Divide and Delight: the Art of Customer Segmentation

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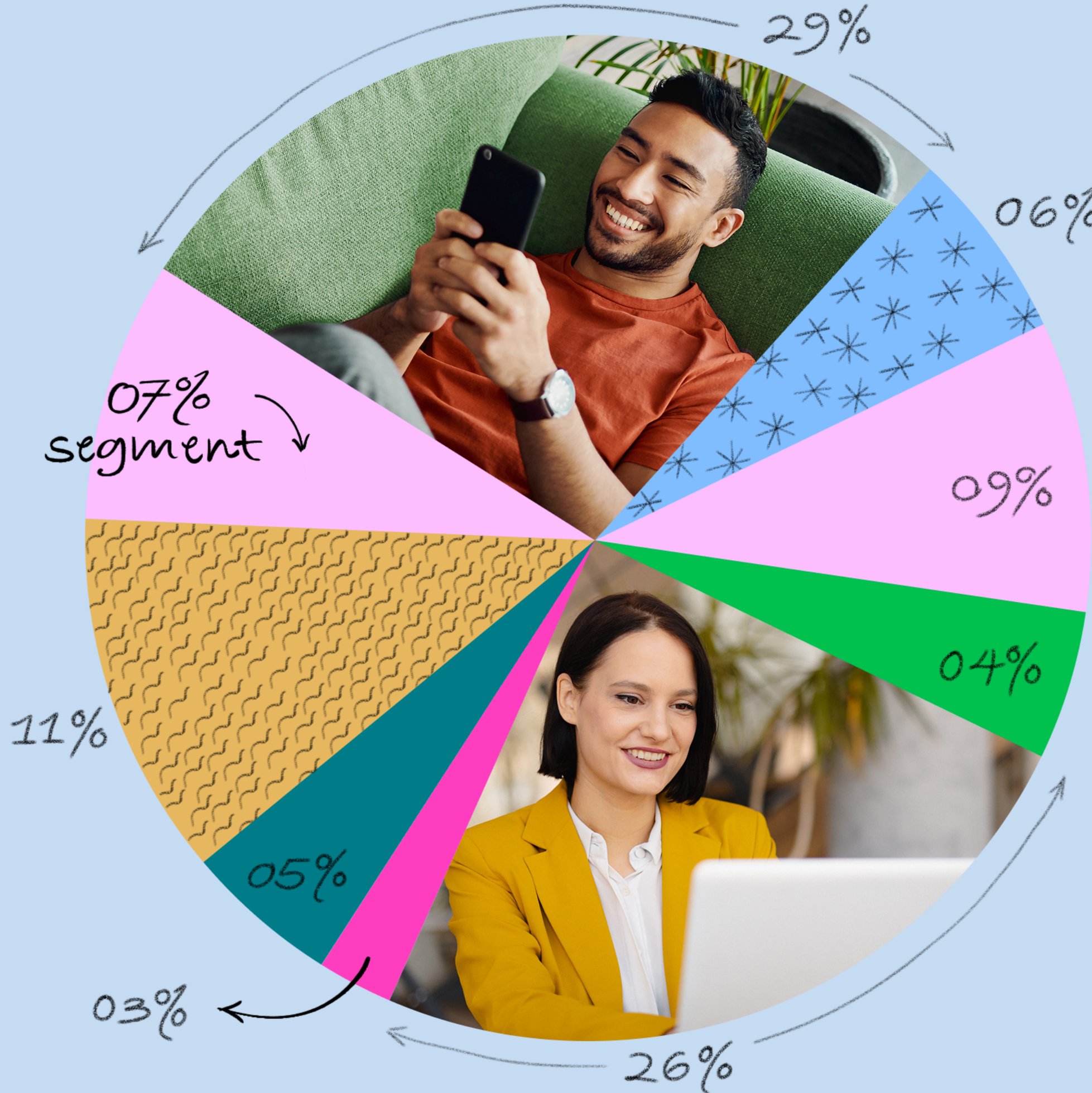
Unlocking the power of personalization at scale

Packed with time-saving insights:

Defining segments   Personalization   Tracking performance   Ethics

INTUIT
mailchimp

Who Do We Think You Are?

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Right now, you're in what marketers define as a segment. In this case, the segment is people who are interested in effective direct marketing practice and the technology that supports it.

At least, that would be a pretty safe assumption about anyone reading this ebook. Could we go further? Gender? Age group? Taste in music? At the moment, we have nowhere near enough data, unless you're already a Mailchimp customer.

Even so, some wider generic research might shine some light on your tastes and preferences.

If you ask ChatGPT for a typical demographic profile of a digital marketer, it reveals that people who might be reading this are generally between 25-40 years old, and that digital marketing as a profession tends to have a slight female majority. They often hold bachelor's degrees in marketing or another business-related field, and could be earning anything between $55,000 and $95,000 a year.

These are still pretty broad measures, and you could probably work them out without the aid of AI. As for taste in music, apparently you're likely to enjoy "upbeat and energetic genres", as well as podcasts, lo-fi, and chill music.

Beyond guesswork

Once, direct marketers had little more to go on than informed guesses like these, with perhaps a bit more insight, depending on the quality of the mailing list they were working with. But even then, they recognized that effective segmentation helped to improve performance and return on marketing investment, by increasing impact and reducing waste.

Today's digital direct marketers have far more data to inform their strategies. In this ebook, we're going to look at the phenomenal power of modern marketing technologies and the deep insight they make available to professional marketers and business owners.

We'll look at:

- Techniques for segmentation
- The benefits of accurate segmentation
- How to collect and analyze customer data
- The power of personalization
- Compliance and ethical issues

We'll see that marketing segmentation might be as old as the hills, but it's never been as agile, smart and sophisticated as it is now.

High octane data

Segments are built with data. It follows that the more data you have about your customers, the more precise your segments should become.

There's a sensitive point here. Data is a precious, confidential commodity and there's a fine line between respectful, relevant personalization and downright intrusion. In terms of the customer experience, it's the difference between "We recognize you" and "We know where you live and we're coming for you..."

If you want your customers to tell you something about themselves you have first to win their trust and then take scrupulous care never to abuse it. The purpose of turning your customer data into practical, effective segments is to create great customer experiences while gaining maximum return on your marketing investment. Precise, well-managed segments ensure that you don't waste your customers' time and you don't waste your marketing money.

