Customer Segmentation is the subdivision of a market into discrete customer groups that share similar characteristics. Customer Segmentation can be a powerful means to identify unmet customer needs. Companies that identify underserved segments can then outperform the competition by developing uniquely appealing products and services. Customer Segmentation is most effective when a company tailors offerings to segments that are the most profitable and serves them with distinct competitive advantages. This prioritization can help companies develop marketing campaigns and pricing strategies to extract maximum value from both high- and low-profit customers. A company can use Customer Segmentation as the principal basis for allocating resources to product development, marketing, service and delivery programs.

Methodology

Customer Segmentation requires managers to:

- Divide the market into meaningful and measurable segments according to customers’ needs, their past behaviors or their demographic profiles;
- Determine the profit potential of each segment by analyzing the revenue and cost impacts of serving each segment;
- Target segments according to their profit potential and the company’s ability to serve them in a proprietary way;
- Invest resources to tailor product, service, marketing and distribution programs to match the needs of each target segment;
- Measure performance of each segment and adjust the segmentation approach over time as market conditions change decision making throughout the organization.

Related topics

Customer Surveys
Market Segmentation
One-to-One Marketing

Common uses

Companies can use Customer Segmentation to:
Prioritize new product development efforts;
Develop customized marketing programs;
Choose specific product features;
Establish appropriate service options;
Design an optimal distribution strategy;
Determine appropriate product pricing.

Related Bain capability
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Selected references


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