

Best Practices in Interactive Marketing: A Strategic Approach to Segmentation

insight

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As more and more companies adopt Web-centric business models, the Web has become a primary avenue for customer interactions and a central expression of brand. The best Web sites today are more engaging, collaborative, and interactive than ever before—built to attract visitors and retain customers through the use of new strategies and technologies and the personalization of content. However, while most of us are making significant investments in initiatives to drive traffic to our Web sites, we're not getting the results we should expect: conversions are low, abandonment rates are high, and site visitors are unsatisfied.

How can we get the most out of our online advertising spend? How can we improve the performance of our campaigns? How can we identify our high-value customers? Which messages will resonate with long-term customers? Which offers will turn prospects into customers? The good news: these are questions that can be addressed with technology that exists today. This technology helps you segment your customers, effectively target content and offers, and test your marketing strategy for relevance and effectiveness on an ongoing basis.

Online segmentation and content targeting provide a methodology for interactive marketers to deliver experiences that are more relevant to groups of high-value customers and, in doing so, improve business performance. While multifaceted, the process that forms the foundation of segmentation and content targeting is straightforward:

- Segment your market and/or customer base into “buckets.”
- Select the segments that will generate the highest value as your targets.
- Develop specific content, offers, and navigation for targets.
- Leverage targeting rules to dynamically deliver a contextual online experience.
- Track behavior of visitors to your Web sites.
- Analyze this behavior to inform your segmentation strategies.

Problem:

Although companies are investing in online initiatives to drive traffic to their Web sites, they aren't getting the results they want.

Solution:

Online segmentation and content targeting improve business performance significantly.

Benefit:

Studies show that companies with propositions that are tailored to specific customer segments increase their profits from 5% to 15%.

- Optimize, or incrementally improve, critical aspects of your initiative.
- Continue the process, over and over, to evolve your strategies.

Industry	Typical Business Goals	Related KPIs
Financial Services	Acquire high-value customers	Cost per qualified lead, cost per funded loan
Automotive	Increase brand perception, connect site visitors with dealers	Number of dealer registrations, site-side tool usage (such as auto-configurator)
Retail	Increase sales and lifetime value	Media cost per dollar of sales, cost per lifetime value
Customer Support	Decrease number of calls, increase customer satisfaction	Form and download completion rates, average e-mail response time

A new approach to old concepts

In many ways, this is a new approach to old concepts pioneered by companies with significant direct marketing requirements. The difference? Today it's done at Internet speed using a set of newly developed best practices, best-of-breed technologies, and automated systems and processes. Doing it well is one of the keys to success in today's digital marketplace.

The business case is rock solid. According to Harvard Management Update, November 2006, companies who follow these strategies grow at three times the rate of companies that don't: "Over a five-year period, businesses that successfully tailor product and service offerings to desirable customer segments post annual growth profit of about 15%. By contrast, companies that fail to connect the right value propositions to the right customer segments realize annual profit growth of only 5%."

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~Harvard Management Update, November 2006

A strategic approach to segmentation

Strategic online segmentation is predicated on establishing well-defined business goals. These specific business and operational goals must be translated into key performance indicators (KPIs): metrics relevant to those goals. In a nutshell, the strategic purpose of segmenting your customers and targeting content to them is to improve your KPIs—and, by proxy, to improve your business performance.

KPIs vary according to business objectives, organizations, and industries. They can represent financial metrics (transaction volume, value, revenues), usage metrics (number of visits, resources utilized), or communication metrics (leads generated, e-mail traffic). More typically, a mix of these metrics is required to gauge progress against business goals. It is important to keep in mind that KPIs must be relevant, measurable, and actionable. Those that don't have the potential to drive action or change are of relatively low value. The table on the preceding page lists a set of typical business goals and KPIs that relate to them.

So, how does segmentation relate to KPIs? Let's look at a fairly simple hypothetical situation. A company sells \$1 million annually of products for camping; let's call them "Ucamp." Using surveys, Ucamp gathers data about the profiles of people visiting their Web site and finds that they fall into two primary buckets: 1) a segment of loyal customers who are high-value because they continue to return to the site to purchase products, and 2) a segment made up of people who have visited the site more than once but have never purchased. Informed by this research, Ucamp posts two business goals with related KPIs: increase the sales to high-value customers by 20 percent and convince 10 percent of new site visitors to purchase a product. Ucamp develops separate creative campaigns for each of these segments. By checking the KPIs related to the business goals (number of repeat purchases; number of new customer purchases), they learn if their campaigns are effective. They continue to test and refine their campaigns until they achieve their goals. It's as simple—and as complicated—as that.