Segments in all sizes

Customer segments can be as simple or as sophisticated as you like. For a big recruitment program, where reach is the priority, you might need as little as an age range, a geographic area, and some indication of income group to create a viable segment. If you're selling orthopedic recliners to anglers, then you need a granular level of insight to make sure your segment doesn't miss the mark.

Segments are the antidote to junk mail. Junk is mail that is not relevant to the recipients. When your segments are honed to the finest possible detail, everyone who receives the targeted message will at least know that you recognize them and that you are not going to waste their time. More importantly, a smart segmentation strategy means that more people will click and that more of those clicks may convert to sales, subscriptions or donations.

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Mailchimp customers saw up to

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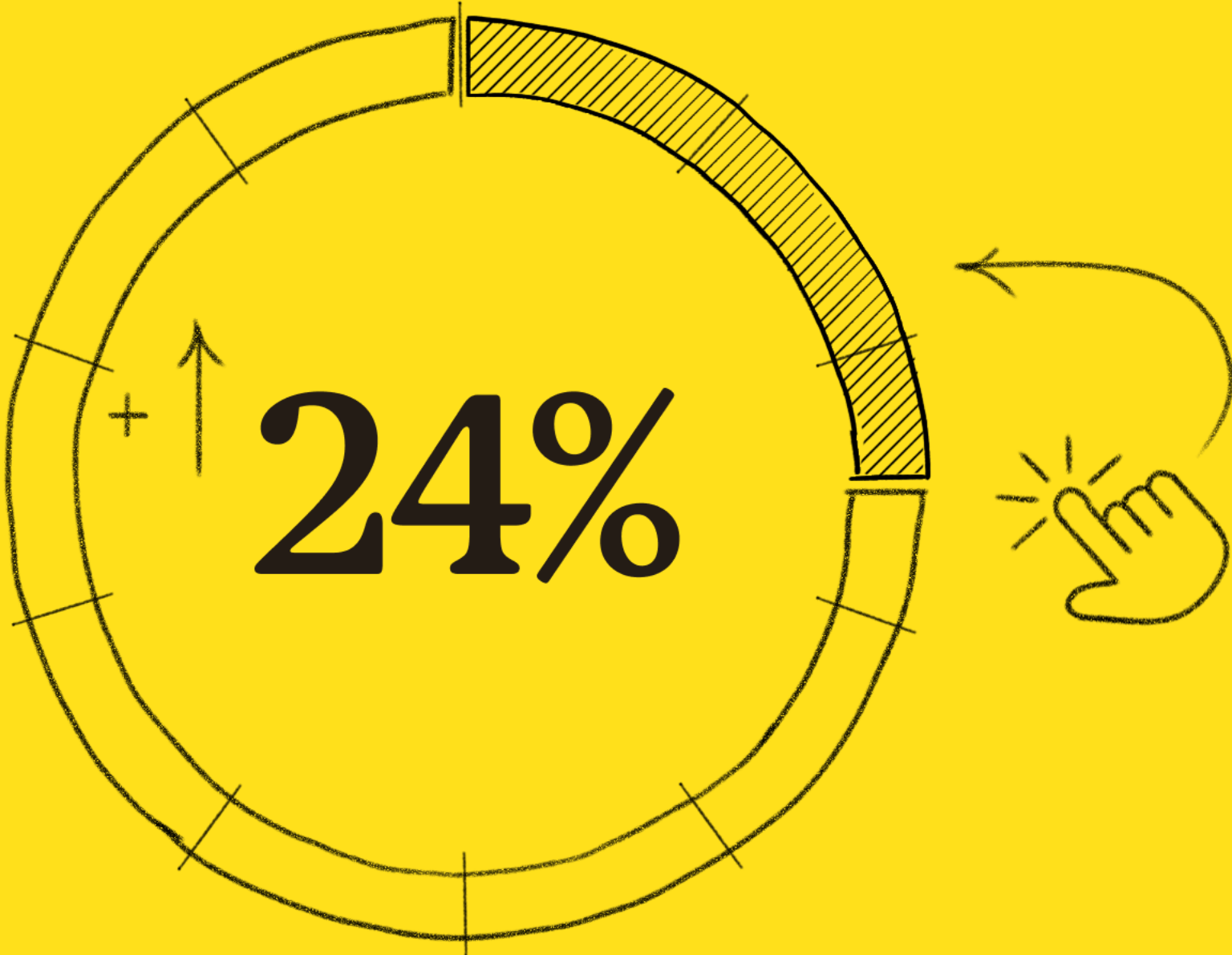
higher click rate when they segmented their campaigns than when they didn't[1].

Source: Internal Mailchimp data

Before we get into the detail of getting segmentation working for you, we need to make a crucial distinction. With Standard or Premium Mailchimp plans, you can divide your audience using tags or segmentation:

Tags are labels that you can apply manually to your Mailchimp contacts to filter them for personalized emails. Tags are static and manual; they will not change even if a contact's behavior changes. They are useful tactical tools that can be used for specific campaigns to create subgroups within segments, or to highlight a fixed aspect of a customer's record, such as how they registered with you, or which events they have attended.

Segments are lists of Mailchimp contacts that have been filtered according to a range of criteria such as geographic, psychographic, or behavioral patterns (more on this below). They are live, which means they update automatically with every interaction. For example, if a customer meets the relevant criteria for more than one segment, they will be added to both segments. Note that you can manually tag customers that occupy more than one segment to help avoid duplication or over-communication.

Data: The Rocket Fuel of Segmentation

Building the trust that unlocks the flow of data relies on the principle of value exchange. Simply, if you want your customers to share information about themselves with you, there has to be something in it for them.

This is a layered process. For a completely new customer, you need a brand presence in the market that helps them keep you in mind until the time comes for them to engage.

Then, you need to make it easy for them. If a social post or banner ad catches their eye, it needs to lead them straight to an offer or content that is fresh, relevant, and valuable to them.

