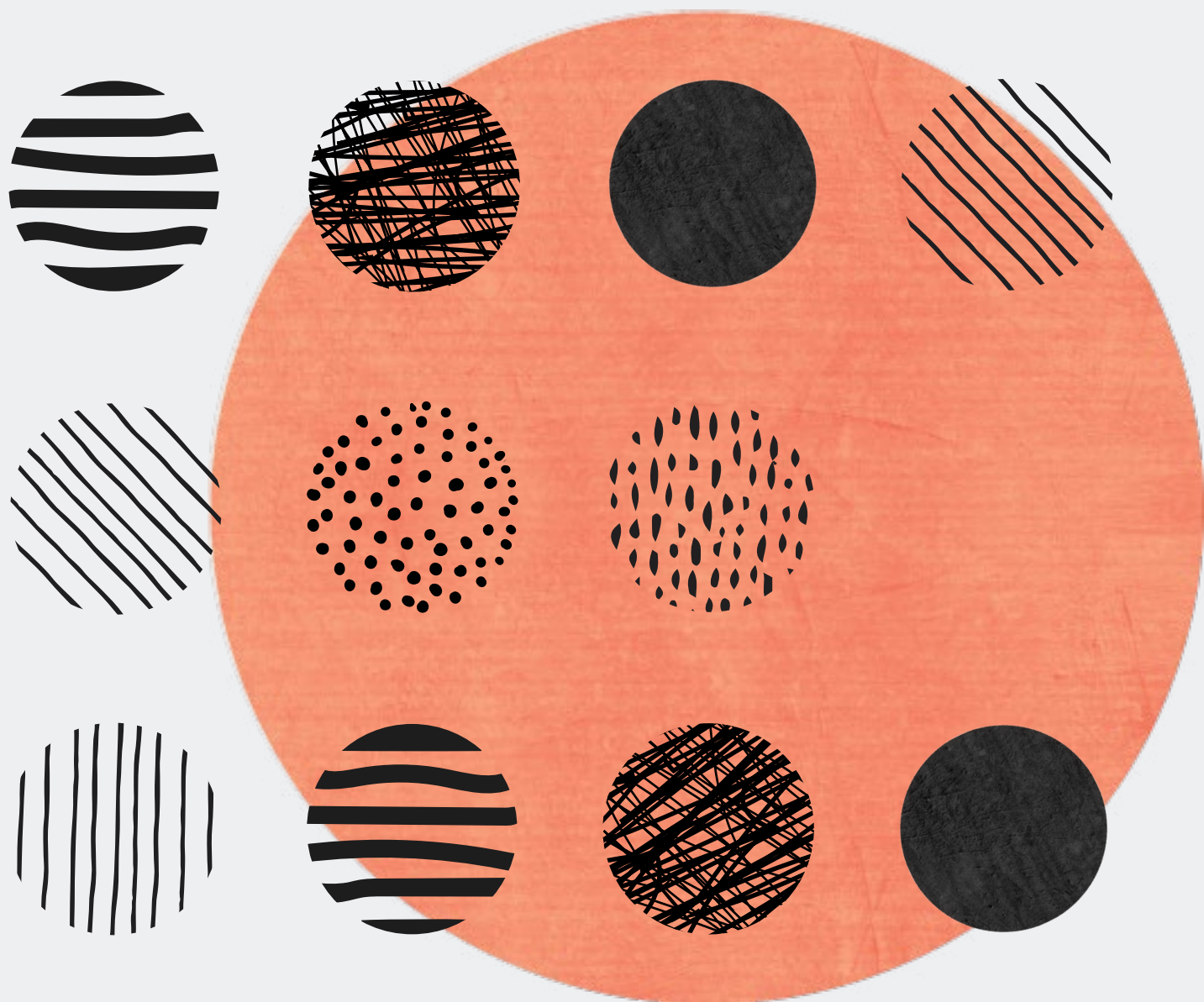


# The Guide to Advanced Segmentation



*Discover and Engage Your Most  
Valuable Customers*

# Defining Customer Segmentation and Understanding its Value

Customer segmentation is a method of dividing customers into homogeneous groups with a high degree of accuracy, based on demographic, behavioral, predicted future behavior and other indicators. In the online domain, multiple campaigns compete for customers' attention, and the marketer's challenge is to ensure that campaigns grab every customer's attention. As more and more customer data becomes available, marketers must use this data to customize their campaigns as much as possible for customers' needs and affinities. Since the marketer's goal is to maximize the value (revenue and/or profit) from each customer, it is critical to know, in advance, how any particular marketing action will most likely influence each customer.