Consumer Market Attributes
Geographic: <ul style="list-style-type: none"> • Land or region • Rural or metropolitan
Demographic: <ul style="list-style-type: none"> • Age, sex, marital status • Income, occupation, education • Religion, nationality, ethnic group
Psychographic: <ul style="list-style-type: none"> • Social status • Lifestyle type • Personality type
Profile: <ul style="list-style-type: none"> • Purchase history • Membership level • Registration requests • Preferences
Behavioral: <ul style="list-style-type: none"> • Keywords used on a search engine • Sourcing site • Products or categories viewed • Click path
Industrial/Business Market Attributes
Industry
Intermediary or final consumer?
Type of corporation (public or private sector)
Size of corporation
Geographical location
Intensity of product use
Organization of purchasing function: <ul style="list-style-type: none"> • Centralized or decentralized • Purchasing policies, rules, and criteria

Segmentation: the first step

Segmentation is the process of dividing your market into a manageable number of distinct groups with common attributes. These divisions allow online marketers to target segments for relevant offers and promotions. You use as much knowledge as you have at your disposal to take a stab at what will be effective for a particular segment.

Segment attributes may already exist in a CRM system or user store, or they can be captured “on the fly” as individuals interact with your Web site. The table on the preceding page describes common attributes used to segment both consumers and businesses.

Deciding what information is relevant for your segmentation strategy depends on what you are trying to achieve. Information can be gathered either explicitly, based on information the customer has given you, or implicitly, gathered without the customer’s direct knowledge. For example, companies trying to increase existing customer share-of-wallet might use profile and purchase history data (captured explicitly) to up-sell and cross sell. Other companies look for implicit information that reveals typical behaviors—people who buy soda typically buy potato chips—to fine tune their interactive marketing strategies.

When you are trying to reach new customers, about which you have little or no information, try employing navigation strategies that help customers segment themselves. A simple example: financial services firms often offer specific links such as “U.S. Investor” and “non-U.S. Investor” to encourage self-selection.

Once the segments are created, marketers create targeting rules that drive specific content and navigation to segments based on campaign goals or business objectives. These rules are associated with specific areas of a Web page and eventually drive the automated delivery of the right experience to the right segment at the moment of highest impact. A pharmaceutical company, for example, buys a number of keywords from Google, some associated with their brand and some based on symptoms their products treat. Site visitors see different landing pages and different content, depending on whether they searched on a brand name or a symptom.

Effective versus ineffective segmentation

The basic rule for effective segmentation is to focus on a limited number of high-value groups. Dividing your market into many small, less distinct segments can be difficult to manage and may dilute your resources. Similarly, taking a phased approach and focusing first on high-value real estate rather than site-wide integration ensures faster time to impact and provides time for testing and improvement. Strategies that target the “low hanging fruit”—groups that represent the best balance between risks, reward, ease, and speed—will pay off the most quickly.

Segmentation is an evolutionary process, not an end state. Failure is necessary and expected. Only by accepting the principle of continuous improvement can you optimize the value of your online presence.

Ongoing testing and refinement is required to ensure continual improvement of the performance of your Web site. Once you have a clear profile of a segment and have created targeting rules—“if a site visitor clicks here and is not a returning customer, present this offer”—you can begin testing everything from segment definitions and targeting rules to specific messages, offers, and promotions for relevance and effectiveness.

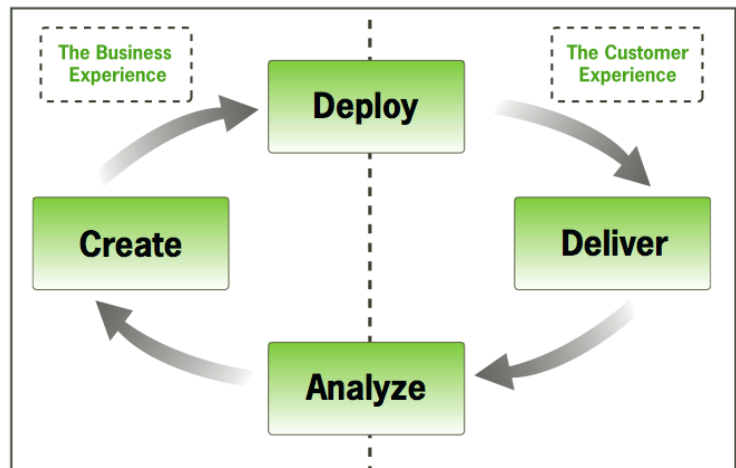
Segmentation is an evolutionary process, not an end state. Failure is necessary and expected. Only by accepting the principle of continuous improvement can you optimize the

value of your online presence. Does your marketing concept work? Are your segment definitions correct? Are your offers resonating?