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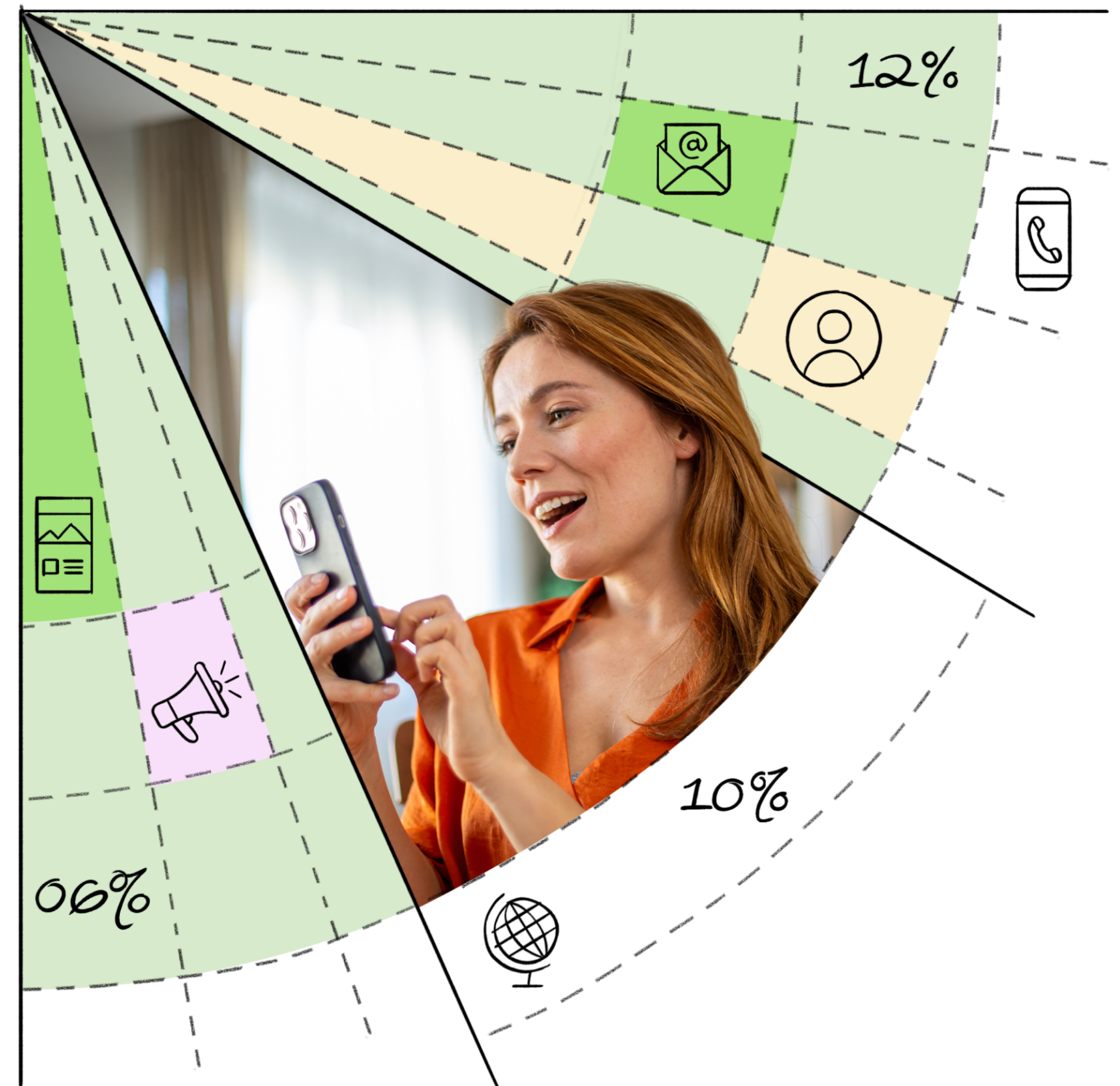
Opening the gate

At this point, you have a choice: you can allow them to make a purchase or download content without entering any data. Or, you can ask them for an email address, and perhaps a couple of other data points, a process known as "gating".

The first option builds trust and encourages a return visit, at which point they are likely to be more willing to share their data. The gated option means that the offer or content must be of sufficient value to persuade them to exchange their data for it. It might be an early-bird discount, a renewal offer, new research report, or a thought leadership piece by a respected industry figure.

Note that even if you don't collect any specific data, you can still gather information about how they interacted with your site. In particular, you can collect their IP address as part of the basic communication between their device and your site. This will help you recognize them when they return (unless they are using a VPN, which conceals their device's IP address).

Content to drive consent

When you collect their email address (or mobile number if you want to add them to SMS campaigns), you need to set out the terms of the relationship clearly. First and most important is their consent: you need their permission to send them other material and make them part of your digital marketing program. There are even stricter rules around SMS marketing[2]. You can find more details about opt in and opt out here.

As well as getting their consent, you need to set their expectations about how the relationship will work. If you're planning to send them regular newsletters, you need to tell them how frequent they will be and the value they will get from them. The more you can reassure your customers about how easy and unintrusive the relationship will be, the more responsive they will become.

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Getting to know them

Once they've signed up, the flow of real insight will begin. What marketing options do they choose? A monthly newsletter, or only special offers? Email only, with no permission for you to send SMS messages? How responsive are they? Which types of offers or messages seem to work better for them? How often do they actually buy, or donate? How many reminders do they need before they resubscribe?

These are just examples of countless nuances that will emerge from your interactions with customers. All of them feed into your database and provide the raw material for the development of segments.

With the flow of data established, the next step is to analyze it for meaningful patterns and correlations. Common data analysis approaches include:

- **Statistical analysis:** Apply quantitative methods to identify key patterns and relationships.
- **Cluster analysis:** Group customers with similar characteristics, such as age, location, or purchasing patterns.
- **Predictive modeling:** Use historical data to forecast future behaviors and identify high-potential segments.

- **RFM analysis:** Evaluate customers based on recency (last purchase), frequency (purchase rate), and monetary value (spending amount).
- **Trend identification:** Track changes in customer behavior over time to spot emerging patterns.
- **Anomaly detection:** Identify outliers that may represent either problems or unique opportunities.

The AI and machine learning built into some Mailchimp plans can process vast data sets more efficiently than manual methods. These tools, such as Intuit Assist for Mailchimp, a generative AI-powered marketing assistant, can uncover subtle correlations and segment customers with impressive precision.

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Pick your profiles: the fine art of segmentation

Everyone's unique. But we all fit into many different segments.

Let's begin by looking at the four main criteria for segmentation:

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Behavioral segmentation categorizes customers based on their actions, usage patterns, and purchasing behaviors. Key factors might include purchasing habits, usage rate, brand loyalty, customer lifetime value, and their place in the purchase cycle.

Geographic segmentation organizes target audiences based on their physical location. This might include country or region, urban/suburban/rural setting, climate and seasonal factors, and market maturity by region.

Psychographic segmentation goes deeper into the psychological and emotional drivers behind customer decisions. These might include values and beliefs, lifestyle choices, interests and hobbies, and attitudes and opinions.