The more personalized and relevant an offer, the greater the chances that the message will resonate with the customer. That's why it's critical to tailor messages and incentives so that they are the most relevant and interesting for each individual customer. In this e-book, we'll walk you through a three-step approach to customer segmentation, showing you how to pinpoint your customers' exact wants and needs. Some of the customer personas you'll encounter are specific to either e-commerce or social gaming, and some are generic. However, we encourage you to consider segments that are not specific to your industry, as the logic behind them may also be applicable for you.

Defining customer segments and discovering your customers' personas will empower you to generate highly targeted offers, maximizing customer engagement and lifetime value.

# Part 1 – Collecting and Flattening Your Data

The first step is to flatten your customer data into a single table, by aggregating all the relevant attributes for a specific period; this is called creating a Single Customer View. This customer-centric perspective allows you to discover the customer personas indicated by the important attributes of each customer at any given time.

Customer ID	# of orders	# of orders in the last 3 months	Total orders	Total orders last 3 months	Average payment total	Average payment last 3 month	Longevity (# of days since first purchase)	# of days since last purchase	Lifecycle stage
7156	5	4	\$71	\$59	\$14	\$15	98	4	Active
8854	2	2	\$144	\$144	\$72	\$72	42	29	Active
7124	8	0	\$980	—	\$123	—	336	230	Churn
9262	1	1	\$82	\$82	\$82	\$82	6	6	New
4004	20	8	\$7,049	\$2,367	\$352	\$296	231	15	VIP
2562	2	2	\$930	\$930	\$465	\$465	33	16	VIP
9145	1	1	\$63	\$63	\$63	\$63	2	2	New
3311	2	1	\$84	\$38	\$42	\$38	95	1	Active
3310	4	2	\$432	\$272	\$108	\$136	142	6	Active
9985	7	0	\$5,646	—	\$807	—	505	121	Churn
1310	4	4	\$661	\$661	\$165	\$165	23	1	New
6935	3	1	\$350	\$83	\$117	\$83	115	81	Active <small>(Risk of Churn)</small>

One important aspect of flattening customer data is choosing the specific time frame for which the data is aggregated. In the above example, we included

customer data available from May 1 to July 31, 2019. Some of the attributes refer to this time period, while others reflect the customers' experience throughout their lifetime with the brand (i.e., # of orders, total orders, longevity).

Now that the data is flattened, you're ready for the next step of customer segmentation: dividing your customers according to their lifecycle stages.

# Part 2 – Dividing Customers According to their Lifecycle Stages

The second step is to divide your customers according to the main customer lifecycle stages. For a typical online business, the most important stages for retention marketers are the New, Active and Churn lifecycle stages.

Here are the general guidelines for determining when a customer falls into each category. We've included parameters for both social gaming and e-commerce companies:

<b>Lifecycle Stage</b>	<b>Social Gaming</b>	<b>E-commerce</b>
New	New players are those who made their first payment within the past two weeks.	New customers are those who made their first purchase during the past month.
Active	Active players have played on the site for more than two weeks, and played at least once in the past 30 days.	Active customers have made one or more purchases during the past three months and are no longer New.
Churn	Churned players in the social gaming industry are typically those who haven't had any activity for more than 30 days.	Churn customers have made at least one purchase, but haven't made any purchases during the past three months.

From this high-level lifecycle segmentation, we can divide our customers further into different sub-groups. We'll explore each sub-group in detail for the remainder of this chapter.

# New Customers

Continuing with our e-commerce data above, we can sub-divide our New customers according to their total number of orders, total number of products ordered, total order amount and longevity.