A new class of solutions for interactive marketing

Interactive marketing requires next-generation Web content management systems designed to address the challenges of an increasingly dynamic and digital world. Important criteria for these next-generation systems are simplified processes, rich interfaces, and powerful rules engines that can be driven by marketing and business users without undue reliance on IT. With these capabilities, you can drive a closed loop, automated process that lets your marketing team:

- Easily create and manage dynamic Web sites.
- Quickly assemble customer segments and targeting rules.
- Automatically deploy and deliver targeted content and site navigation.
- Track the behavior of site visitors.
- Analyze the effectiveness of content and campaigns.
- Quickly make adjustments and incrementally improve online experiences.



Next-generation Web content management systems also incorporate open frameworks that allow tight integration with best-of-breed Web analytics technologies as well as other customer-intelligence applications, such as CRM systems. These technologies are important because Web analytics provide insight into the value and quality of a Web site's content by enabling you to view the behavior of your online visitors over time. When properly integrated with content management, this insight can be used to improve, and continuously refine, the online experience.

What's the payoff?

Segmentation allows you to drive more value from your online presence in a variety of ways. Segmentation can make your Web site more relevant and your marketing campaigns more effective. Segmentation can help you engage your customers and prospects in a richer, more forceful dialogue. It can improve direct response metrics, convert visits into sales, improve the messaging behind a brand, and give you more insight into your marketplace and customers.

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Segmentation impacts profits by increasing the total number, and average value, of transactions as well as the development of niche products and the identification of highly profitable “premium” segments. It also allows you to address different customer needs without expanding your product range by using different bundles, incentives, and promotions. One online computer manufacturer, for example, organizes its Web site by customer groups (private, small business, large business, public sector) rather than by product groups. They offer the same products to all groups but tailor their service offerings to each group, such as offering IT administration services only to corporate customers. With this strategy, they sell more products at less cost and are more profitable at the same time.

Segmentation can also help sustain customer loyalty as your customers move through different life-cycle phases. Automobile and cosmetics manufacturers, for example, are particularly good at addressing the variety of needs and expectations of their diverse customer bases. The payoff is long-term relationships and repeat purchases. Successful marketing, Web and otherwise, almost always includes customer segmentation. The trick is to approach it strategically.

When to bring in help

Interwoven and Avenue A | Razorfish have partnered to combine technology with the knowledge and experience you need to harness the potential of the Internet, particularly as it relates to effective segmentation strategies.

Interwoven offers a full suite of products and solutions to help you drive online revenue growth and differentiation through the dynamic delivery of targeted content, offers, and experiences to high-value customer segments. The Interwoven Segmentation and Analytics solution couples a robust Web Content Management platform, which facilitates the creation, management, and dynamic delivery of Web site content, with Interwoven Targeting, which helps companies dynamically deliver targeted content, offers, and experiences across your Web sites. An Open Analytics Framework provides for ease of integration with market-leading analytics solutions for ongoing measurement and refinement.

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Avenue A | Razorfish can help you with specific focal points of the segmentation process for which you may not have the staff, expertise, or bandwidth. For example, translating business goals into KPIs requires that you methodically go through the process of establishing specific business goals, identifying the Web activities that impact those goals, and creating detailed metrics around the activities. Many companies find that engaging the services of a company like Avenue A | Razorfish, which has had an exclusive focus on digital marketing for over a decade, can streamline this process.

Avenue A | Razorfish can also provide expertise for other elements of the interactive marketing cycle, including integrating technology platforms, initially developing your segmentation strategies, managing the segmentation process, and analyzing data to make actionable recommendations.

About Avenue A | Razorfish

Avenue A | Razorfish is one of the largest interactive marketing and technology services agencies in the world. The company helps industry leaders such as Ford Motor Company, Carnival Cruise Lines, Kraft, and Starwood Hotels use digital channels to acquire and service customers. Avenue A | Razorfish's full suite of digital offerings includes online advertising, Web site design and development, e-mail and search engine marketing, emerging media strategies, and enterprise portal development. Its award-winning client teams have a great understanding of customer needs and provide solutions through distinct business disciplines, which include: analytics, strategy, technology, media, creative design and user experience. Avenue A | Razorfish has offices in markets across the United States, and global operations in Australia, China, France, Germany, Japan and the United Kingdom. Please visit www.avenuearazorfish.com for more information.

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About Interwoven

Interwoven is a global leader in content management solutions. Interwoven's software and services enable organizations to effectively leverage content to drive business growth by improving the customer experience, increasing collaboration, and streamlining business processes in dynamic environments. Our unique approach combines user-friendly simplicity with robust IT performance and scalability to unlock the value of content. Some of the most recognized enterprise and professional services organizations worldwide have chosen Interwoven, including: adidas, Airbus, Avaya, Cisco, DLA Piper, the Federal Reserve Bank, FedEx, HSBC, LexisNexis, Microsoft, Samsung, Shell, Samsonite, White & Case, and Yamaha. Over 20,000 developers and over 300 partners enrich and extend Interwoven's offerings. To learn more about Interwoven, please visit www.interwoven.com.

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