Demographic segmentation divides customers based on measurable, people-based statistics. The data might include age, gender, income, educational qualifications, occupation, and ethnicity.

10-15%

Businesses that tailor their offerings to customer segments generate 10-15% more revenue than those that don't.

(Source: McKinsey)

What makes a good segment?

Clearly, even within these few examples there are vast numbers of variables on which you can base a segment. But too many segments will dilute your marketing efforts and deliver diminishing returns. You probably only need seven segments at most, and some businesses achieve high impact and performance working with only four or five segments. There are <u>six criteria</u> that can help you define a viable segment:

Substantial: A segment needs to be large enough to warrant dedicated marketing campaigns

Accessible: You should be able to reach it through your available marketing channels

Differentiable: It must be clearly distinct from other customer segments in meaningful ways

Actionable: You must be able to address it with tailored strategies

Stable: It needs to remain recognizable and viable over time, to justify investment

Measurable: Each segment should be tracked and evaluated for its performance

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Assessing segments

You should be able to treat each segment as a meaningful market in its own right, including setting key performance indicators to show which segments are working and which ones need work. These can include:

- **Segment growth:** Increasing size of high-value segments
- **Conversion rates:** Improvements in segment-specific purchase rates
- **Customer acquisition cost (CAC):** Reduced cost to acquire customers in target segments
- **Customer lifetime value (CLV):** Enhanced long-term revenue from priority segments
- **Segment profitability:** Improved margins from effectively targeted segments

- **Engagement metrics:** Increased interaction across appropriate channels
- **Customer satisfaction:** Higher segment-specific satisfaction scores
- **Retention rates:** Improved loyalty within key segments
- **Share of wallet:** Increased percentage of segment spending captured
- **Campaign performance:** Enhanced response rates to targeted initiatives

266%

Marketers saw 266% or 2x more revenue on an average with Mailchimp's AI-built predicted segments[3].

Source: Internal Mailchimp data

The Strategic Steps to Segmentation

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Your segments are there to make your marketing more efficient and effective, and to build and maintain great customer relationships. They come to life when you start running campaigns.

Each segment needs its own strategy, beginning with a value proposition that sets out how your product or service addresses the key characteristics of each segment. It's a question of emphasis; your offering may have a number of benefits and you need to adjust the messaging to highlight those that are most relevant and valuable to each segment.

You might even be able to adjust the specifications and packaging of the product itself if the segments are big enough to warrant that kind of investment.

Other factors affecting your segment strategy might be pricing—some segments might respond better to premium or discounted pricing—and the communication channels you use. You can also use different types of content for different segments, as well as optimizing your customer journeys to align with the known preferences and patterns of behavior for each segment.

Refined targeting for deeper impact

Time is a critical factor in any marketing campaign. Seasonal offers, time-limited promotions, renewal dates—they are all key triggers for customer communication. Some of the most powerful segmentation and targeting criteria are time-related and can often create customer groups that transcend your established segments for the purposes of a specific campaign.

- Customers with a high likelihood to purchase, and who made a purchase in the last three months, can be offered early access to a sale or promotion.
- Prospects who have not engaged with your emails in the last 90 days can be sent a re-engagement campaign offering exclusive content.
- Prospects tagged as new leads can be targeted with relevant offers and content to encourage them along the customer journey.
- Customers who have purchased a specific item in the last 60 days can be targeted with a new product announcement for a complimentary item.

- Customers who have not ordered for several months can be offered discounts and personalized product recommendations based on their previous purchases.
- Contacts near a key location can be sent localized offers or content offering regional insights.
- You can target your biggest spenders, who have made a purchase more than three times and spent more than a set amount, with a referral offer.

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Slicing up the market for lasting success

An Italian restaurant chain used segmentation to stay in touch with customers and sell mail-order pastries, wine and pizza kits during lockdown. Segments included known wine-lovers, pizza fans, and bakery customers. The success of the e-commerce venture evolved into a thriving wine club. Today, the online welcome journey for new customers delivers a 39% click-through rate, driven by tight targeting and personalization.

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The Power of Personalization

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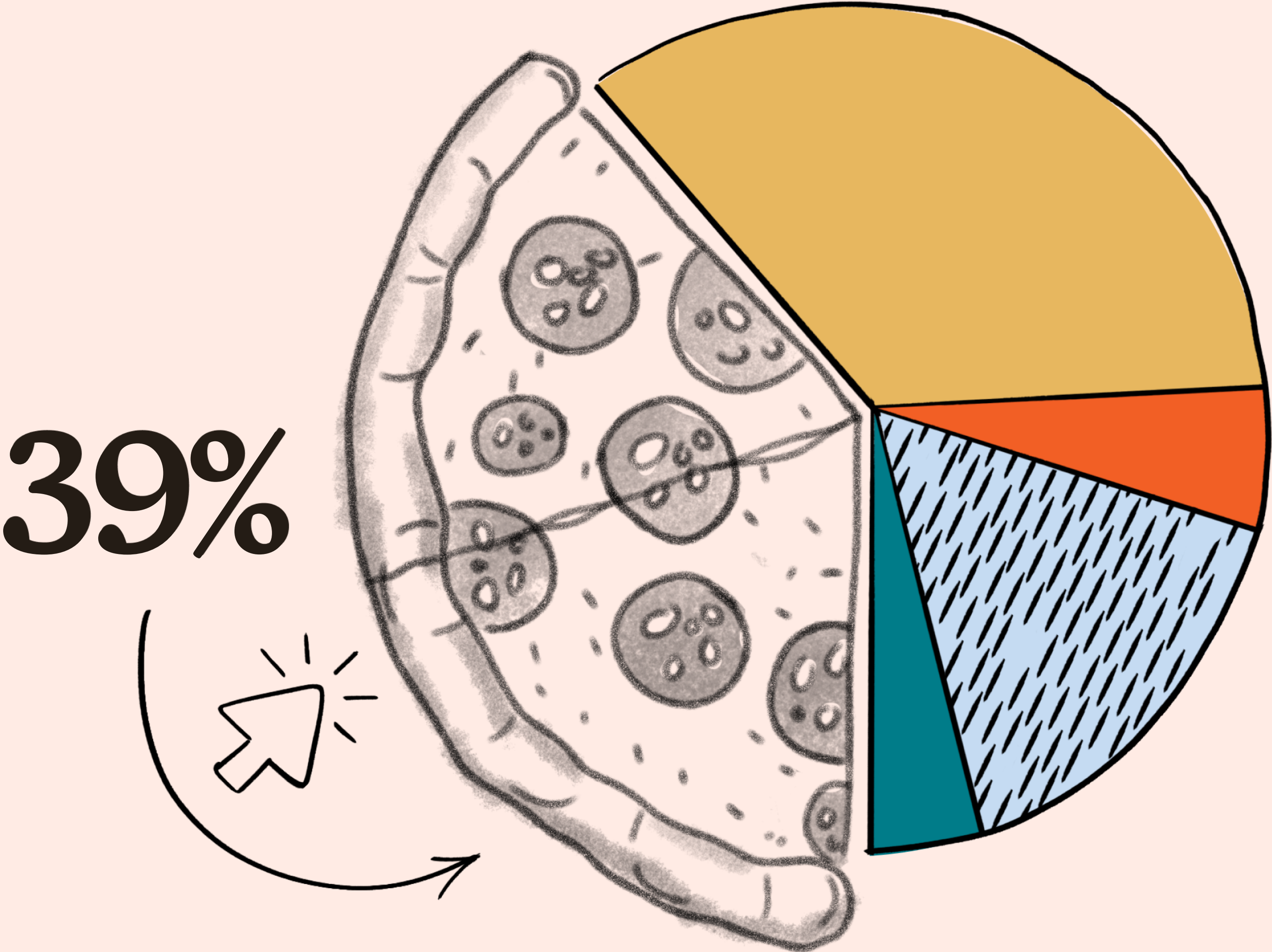
Anyone who has used an online store, bank, or service has high expectations of personalization. Although we complain about some of the more clunky ads that follow us around the internet (we should see fewer of those now that third-party cookies are mostly blocked by the big search engines), we're quite used to seeing relevant, well-targeted ads, offers and recommendations when we use sites like Spotify, Amazon, or YouTube.

