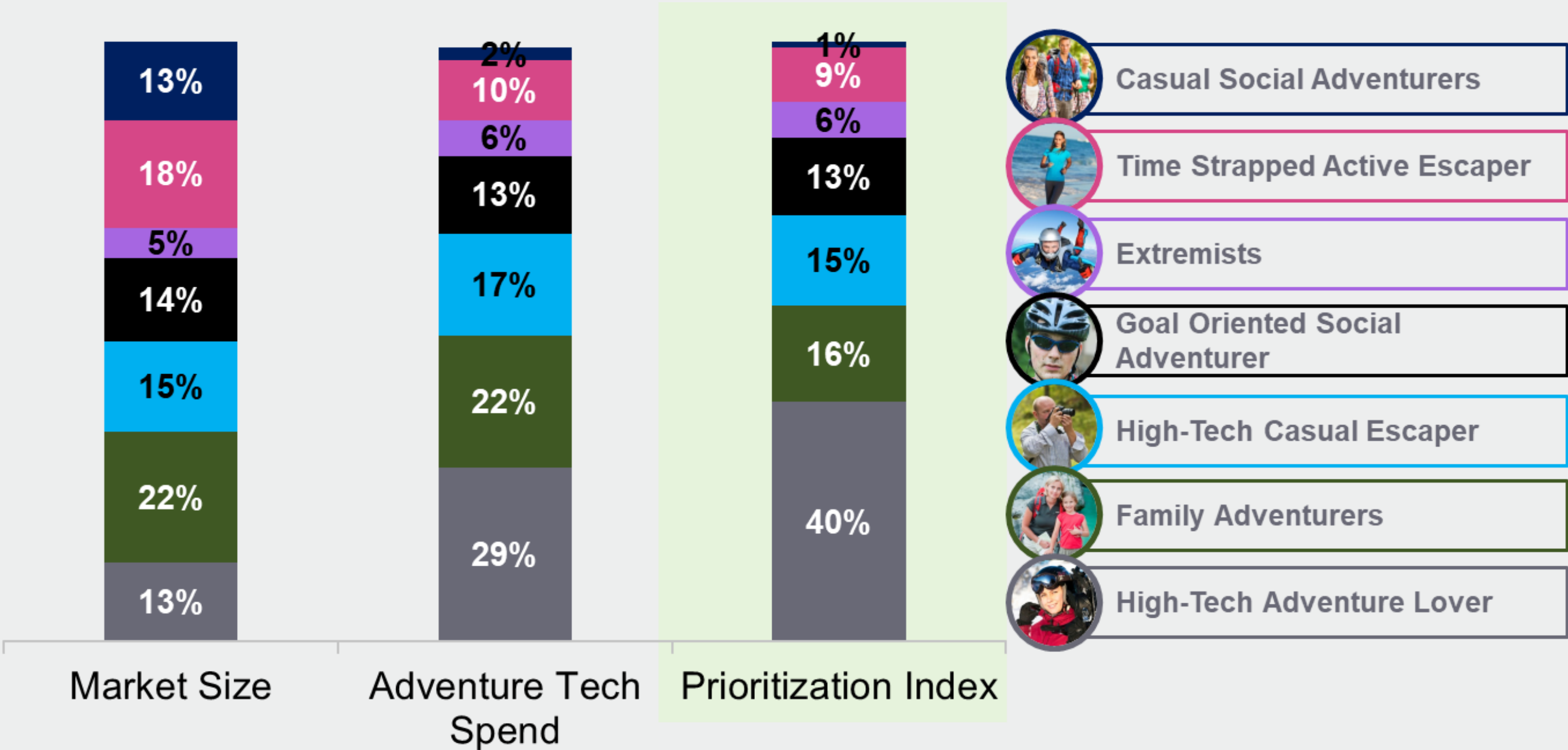
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MaxSeg™ includes other deliverables that help guide decision-making. One of the most important decisions is where to prioritize resources. Two segments may be equal in size, but present different opportunities for our client. To guide these decisions, Rockbridge produces a **Priority Index** that allows calibrating each segment to reflect their long-range opportunity. The index is comprised of “hard” economic

variables and “soft” strategic variables. For example, in a segmentation of hotel stayers, economic factors may include total spending in the category based on travel frequency, rates paid, and ancillary purchases (e.g., dining). One of the most important “soft” factors is brand affinity, since a segment has a lower priority if it is an uphill battle to convince consumers to choose the client brand. MaxSeg™

includes a structured approach to creating a multi-factor index which can be used to adjust to size estimates to reveal the real opportunity. For example, a segment may account for 10% of buyers but represent 25% of the opportunity in a marketplace.

