

WHITE PAPER
CUSTOMER INSIGHTS & ANALYTICS

COVID-19: TIME TO REVISIT CUSTOMER SEGMENTATION

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LIKE THE IPHONE forever changed the way we thought about and used mobile phones, the COVID-19 pandemic is going to impact consumer behaviors significantly through at least the near-term future. For example, grocery delivery apps that were struggling to gain traction before the pandemic are becoming the preferred way of shopping because they are convenient for social distancing and quarantine measures. Virtual meetings that were the backstop to in-person events are becoming omnipresent given the ease of facilitation and the logistics of a remote work force. While COVID-19 has stalled global travel and in-person education, it has jump-started distance learning and home maintenance projects. From business logistics to shopping patterns, shifting attitudes and behaviors have an impact on consumer demographics across all industries.

In light of these changes, business leaders who want to navigate the COVID-19 pandemic successfully must revisit their customer segmentation. Although some companies initially brushed off the pandemic as a 'black-swan' event that would significantly disrupt the economy but would not impact businesses long term, it's clear by mid-2020 that business is not going as usual and that it will not soon return to 'normal' pre-COVID conditions.

FIVE STRATEGIES FOR REVISING CUSTOMER SEGMENTATION

To prepare for a 'new normal,' companies around the world are realizing the tangible value of becoming customer centric. In order to successfully position and market products amid changing times, companies need to understand their customers' new behaviors and characteristics. Businesses can gain insight into what motivates customers' purchasing decisions regarding specific products and services by identifying the segment where a customer fits. Relevant data points include customers' age, gender, interests, spending habits, etc. Businesses can leverage this information to position, develop, and market products to specific target demographics. Done effectively, customer segmentation is one of the biggest success factors for both new customer acquisition and long-term retention.

We at Cicero Group believe that business leaders should use the pandemic as a motivator to bolster their operations and prepare for the future. Refreshing customer segmentation should be a top priority. Business leaders should be asking important questions to understand the relevance of their current segmentation strategy and what they can do to overcome the challenges they face ahead. Therefore, we strongly encourage leaders to gauge their organization's readiness to meet changing consumer behavior and attitudes by asking:

- 1) Are your consumer segments still valid?
- 2) Has the market size of your segments changed?
- 3) Do your products and services fulfill the 'jobs to be done' by your consumers?
- 4) Does your positioning and messaging still resonate with your consumers?
- 5) Are you reaching your consumers through the most effective channels?

Through the rest of this article, we will touch on each of these questions in turn and provide more detail that business leaders can use when considering their organizations' current and potential customer segmentation. Each section here will provide helpful sub-sets of questions for further consideration in refining an action plan. Finally, we will conclude with a case study about one company that implemented a re-segmentation that boosted the company's results. We will also provide a list of relevant services that business leaders might consider taking on at this time. Because we regularly support our customers with these tasks, we can provide insider tips and techniques that can be helpful for leaders.

Are your consumer segments still valid?

Although COVID-19 has been a market disruptor in many ways, it has impacted different sections of society differently. Unlike normal recessions that tend to depress nearly all aspects of an economy, the magnitude of the COVID-19 impact has been varied across different industries. For example, some industries such as travel have faced absolute mayhem, whereas other industries such as residential real estate have seen demand remain surprisingly stable due to the favorable interest rates.

This disparate impact makes it imperative for companies to analyze who their consumers are and how consumer demographics and attitudes may have changed due to the pandemic. Businesses looking to come out stronger post-pandemic should undertake a diligent customer segmentation exercise

to redraw their segments as needed. The following questions can guide this exercise:

- Are the consumer demographic segmentations still relevant?
- Have certain industries become more influential?
- Has there been a shift in the geographic placement of my segments?
- How have customers' needs been impacted?
- How have customers' attitudes and behaviors changed during this period?

Has the market size of your segments changed?

The demand for products has been severely affected by COVID-19. The cumulative effect of restrictions on movement, changing consumer behaviors, and economic factors has altered what people can pay and they would like to pay for specific products. A pricing analysis can shed light on these transitions and help companies re-situate their products toward the evolving economic sweet spot.

Furthermore, it is important to analyze segments of your market to see how these segments might have been affected differently. For example, most furniture companies saw a drop in their sales for leisure or fashion items, whereas the adoption of the work from home model has boosted the market demand for business furniture and peripherals. Thus, businesses would be well advised to investigate the following questions:

- How has COVID-19 impacted consumers' ability to pay?
- How has COVID-19 impacted consumers' willingness to pay?
- How has the market size changed for different consumer segments?
- How has profitability in differing markets been impacted?
- Are there new levers of value associated with our segments?

Do your products and services still fulfill the "jobs to be done" by your customers?