The point is that personalization is no longer the domain solely of big brands with big budgets.

It's an essential element of any digital marketing program, and with the features built into Standard and Premium Mailchimp plans it's affordable and easy to implement.

In many markets, personalization is one of the most potent differentiators you have. Few products are truly unique these days, which is why customer experience is a powerful source of competitive advantage. When customers feel truly recognized and valued, they are more likely to choose your brand or offering, opening the way to more sales and revenue growth.

Winning big, time and again, with segmentation

A leading sports memorabilia retailer uses tagging and segmentation to keep customers engaged and excited about the teams and legends they love. Their profiles include customers who attend in-store events, fans who love conventions, and customers who respond to offers such as Black Friday promotions. Mailchimp automations and integrations allow the team to run impactful campaigns with a few clicks of a mouse.

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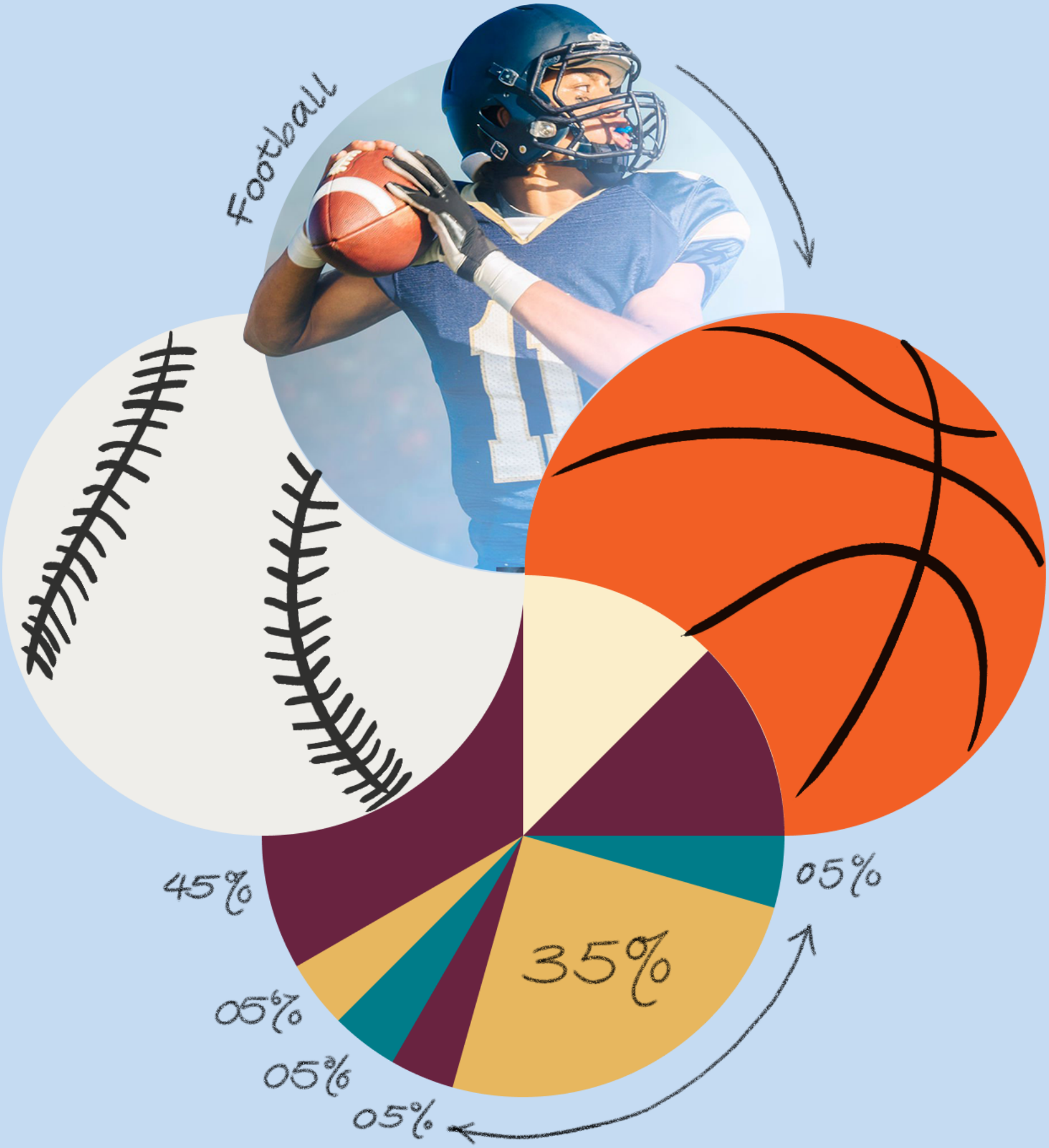
We've seen how the data you gather allows you to create well-defined, tightly-targeted customer segments. That same pool of data, and the analytics you have applied to produce your segments, are the key to implementing effective personalized campaigns.

