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MacDonald
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Consulting Group



Developing Solutions
For Your Business

What Is a Segmentation Model and Why is it Important?

To succeed over the long term, it doesn't matter what business you are involved in, as long as you are working with those suppliers, vendors, customers, clients or consumers who provide the most value to your business.

A segmentation model is a physical tool that can be developed within a spreadsheet or database that provides calculations and rankings for identified critical elements that are necessary for you to meet your objectives within a particular segment.

A segmentation model consists of those critical elements most important to the continued success of meeting business objectives. These elements are usually very specific but may also incorporate some that are more subjective.

Does this mean you can't have a successful business without knowing this information? Of course not, but like everything, there are degrees of success. In this global, competitive, consolidating world it seems like everyone is trying to sell everyone else's product or service regardless of the type of business they are involved in. We have seen examples of many successful companies that have lost their focus on those very top customers and try to be everything to everyone, only to eventually close their doors.

We all know that the marketing folks tell us they clearly understand their consumers and develop products, advertising and promotions that target those consumers most important to the success of their brands. Sales will explain we know our best customers - look at our top 20 report. Production says, "Our suppliers are the best because we are getting the best price."

Let's look at a simple example of what steps a business may take to develop a segmentation process:

Steps #1 Clearly define those elements that, if met, will accomplish your business objectives. For example: sales growth and profit.

Step #2 Identify the tool you would utilize to make the necessary calculations, individual and groups rankings, for all of your customers. Let's assume that a spreadsheet is that tool.

Step #3 Run the segmentation model, determine the necessary calculations, review rankings and groupings of all of your customers. Here you may decide to utilize something fashioned after the airlines: Platinum, Gold, Silver and Bronze.

Step#4 Analyze the results and determine which of your customers are most valuable in the attainment of your objectives. Deploy appropriate resources based on the customer ranking and groups. This may mean that your top ranked customers will receive more resources. This step should be accomplished in accordance with local law and operating principles your company may employ. These top ranked customers should be viewed similarly across your company to maximize the effects of your efforts. You may also wish to better understand the relationships between the groups and how a group may move up to a higher level. This may not mean that those customers that rank in the lower groups do not receive any resources. You will undoubtedly need to adjust your resources across all customers and groups. The point is to place the appropriate resources with those customers most likely to help you meet your objectives.

Step #5 As with almost every process, the need to establish key performance indicators (KPI's) and tools that will provide monitoring and evaluations are important to develop to measure if you are obtaining your desired results.

Step #6 Monitoring and analysis of results versus objectives may indicate possible adjustments. Customer performance may change

versus the elements resulting in a higher-ranking necessitating adjustment and re-deployment of resources.

Obviously this is a very basic example. As you identify additional elements that are necessary to achieve your objectives, the process and model can become more complicated.

The proper development and execution of a segmentation model that is shared, understood and executed across a business can be invaluable. We think it is one of the corner stones or building blocks of your business. It takes the “guess work” out of how and where to place your resources and it provides a clear objective approach. We also feel this tool can provide additional insights into the development of your overall business strategy. It enables the entire company to get behind a process that is in sync with their objectives.

Finally, we feel that a segmentation model, developed and executed properly, provides a very clear understanding to the target group you are segmenting what the objectives are, how the model works, where they rank and how they can achieve added support or resources.

The fact is: “It ain’t rocket science”, and it beats the heck out of guessing or just throwing darts to determine who is most important to our business!

This provides a clear roadmap for the future and you can build on this process. Of course like any roadmap, there may be a few detours and bumps in the road along the way.

Deeb MacDonald & Associates, L.L.C., have experience in the development and implementation of segmentation models and evaluation tools that will clearly establish strategic direction with your suppliers, vendors and customers.

Please call us to discuss how we can develop a segmentation model for your company.

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