Customer ID	# of orders	# of products	Total orders	Average payment total(\$)	Longevity (# of days since first purchase)	# of days since last purchase	Lifecycle stage
7156	3	5	\$59	\$20	10	4	New
9262	1	2	\$82	\$82	6	6	New
9145	1	5	\$63	\$63	2	2	New
3311	2	2	\$38	\$19	12	1	New
3310	2	6	\$132	\$66	11	6	New
1310	2	3	\$350	\$175	1	1	New (High potential)
6935	1	8	\$110	\$110	3	3	New
3703	2	4	\$127	\$64	27	26	New (May be one timer)
1112	1	2	\$103	\$103	29	29	New (May be one timer)
6546	1	1	\$15	\$15	4	4	New
6513	1	5	\$181	\$181	12	12	New (High potential)
6551	1	2	\$61	\$61	7	7	New
6466	1	1	\$32	\$32	7	7	New
3812	1	4	\$91	\$91	7	7	New
8061	1	2	\$30	\$30	9	9	New

It is important to remember that customers in the New lifecycle stage are potentially long-term customers without much trust in your brand yet. As a result, they are relatively sensitive to their experience on your site or app. By identifying these new customers and players, you can approach them correctly by ensuring that they have a good brand experience (e.g., by giving them

extra bonuses, discounts or offers, or enticing them with exclusive game play opportunities).

However, within the New lifecycle stage, different customers will react more or less positively to these offers. You can start to understand your customers' behavior more deeply by sub-dividing them still further. Let's look at some possible New sub-segments.

## ***One Timers vs. High Potential***

### ***E-commerce & Social gaming***

One sub-group could be One Timers – customers and players who weren't satisfied with their purchase or game experience and didn't return to the site. They require relatively aggressive campaigns to “repair” the bad experience they had and to encourage them to try again.

Another sub-group to compare these One Timers customers against would be High Potential customers or players – these are customers with greater forecast future value who make more purchases or play more games than their One Timers counterparts. Using advanced predictive algorithms, we can isolate this additional sub-segment based on customer lifetime value forecasting, which uses customer modeling technology to incorporate both behavioral and demographic data to predict how much revenue or profit a customer will generate for the company.

If you don't have access to advanced customer modeling methods, a simpler (though less accurate) method is simply to take the top 5-10% of New customers in terms of a key metric, such as total purchase/deposit amount or net revenue. It is most effective to give this group “VIP treatment,” since long-term incentive programs tend to keep them engaged for extended periods.

## **Active Customers**

Just as in the New stage, customers within the Active lifecycle stage also have a wide range of behaviors and affinities. Marketers must interact with each

customer according to these unique attributes. We can begin to see this when we filter Active customers according to their numbers of orders, number of products, longevity and number of days since last purchase.

Customer ID	# of orders	# of orders in the last 3 months	Total orders	Total orders last 3 months	Average payment total	Average payment last 3 month	Longevity (# of days since first purchase)	# of days since last purchase	Lifecycle stage
7156	5	4	\$71	\$59	\$14	\$15	98	4	Active
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3310	4	2	\$432	\$272	\$108	\$136	142	6	Active
6935	3	1	\$350	\$83	\$117	\$83	115	81	Active (Risk of Churn)
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2562	2	2	\$930	\$930	\$465	\$465	33	16	VIP

Let's explore a few different sub-groups within the Active customer lifecycle.

## ***Frequent Returns vs. No Returns***

### ***E-commerce***

Active e-commerce customers with frequent returns tend to be more valuable on average than customers with no returns. This may be counterintuitive to many e-commerce marketers, but these customers are often more engaged than their counterparts. For example, these customers often make returns because they've purchased more than one item in different sizes, knowing in advance that they will return one or more of their purchases.

## ***Purchase Amount and Order Size***

### ***E-commerce***

E-commerce customers who order more items in their first order tend to be more likely to return and place a second order. Marketers might want to try



upsell customers during their first order in order to encourage them to pass this threshold.

## High Average Payment Amount vs. Low Average Payment Amount

### Social gaming

A way to segment your Active social gaming players is to look at their average payment amounts. For example, you might want to target Active players who frequently made a payment of \$20 with an attractive offer if they make another payment of \$30, since it will encourage this group to make higher payments. Marketers wouldn't want to send such an offer to customers who typically make payments of \$100.

## Churn Customers

Customers in the Churn lifecycle stage have been inactive for an extended period of time. As most customers eventually fall into this category at some point, businesses should invest time and effort trying to understand this segment. As with the other lifecycle stages, Churn customers are also a diverse group:

Customer ID	# of orders	# of orders in the last 3 months	Total orders	Total orders last 3 months	Average payment total	Average payment last 3 month	Longevity (# of days since first purchase)	# of days since last purchase	Lifecycle stage
7124	8	0	\$980	—	\$123	—	336	230	Churn
9985	7	0	\$5,646	—	\$807	—	505	121	Churn
9765	1	0	\$72	—	\$72	—	95	95	Churn (One-timer)
6936	1	0	\$350	—	\$350	—	92	92	Churn (One-timer)

One way to further analyze this segment is by sub-dividing it into groups of customers with differing levels of engagement before they churned. Sub-groups within this lifecycle stage include revenue-based and behavior-based differentiations.