Step politely into their heads

Personalization is about far more than spelling the customer's name right (although any mistake there could cost you months of careful nurturing). The essence of personalization goes back to those three magic words: fresh, relevant, and valuable.

Drawing on the characteristics of each segment, you can plan your messaging around the things that you know your customers are interested in. You can extend your insight across multiple channels, including:

- Dynamic landing pages that adjust according to the segment the visitor belongs to, or their behavior during their visit.

- Targeted content tailored to the interests of each audience segment—either original pieces for each segment, or a standard piece adjusted for emphasis in line with the reader's known tastes and preferences.
- Recommendations for content or offers based on known behaviors—these can often be tailored for individual visitors, not just on the basis of the segment they belong to.

With careful testing, the personalization can get right down to the colors used on a dynamic page, or the elements featured in a photograph.

Two different pictures of the same product might deliver two different results, depending on the segment.

When it's working well, personalization is like a friendly arm around the shoulder or being greeted like a regular in your favorite cafe. In an email, or on a web page, you may not be aware of how the experience is working; you just know that you feel welcome and understood. The stuff you want to see is easy to find, the language used is familiar, the whole experience is consistent with every other experience of the brand you are engaging with. It's subtle, unspoken, but extremely powerful.

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Let the machines show you care

Increasingly, the personal touch in digital marketing is being driven by AI and machine learning. Great customer experiences take a lot of laborious and detailed work—often with plenty of room for human error—and the technologies built into platforms such as Mailchimp are eliminating a lot of the toil and the risk.

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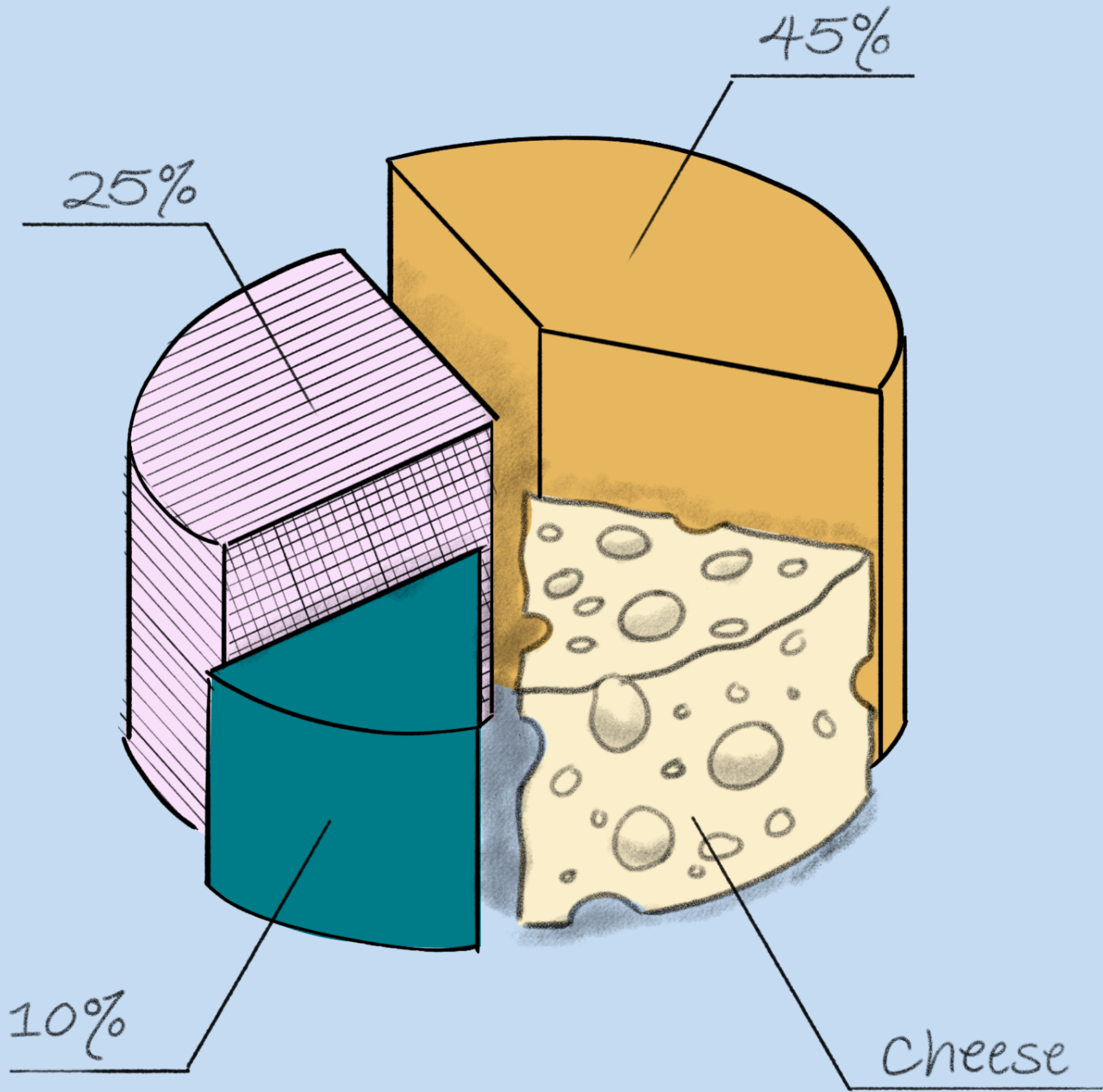
Success story: A taste for segmentation

A specialty food retailer uses Mailchimp's segmentation tools to refine its marketing strategy and enhance customer engagement. The company categorizes its audiences based on location, product preferences, and purchase history, keeping content fresh and relevant for customers in each segment. Campaigns are tailored for local versus non-local customers, with segments based on their tastes in wine, cheese, or charcuterie. It's a strategy that ensures campaigns are aligned with customer's buying behavior, which helps to build trust, increase loyalty and boost sales.

Read the story here

Generative intelligence

There are powerful segmentation and personalization tools already in place for Mailchimp subscribers.

Intuit Assist from Mailchimp is a generative AI assistant that provides personalized, intelligent recommendations to help you make better-informed decisions with less laborious work. You can have segments generated for you with natural language prompts like "create a segment for customers who visited my website, looked at apparel products, but didn't buy any last month."