The highest priority segment is High-Tech Adventure Lovers

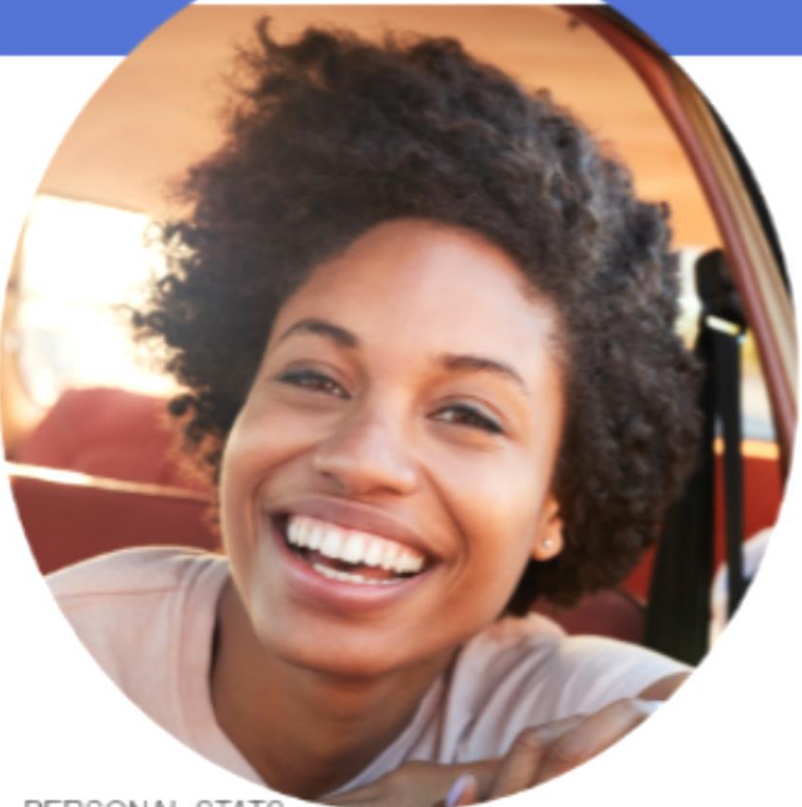


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Persona || Open Roaders

"I love flying and travel. I enjoy hopping on a jet to destinations and experiencing new places."

Molly



PERSONAL STATS

Age: 39
Status: Married, 2 children
Lives: St. Louis, MO
Occupation: Cardiology Nurse
Favorite Airline: Alaska

WHAT MOLLY THINKS ABOUT TRAVEL AND FLYING

- Molly prioritizes quality travel time with her husband and family, and plans vacations around school and sports schedules. She prefers road trips when she arrives at her destination because it gives the family time to talk and offers the flexibility to visit interesting places. They like to share their adventures in real-time through social media.
- She likes upgrading her seats to give her family greater comfort while traveling, and for the sense of status it provides.


WHAT'S IMPORTANT TO MOLLY IN AN AIRLINE

- Molly does the bulk of her research on air routes through company websites, but she notices ads on social media and travel magazines.
- Molly usually goes directly the airline website to make a reservation. She feels she gets better fares and service when she avoids an OTA or travel agent. Once in the air, she takes full advantage of in-air services including internet, entertainment and dining.

WHAT MOLLY THINKS ABOUT AIRLINE BRANDS

- Molly likes the direct flight options offered both big carriers like United and American, but prefers smaller airlines like Alaska and JetBlue for their superior service and loyalty programs.

The Priority Index guides strategic decisions, but a segmentation study should also guide more tactical decisions, such as developing tailored messaging or designing the customer experience. To aid these activities, MaxSeg™ includes **Persona Profiles** that provide an intuitive narrative of the goals, emotions, and journey of a prototypical member of each segment. This information is useful to stakeholders who must apply judgment and design expertise based on a working knowledge of buyer/user goals. For example, an agency can rely on the Personas to develop messaging. Designers can rely on the information to develop user interfaces in a digital environment or physical layouts in a storefront/property environment. Personas are often developed through a small sample of interviews, but basing the personas on a segmentation study is more reliable because of the large sample sizes and objective analysis.



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Beyond the Baseline Study: Classifying Individuals into Segments in Follow-up Studies. For various reasons, it is important when conducting segmentation research to be able to classify customers and prospects outside of the baseline study that is used to develop segments. For example, a client may wish to conduct follow-up studies and assign respondents to segments. A follow up study might be used, for example, to test messaging concepts for segments. Or, some clients routinely classify respondents into segments as a standard classification for all their research. MaxSeg™ includes a classification tool that allows classifying individuals into segments based on a short list of statements (usually 6 to 12) that can be easily inserted into a questionnaire. This is a standard deliverable by most providers of segmentation studies, but Rockbridge differs in that we try to provide a classification tool that is relatively concise and easy to implement. We work carefully to identify the minimum questions needed to classify respondents, and even offer simplified methods for classifying respondents besides complicated mathematical algorithms.

Identifying Segments in Databases. Some organizations have rich customer and prospect databases that can be used to implement marketing activities based on a segmentation. In these cases, we can develop tools for scoring/predicting individuals based solely on database elements. With such a tool, it is possible to conduct targeted marketing campaigns, tailoring the message or products emphasized based on the most likely segment. The tool is developed from the baseline study but uses strict protocols to protect respondent confidentiality.

MaxSeg™ provides results that have a **real and significant impact** on how your organization understands its customers, how it sets priorities, and how it puts knowledge into action in making important decisions around messaging, products, pricing and CX design. We accomplish this through:

- Involvement of stakeholders
- Scientifically valid models of how consumers and organizations make decisions
- State-of-the art analytics
- Masterful storytelling
- Proven tools that size the market, identify priorities, and provide an intuitive understanding of how buyers think and behave

Throughout the process, the Rockbridge team of strategists and data scientists partner with you to ensure a high return on your research investment. Once a MaxSeg™ is finished, we continue to work with you to ensure the investment has an impact on results.

About MaxSeg™

MaxSeg™ is a powerful segmentation solution that identifies segments that are distinctive, targetable and linked to purchase behavior. Our solution uses best practice analytics and the art of storytelling and socialization to deliver action-oriented insights. The result is a segmentation strategy that guides you in targeting high-value customers with tailored messaging that drives the bottom-line.

About Rockbridge Associates, Inc.

Since 1992, Rockbridge has connected insights to outcomes for clients – adapting to changing landscapes and implementing innovative, proven solutions to meet clients' changing needs.

Rockbridge serves a variety of industries, but focuses primarily on the services, information, and non-profit sectors, with particular expertise in digital services, financial services, technology, media, associations, and hospitality and travel.

Please visit www.rockresearch.com for more information.

Contact Us

If you would like to talk to us about anything you have read in this whitepaper, please contact Joe Taliuaga at jtaliuaga@rockresearch.com.