## ***Quick-Churn vs. Late-Churn***

### ***E-commerce & Social gaming***

Within the Churn lifecycle stage, it is worthwhile to consider the level of engagement before the customer became inactive. Quick-churn customers, or those who disappear after a single purchase, may churn due to a negative customer experience. These customers can be the hardest to re-engage, and marketers may need to offer very aggressive incentives in order to get them to re-engage. Late-churn customers, on the other hand, have a deeper relationship with the brand and can more easily be stimulated to re-engage. These two sub-groups display different behavior that can be easily ascertained by examining the right metrics.

## ***Cart Abandonment***

### ***E-commerce***

E-commerce customers who are interested in an item often add it to their shopping cart only to abandon the shopping cart, never to check out. One of the top reasons for cart abandonment is that the shopper is presented with unexpected add-on costs. Marketers can address this behavior by sending realtime campaigns to shoppers, offering them less expensive alternative items, free shipping or the like.

## ***Remaining Balance vs. No Remaining Balance***

### ***Social gaming***

A revenue-based sub-group for the social gaming industry consists of players who have a remaining balance in their account in contrast to those who don't. Whereas the former group can easily reengage with a simple reminder about the outstanding balance that they can still use to play, the latter group will need more aggressive incentives to encourage them to return and make another payment.

# Part 3 – Discovering Interesting Customer Segments

In addition to the above sub-groups, additional ones exist that identify specific customer personas. Once identified, you can tailor-make campaigns based on these customers' particular needs and affinities.

## **VIPs**

### *E-commerce & Social gaming*

Typically, a small percentage of a company's active customers are big spenders responsible for a large percentage of overall revenue, via relatively large and frequent transactions. It is important to treat each of these behavior-based customer segments as a "segment of one" and to give them one-on-one, highly personalized attention.

## **Back from Churn**

### *E-commerce & Social gaming*

Back from Churn customers, or reactivated customers, behave similarly to customers in the New lifecycle stage. These similar behavior patterns provide additional opportunities to retain them and encourage them to increase their spending.

## **Risk of Churn**

### *E-commerce & Social gaming*

Marketers can easily identify customers who are about to churn, using advanced retention automation software. This is quite valuable, as retention efforts for this group can be ten times more successful than trying to re-engage them after they have churned.

## ***Discount Abusers/Cherry Pickers***

### ***E-commerce***

Discount abusers display behavior that should be carefully watched and blocked when necessary. Cherry pickers don't abuse discounts like their aforementioned counterparts; they do, however, wait until the price is "right," and then once they've purchased, don't ever return to the site. Marketers should exercise caution when creating aggressive campaigns, and sending them to either of these customer sub-groups.

## ***Charmed***

### ***E-commerce***

In contrast, charmed customers receive a lower discount, but have good customer experiences. As a result, they tend to return to the site to make additional purchases. Marketers should carefully target this group with the right offers and messaging, as they constitute a group with high potential engagement.

We have finished summarizing some of the various sub-groups that exist within each customer lifecycle stage, but this list is only the tip of the iceberg! The better equipped you are to track your customers' behavior and engagement over time, the more sub-groups you'll discover, and the more targeted you'll be able to make your campaigns.

Once you identify the various customer segments, based on analyzing individual behaviors, needs and affinities, it is possible to target each of them with highly personalized campaigns that match their behavior and preferences.

In reality, marketers conduct dozens, or even hundreds of customer campaigns at any given time. Accurate customer segmentation involves tracking dynamic changes, and frequently updating new data. How can they constantly monitor these segment changes?

This capability is at the core of Optimove's Customer-Led Marketing Platform. The Optimove software tracks the behavior of each customer, going through the process we've described in this e-book automatically. With a superior platform to track customer behavior over time, marketers are able to identify more (and more granular) customer segments and match them with personalized and highly-effective retention campaigns.

## Request a Demo of Optimove