In early 2020, nobody would have predicted that people would be standing in line to enter grocery stores and buy limited-quantity items like toilet paper, milk, and cleaning supplies. While everyone was snatching up hand sanitizer and face masks, no one was shopping for luggage or concert tickets. In other words, the pandemic has inspired a significant shift in the needs of different customer segments. Consumers have been re-evaluating how they prioritize their spending based on what they perceive as their immediate needs.

Accordingly, businesses should analyze how their products facilitate the "jobs to be done" by their consumers. For example, companies that caught on early to the increased need for disinfectant and face masks have been able to successfully shift production to meet increased need for pandemic-related supplies. These companies have seen their profits rise, whereas companies that maintained the status quo on product mix have not seen the same increase. Therefore, we advise all companies to think innovatively about the following questions:

- What is the motivation behind the usage of our products and services by consumers across different segments?
- Are these motivations still valid? Is there a change in these motivations?
- What existing products or services help fulfill these new motivations?

- Is there a need to develop, retool, or adapt products and services to help fill customer needs?
- How do we see these motivations or needs evolving over time? Are we prepared for to cater to the changing needs?

Does your positioning and messaging still resonate with your consumers?

It is imperative for businesses to understand the psyche of their consumer segments during times of distress. Not all people are affected to the same magnitude, but many consumers are preoccupied with serious concerns related to health, safety, and finances. Many consumers are experiencing loss on several levels—from loss of the ability to travel freely, to loss of health, to loss of income. Loss naturally brings about sensitivity, and marketing that would have been effective pre-pandemic is now likely to raise eyebrows or provoke sadness. For example, marketing invoking foreign travel, family gatherings, summer concerts, or even people high-fiving each other begins to seem unrelatable in a world where masks are required, quarantine is normal, and people must stay six feet away from others.

Businesses that understand different emotional aspects of their consumer segments can differentiate themselves even during hard times. Such businesses are seen by their consumers as their success partners. Consider how banks have shifted their positioning and messaging in response to the pandemic. As an essential service, banks have shifted their focus from managing people's money to helping people navigate these turbulent times. Instead of highlighting new banking products in their advertisements, banks are highlighting pandemic-friendly digital features such as mobile phone check deposit, AI service tools, SBA loan tools, etc. These features promote contactless service and help consumers feel confidence in the bank. Along these lines, business leaders should focus on the following questions:

- Are our products and services positioned to contribute to the immediate success of our consumers?
- Does our message exude empathy for our consumers?
- Is that message different for different consumer segments?
- What is our strategy to capture mind space of our consumers, given that they might be feeling overwhelmed?
- How are we proactively reaching out to customers, reminding them that we are here for them today and in the future?

Are you reaching your consumers through the most effective channels?

COVID-19 has significantly impacted how companies interact with their consumers—this includes both the sales channel and the medium of product and service delivery. For instance, in the wake of social distancing mandates, the pandemic has accentuated the shift to digital delivery. However, this shift is not appropriate for all industries. Thus, businesses need to investigate how they can effectively reach and service their consumer segments when behaviors and modes of consumption have been impacted.

For example, the movie industry has to tread a fine line of balancing stakeholder needs for audiences and distributors. On one hand, going digital would have been an easy sell for all production houses given the size of that consumer market; however, we see movie companies holding on until they get a cinematic release in the future. To optimize results, movies that do not expect mega millions in box office revenue are increasingly embracing the direct-to-

consumer streaming models, whereas expected box office blockbusters are delaying their release dates. Along these lines, we recommend that business leaders analyze:

- Are our sales and delivery channels still relevant?
- How do different segments of our consumers prefer to utilize our products or services?
- How are our B2B sales or delivery channels impacted?
- Do we need to invest in new sales or delivery channels to reach our consumers efficiently?
- Can we instill confidence in our consumers that we are working hard to promote their interests, safety, and convenience?

CASE STUDY: REVISITING SEGMENTATION DURING COVID-19

Client Objective

In early 2020 one of our regular clients, a Fortune 500 industrials conglomerate approached us about a consumer segmentation engagement. This client closely monitors and has a regular pulse on market conditions, and when needed to often acts with swift precision—as they did in early 2020 anticipating how the pandemic environment may impact their business. We previously led the work on a large-scale consumer segmentation project for this client over 5 years ago. When they approached us about reclassifying their segments due to the pandemic and the changing needs and behaviors of their customers as a result, we were eager to engage in the refresh.

Like many organizations of their size, their offerings extend to both businesses (B2B) and customer (B2C) industries. It's no surprise that the pandemic not only impacted B2C customer needs and behaviors, it impacted the needs and behaviors of their B2B customers as they too were managing their own fiduciary responsibilities of keeping their businesses afloat. Both B2B and B2C customers were very much in the process of developing needs and behaviors far different than our client had previously understood.

