

## Research White Paper

WP101



## SEGMENTATION:

How and why to implement a best-practice Market Segmentation strategy in the Financial Services sector

Prepared in cooperation  
with Mungo Dunnett Associates Ltd, UK



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## Index

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1. Introduction
2. Commercial context: why segmentation matters
3. Choosing a commercially viable target audience
4. Utilising consumer and market insight to create a differentiated approach
5. The importance of analytical information and analytical database management
6. Developing distinctive propositions and making them relevant
7. Segments and distribution channels
8. Lessons for financial services from the retail and fmcg sectors
9. Typical segmentation errors
10. Mobilising segmentation: practical variations in customer handling



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# 1

## Introduction

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### The problem

Without a robust segmentation approach, financial services companies often adopt a weak market positioning, use generic strategies, build inadequate propositions and erode margin by compensating for poor focus through unnecessary price discounting.

### Purpose

The purpose of this Research White Paper is to:

- Explain the commercial importance of effective segmentation in the financial services sector
- Identify the ways in which segmentation efforts typically fail
- Highlight best practice in analytical methodology, segmented proposition development, channel utilisation and company-wide mobilisation of segmentation practices

### Approach

The approach has involved:

- Collation of detailed information about segmentation approaches encountered within financial services companies, based on a combination of original research and extensive client work across numerous countries
- Identification of relevant concepts and methodologies
- Identification of key success criteria
- Utilisation of anonymous case studies
- Presentation of actionable insights, offering financial services companies the opportunity to see how the recommendations would apply specifically to an organisation like their own

# 2

## Commercial context: Why Segmentation matters



Organisations often struggle to move beyond the generic, leading to strategic weakness and ineffective profit generation...

While it is generally recognised that organisations cannot afford to ‘appeal to everybody’, and need to have a clearer idea of their target market and their specific activity areas, in practice the financial services market struggles to achieve this type of strategic focus. At a strategic level, many organisations remain content to achieve an acceptable market share across their product areas, in the assumption that this will deliver acceptable profitability both in the short term and into the future.

Similarly, many organisations believe that a generalised market positioning will allow them a wide reach into all types of customers, and that customers will self-select into those products of greatest interest to them. Generic approaches therefore, whether in terms of corporate strategy or of specific sales and marketing practices, frequently dominate the acquisition and retention activities of banks and insurers.

While this can be seen as a strategic failing, **in practice the problem is a lack of segmentation.** Organisations that do not fully understand their market, their competitors’ strategies, and their own customer and prospect base, are simply not equipped to compete effectively. Their attempts to attract customers will be sub-optimal, both because the propositions are not sufficiently targeted to be fully relevant to the majority of customers, but also because the communications and channel activities aimed at customer acquisition will lack focus and relevance. Of equal importance, the lack of full customer understanding will lead to ineffective profit generation, both because the customers will not receive the most appropriate and satisfactory experience, but also because the organisation is not focusing correctly on those customers with the highest profit potential, and indeed is more likely to resort to price-led promotions and best-buy strategies to attract volumes, with subsequent margin erosion and attrition.

### Impact of weak segmentation

#### Market positioning, and the links between segmentation and strategy

Whether the organisation is a large one seeking to dominate its geographical market, or a smaller or start-up player seeking a defensible niche from which it can build critical mass, banks and insurers need to decide which customers they want to attract. Larger players will need to understand precisely which areas of the market are most lucrative or most strategically important to protect market share. Smaller players will need to avoid the ‘majority’ segments and buying behaviours, and to focus on ‘minority’ segments and behaviours which, while significantly smaller in terms of market size, allow them to build a defensible positioning and a significant commercial strength.

### Critical positioning questions

In order to create this strategically appropriate market positioning, organisations need to be able to answer three questions, usually in the following order:

- Who do we want to do business with? [which customer groups?]
- What should we sell them? [what propositions?]
- How should we engage with customers? [what channels, media activity and customer-handling processes]

This type of strategic clarity more typically – though not always – occurs in start-up organisations. Even they, however, have a tendency to join the more established market players in rapidly losing their sense of focus and their detailed understanding of their target customers and markets. In this regard, the pressure on organisations to bend to generic approaches is significant. The demands of capacity planning, the handling of throughput and even the practices of acquisition channel managers all lead towards non-specific approaches which, while superficially easier and cheaper to manage, contribute to a loss of focus and quickly to a dilution of customer appeal and profit.

#### Introductory segmentation issues

By comparison to generic approaches, effective segmentation-based strategy requires banks and insurers to identify a number of commercially interesting segments, and to answer the following questions about customers within them:

- What is these customers' current experience of financial services providers, both in their experience of the organisation and of competitor organisations?
- What do these customers really need from a financial services organisation?
- What 'space' can the organisation find in their lives?
- What exactly is the proposition and message they will find most attractive?

This process – which is discussed in detail in the sections below – generates a...