At the same time, Mailchimp's Free and Essentials plans include basic segmentation functionality, with up to five conditions with which to define your segments.

Standard and Premium plans include advanced segmentation, with unlimited conditions and any/all combinations, as well as predictive segmentation for ecommerce, based on criteria such as customer lifetime value, location and demographics.

The key is to experiment with the options and to refine your strategy with every campaign. The pre-built tools and automations within Mailchimp help to minimize the time and work needed to create high-performing campaigns, delivering a flow of insights that can drive continuous improvement.

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Consent is Crucial: Regulation is Everywhere

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There are strict rules governing how you handle customer data, and how you communicate using email and SMS messaging.

It's important to remember that the rules and regulations governing customer data and communications exist for a reason—they can help protect you and your customers from scams and data breaches, and can help to ensure that your communications are courteous, professional, and timely.

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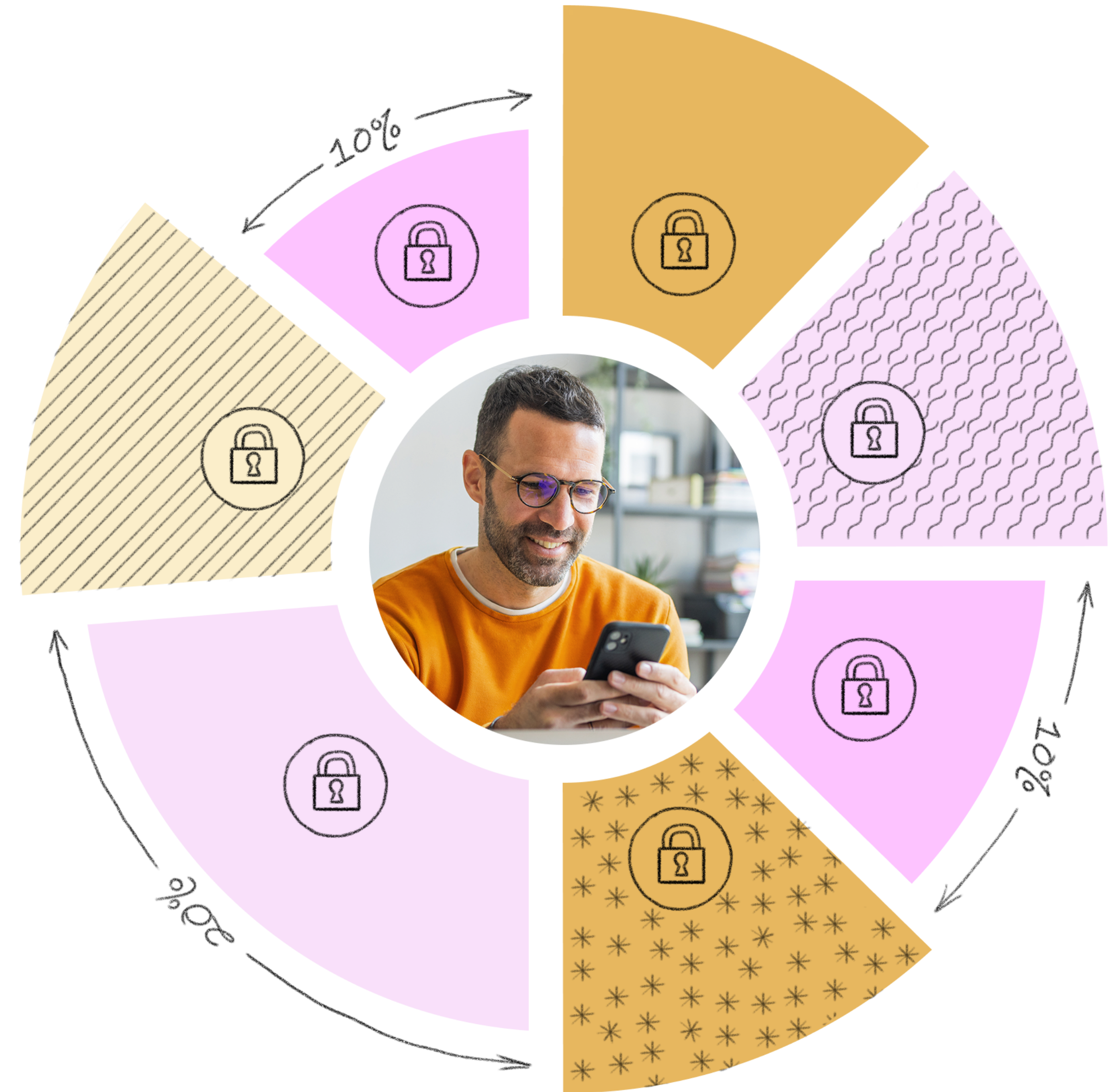
Consent: the key takeaways

- Customers must provide explicit consent before receiving your communications.
- It should always be simple and transparent for customers to opt out or unsubscribe from messages.
- You must clearly set expectations at the point of signup—and most importantly, you must follow through by sending relevant content rather than overwhelming recipients with too many messages.
- SMS marketing must adhere to legal requirements regarding permissible sending times.
- In the U.S., for example, the Telephone Consumer Protection Act (TCPA) prohibits marketing SMS messages from being sent between 9 PM and 8 AM—helping to prevent unwanted interruptions while customers sleep.

- Email marketing must comply with regulations such as the CAN-SPAM Act, a key piece of U.S. legislation that sets guidelines for commercial email communications, including but not limited to:
  - Avoiding false or misleading sender information.
  - Using honest and non-deceptive subject lines.
  - Providing clear instructions for opting out.
  - Promptly honoring opt-out requests.

Trusted lists

You should ensure that your segmented email and SMS lists remain compliant, even if you are not sending regular communications to the whole base. This is good practice because it can help to minimize waste, and to ensure that you don't over-communicate or accidentally contact people who have opted out. Updating records when customers change their details, and removing invalid addresses and numbers, helps to keep bounce rates low and enhances overall deliverability.

It can be useful to keep track of inactive subscribers to find out if there are ways to get them re-engaged. Feedback surveys can provide insight into why inactive subscribers are not responding to your campaigns, and special "welcome back" offers can often bring them back onto your active list.

Stay vigilant

A successful segmentation strategy relies on high-quality customer data, and lots of it. This is why collecting, handling, and processing customer data is a fundamental element of digital marketing. The more data you collect, the greater the risk of regulatory breaches, particularly when operating across multiple regions with varying legal requirements.