Initial Hypothesis

Over the years, our client has proactively stayed ahead of anticipated market conditions and invests heavily in offerings that appeal to the constantly increasing consumer affinity toward environmentally friendly and green services. This, along with regulations and other market indicators, lead the company to anticipate major changes to their core customers—their B2B customers may be focusing more on corporate social responsibility associated businesses, and their B2C customers may consist more of millennials and new homeowners.

In early 2020; however, a whole host of additional regulations and market conditions began impacting their business (i.e., limited global importing / exporting, supply chain management, taxation, and other federal health and safety regulations) and the changes they were anticipating to their core B2B and B2C customers.

Understanding how their customer segments would evolve as a result of regulations and market conditions was typical, but further understanding the needs of their segments and how they would behave under pandemic conditions was unknown and unnerving.

Analysis: The COVID-19 Effect

Our team met with key stakeholders throughout the organization to better understand how areas of their business were being impacted because of the pandemic and what their forecasts and strategies looked like as a result. We developed and launched a customized survey instrument to gain insights into needs and wants, motivations and purchasing behaviors, hesitations and purchasing barriers, and other elements to better understand the behaviors of their B2B and B2C customer groups.

Using hierarchical agglomerative clustering and other segmentation methodologies to parse through the data, we noticed something unique—as a result of the pandemic, there were many variations inconsistent to normal consumer behavior as we have seen in previous consumer behavioral segmentation studies. By doing a 360-degree analysis of our client's B2B and B2C customers, business services, industry changes, market conditions, and economic trends, we were able to clearly delineate and define a new set of unique “pandemic market” consumer segments.

As our client was making changes to focus their efforts on anticipating their B2B customers to be more focused on corporate social responsibility associated businesses, and their B2C customers to consist more of millennials and new homeowners, we were surprised to note that the pandemic and its associated socio-economic effects brought light to other unanticipated developments.

For example, within their B2C customers, we saw a rise of consumer segments who prioritized highly-optimized services and convenience over everything else—this was driven by the increase in time spent at home during government-mandated social distancing and ‘quarantine’ periods.

Conversely, on the B2B side, we saw a trend toward the de-prioritization of services, especially in the segments of small to mid-sized enterprises as well as mega corporations. While the initial data made an argument to group them together, we found upon more detailed analysis that they had diametrically opposite motives. In other words, the small to mid-sized enterprises were de-prioritizing services because they wanted to conserve cash and were expecting to come back to office, whereas the mega corporations were de-prioritizing services because they foresaw a future with decreased in-office attendance.

In comparison with the consumer segmentation study done years ago with this client, these behaviors didn't seem to exist until the extreme pandemic market conditions of 2020.

Results

After seeing the results of Cicero's consumer segmentation refresh, senior leaders within this company were able to adjust their marketing, communication strategies, and client messaging to accommodate for changing preferences and changing behaviors within target demographics. Our data confirmed several ways that COVID-19 shifted the way that the company's B2B and B2C customers were thinking and acting under current market conditions.

We predict that some of these changes will be temporary, whereas other changes have a higher likelihood to become more long-term permanent changes to their way of doing business. By focusing on these new segments and accommodating for divergent trends, our client is positioned to serve their customers efficiently in the ‘new normal’ for years to come.

CONCLUSION: NOW IS THE TIME TO ACT

We at Cicero Group believe that business leaders who address the questions listed above will be better positioned to serve their customers efficiently during and after the pandemic. Customer segmentation is a dynamic process; it involves taking your customers' pulse over time and segmenting them according to their changing attitudes and behaviors. As shown in the case study above, COVID-19 has created material changes in consumer demographics and it has significantly shifted consumer attitudes. Thus, it is essential for businesses to take early action in order to improve customer satisfaction levels over time.

How can Cicero Group help you?

Cicero Group is a premier strategy consulting firm. With our focus on data and analytics, we have helped our clients successfully identify and reach their target customers. Our methodologies deliver a holistic picture of the factors that drive the market, consumers, and the viability of products/services. Regardless of whether you choose to work with us in the future or to simply take this information and run with it on your own, we want to recommend some critical business action items that leaders can consider analyzing and re-defining during this pandemic.

We've grouped our recommendations into four categories: strategic innovation and development, effective sales and messaging, optimization and data analysis, and customer retention and upselling.

Strategic Innovation and Development

- **MARKET ENTRY STRATEGY**
Prioritize markets and strategize go-to-market (GTM) based on knowledge of geography- and sector-specific competitive dynamics and messaging nuances
- **VALUE PROPOSITION DEVELOPMENT**
Build a unique offering and related messaging optimized for buyer preferences, competitive landscape, and organizational capabilities
- **INNOVATION STRATEGY**
Identify opportunities for the development of novel products and services based on detailed analysis of buyer/user jobs-to-be-done
- **CONCEPT TESTING AND FEATURE PRIORITIZATION**
De-risk product development through sophisticated assessment of market preferences and likely adoption
- **SEGMENTATION AND GROWTH STRATEGY**
Unlock growth by isolating and assessing untapped and underserved segments of the market
- **PRODUCT AND SERVICE DESIGN**
Create a cohesive product and service model to focus your organization on building and honing capabilities that support critical pillars of customer experience (CX)
- **CUSTOMER EXPERIENCE DESIGN**
Implement customer-friendly initiatives based on a detailed map of pain points and opportunities for delight
- **PRICING OPERATIONS OPTIMIZATION**
Develop tools, processes, and organizational structures to ensure optimal pricing execution at the front lines of your business

- **VISUAL IDENTITY AND MESSAGING STRATEGY**
Create positive buyer perceptions through strategic development of your brand's visual identity and core messaging
- **AI INNOVATION**
Take your operational and customer experience data strategy to the next level with a targeted application of artificial intelligence (AI) initiatives.

Effective Sales and Messaging

- **SALES FORCE PLANNING**
Develop hiring and staffing models based on hours of operation, lead flow, sales force attrition, and other factors
- **CHANNEL OPTIMIZATION**
Learn what channels are most active and influential to each of your customer segments to develop an engagement campaign that maximizes your return on investment (ROI)
- **OPERATIONALIZED GTM STRATEGY**
Develop an onsite presence to work closely with your team to operationalize all of the pieces required for a successful GTM strategy
- **REFERRAL STRATEGY**
Understand drivers of customer referrals and evaluate effectiveness of current or planned offers, communications, and programs
- **EXPERIENCE AND SALES FUNNEL OPTIMIZATION**
Improve conversion by identifying customer drop-off points and prioritizing opportunities to close gaps within the acquisition funnel
- **SALES FORCE EFFECTIVENESS**
Develop and implement tools and processes that enable your average sales reps to perform like your highest-performing reps
- **SALES ORGANIZATION AND INCENTIVE DESIGN**
Energize and empower your sales force by implementing cutting-edge organizational and incentive structures

Optimization and Data Analysis

- **DATA MONETIZATION**
Value, collect, and package data for delivering value-added services or creating revenue-generating products
- **DIGITAL / OMNICHANNEL OPTIMIZATION**
Properly value and optimize each touchpoint customers have with your brand, online or offline
- **ADVERTISING EFFECTIVENESS**
Optimize advertising content and spend allocation based on testing conducted during creative conceiving, as well as pre- and post-launch
- **BRAND HEALTH MAXIMIZATION**
Develop strategies based on a quantified understanding of potential buyers' awareness, perceptions, and consideration of your brand vs. competitors
- **PURCHASE DIAGNOSIS**
Tailor marketing approach based on an in-depth understanding of buyers' catalysts and roadblocks to purchase
- **DIGITAL ECOSYSTEM DESIGN**
Modernize your marketing and customer support operations with a technology- and process-driven digital ecosystem

- **PRICING STRATEGY**
Establish prices utilizing a variety of techniques, from competition- and value-based pricing, to penetration and premiumization strategies
- **PROMOTIONAL ASSESSMENTS**
Calculate the ROI of active and potential promotions by understanding impact on relevant customer segments
- **PRODUCT OPTIMIZATION STRATEGY**
Define optimal product/service bundles and associated prices based on analysis of purchasing data, competitive offerings, and market dynamics
- **CUSTOMER DATA STRATEGY**
Create a plan for maintaining and improving customer data quality, integrity, access, and security to better support the customer experience
- **ANALYTICS ACCELERATION**
Realize the potential of big data by translating insights from advanced analytics into action across the organization

Customer Retention and Upselling

- **CUSTOMER WIN / LOSS ANALYSIS**
Identify reasons sales are won or lost and generate action plans to hone product and messaging strategies, enable sales teams, and focus priorities
- **CUSTOMER SERVICE AND SUPPORT OPTIMIZATION**
Improve customer satisfaction and efficiently scale operations by designing a service and support process that is customer-centric
- **RETENTION STRATEGY**
Build a retention action plan that accounts for segment-specific drivers of retention/attrition
- **UPSELL / CROSS-SELL PROGRAM DESIGN**
Increase average order value (AOV) and lifetime value (LTV) by identifying and prioritizing opportunities to upsell and cross-sell customers
- **PROFITABILITY ASSESSMENT**
Implement an analysis-driven profitability plan focused on top- and bottom-line drivers of financial performance

In conclusion, we are interested in your success and we are available to answer your questions regarding the strategies above. We provide every service listed above and we invite you to reach out and see how we can help you optimize your business for the current and post-COVID-19 market. Please visit us at cicerogroup.com for more information.