Mailchimp plans include compliance measures such as regulation-friendly signup forms and unsubscribe management. Standard and Premium plans provide enhanced security, segmentation, and automation flows4, allowing you to focus on your campaigns. When managed effectively, compliance can help to streamline your activities, building best practice and customer-centric thinking into the heart of your marketing strategy.

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Success story: In the groove with segmentation

A subscription-based vinyl record service in Texas is refining its marketing efforts with Mailchimp's tagging and segmentation capabilities. The strategy allows the business to boost engagement and retention by creating tailored recommendations for opted-in subscribers, based on their genre preferences. Merge tags are used to customize communications, ensuring each customer receives personalized content, including curated Spotify playlists and exclusive artist recommendations. This targeted approach fosters a dedicated subscriber base that feels connected to emerging musicians and exclusive vinyl selections.

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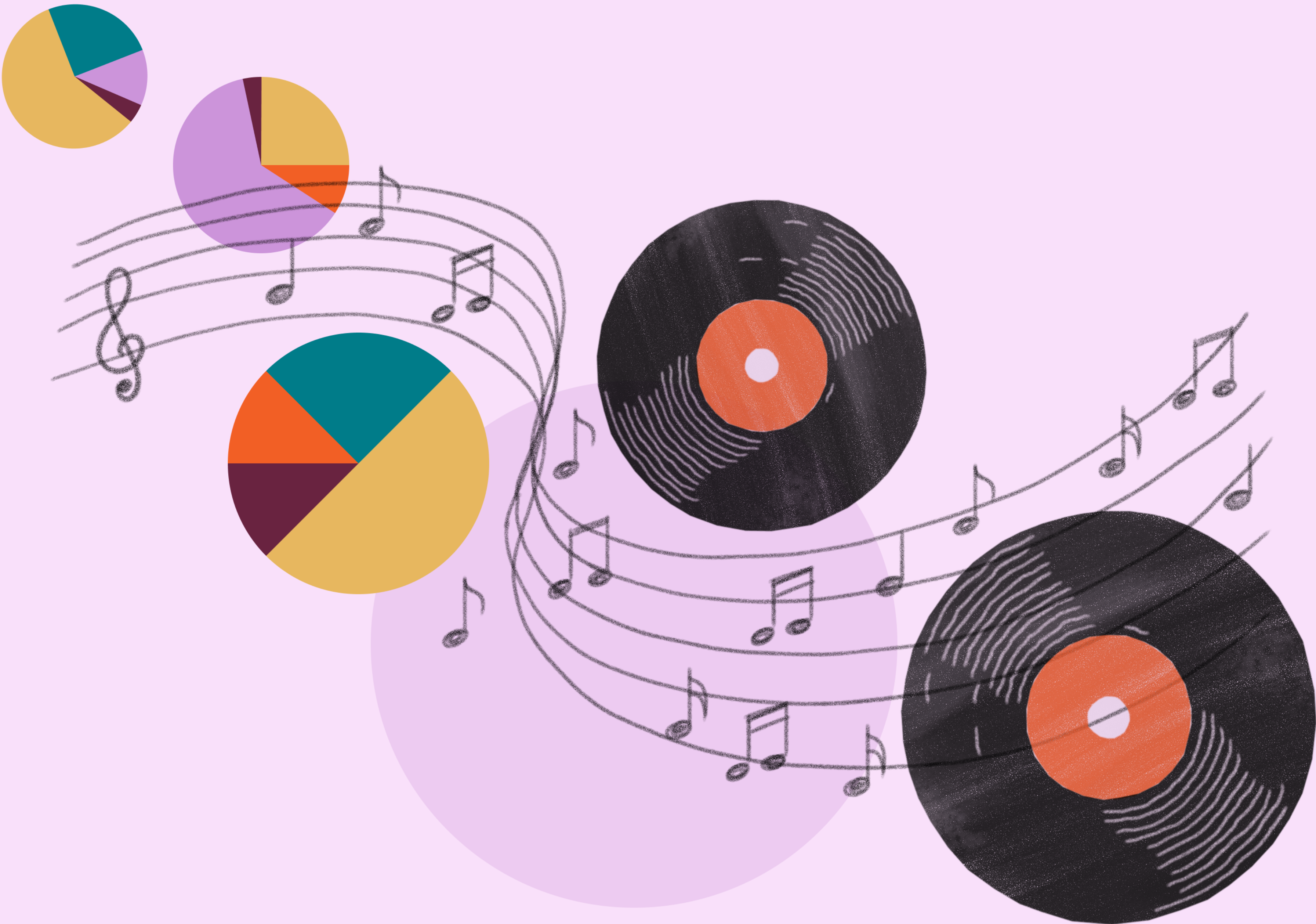
Segment Your Customers for a Bigger Slice of Success

Segmentation is a fine art. It blends hard, data-driven facts with plain common sense and the intuition born of long experience.

It's true that your customer data contains deep insights, but it's also true that you know your customers on a more human level. If you're a purely online business, you may never have met any of the people that buy from you.

Nevertheless, there's a vision and a purpose behind your business and the customers that buy from you are also buying into those ideas. You have a genuine relationship with them that is expressed through the way you group them into segments and then communicate with them.

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Customer trust

The data will tell you whether your instincts and business sense are backed by response numbers and repeat purchases. But even with AI and machine learning to handle some of the day-to-day processing of your customer interactions, it takes the human touch to make sure that your customers' experience of dealing with your business always feels welcoming and rewarding. When you're designing segments, that instinct is the difference between a purely transactional process and the more personal experience of engaging with a trusted brand.

Authenticity at scale

This is why personalization is the most important benefit of a segmentation strategy. It is the key to turning a purely digital interaction into one that feels as close to an authentic white-glove service experience as you can get. An effective segmentation strategy can help you make thousands of people feel as though they are uniquely valued by your business. Those feelings are the drivers that build loyalty and help to boost sales, as well as encouraging advocacy and recommendation.

You know that your customers are more than just data. Using the segmentation capabilities within Mailchimp, you can show them that you care about them, and that you understand what makes them tick. And that can help to make more of them click, more often.

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Start planning your segments now

Explore Mailchimp ↗

Sign up now ↗

Learn more

Driving clicks and sales with segmentation

Common segmentation combinations

Leverage lifestyle segmentation

Understanding needs-based segmentation

INTUIT mailchimp