10 Tips for a Winning Customer Segmentation Strategy

With contributions from Alice Chan, PhD, Vice President, Litigation Surveys & Consumer Science

Most businesses, even single-product companies, serve more than one type of customer. Beyond demographic or firmographic factors like age, gender, income, firm size, and industry, target customers differ in attitudes, needs, wants, values, and experiences. These differences affect their brand and vendor considerations, as well as their purchase (and repurchase) decisions. Knowing what makes each group of target customers tick can drive increased sales, stronger customer relationships, and a competitive edge.[1]

This is why it is beneficial for companies to segment their customers: divide them into smaller, distinct groups based on shared characteristics. However, despite stronger financial, business, and competitive outcomes, not all companies segment their customers. Only an estimated 4% use multiple types of data to create groupings.[2] Why? Because segmenting customers beyond demographics and firmographics is not easy to do—but it is well worth the due diligence to get it right.

Below, we review the reasons your marketing strategy must include well-designed, validated, and executed segmentation. We then look at five common mistakes to avoid in designing or updating your segmentation strategy, and why reliable research is indispensable.

Five Reasons to Segment Your Markets

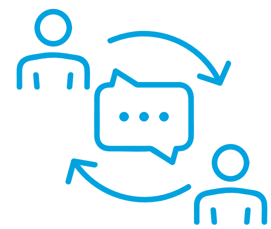
1. Increase Customer Attraction and Retention

People like to feel unique and special. Especially in competitive industries, helping a potential customer feel as if you are talking only to them can be the difference between winning them over and losing them to a competitor. Moreover, once you have managed to bring in a new customer, you want to ensure they will return.

A good segmentation strategy enables you to identify the defining characteristics of the target customer types you want.[3] This, in turn, enables you to personalize your engagement efforts to attract new customers, foster loyalty, and maximize repeat business.

2. Deliver More Compelling, Targeted Communications

Tailored messaging helps your customers feel seen, heard, and understood. Insights into how customers think, feel, and make purchase decisions are critical to your ability to speak to their hearts, not just their minds. After all, buying decisions are often more emotional than logical. That is why companies are encouraged to connect with customers' emotional motivators.[4]



Tailored messaging helps your customers feel seen, heard, and understood.

Customer segmentation helps you to group customers based on their own preferences and appeal to both hearts and minds, not assumptions about why and how they buy.

3. Elevate Competitive Edge

When your current and prospective customers feel special and unique, you distinguish yourself from competitors.[5]

With a properly designed and executed segmentation strategy, you will not need to spend as much to tout how your company is better than your competitors. Successfully connecting with your target audience in distinctive ways that make them feel seen, heard, and understood makes it clear why and how you are superior. Choosing your company again and again becomes a no-brainer.

4. Uncover Growth Opportunities

Your company may do an excellent job of understanding unmet or under-met needs in the market. You may also have a corporate strategy group looking for new and adjacent market opportunities. However, unless these efforts are coordinated and shared, you could miss valuable insights about which customers might buy more if you offered more, or how your existing products could be repackaged to create more selling opportunities.[6] A well-designed customer segmentation strategy elevates your existing efforts to reveal hidden or latent opportunities.

5. Maximize Efficiencies, Profitability, and ROI

Customer segmentation is often driven by the desire to know which customers spend the most and will likely continue, if not increase, their spending. Knowing who they are gives your company the ability to direct your staff and investments for maximum returns. With information on which segments to prioritize, you can fine-tune your marketing spend for the most effective reach with the highest ROI.

In addition, with more specific customer profiles, your product teams can build more desirable products and services, your sales force is better armed to nurture customers and close more deals, and your customer success colleagues have richer intelligence to better serve customers.

Five Mistakes to Avoid When Segmenting

Having reviewed the compelling reasons for adopting a customer segmentation strategy, we will now delve into five common mistakes organizations make, particularly with their initial segmentation efforts.

1. An Isolated Marketing Exercise to Be Discounted or Ignored Altogether

Mistake	Correction
Customer segmentation often gets siloed in marketing, disconnected from other functions and their goals and priorities. The organization at large is not prepared for strategy change and misses the financial, customer, and competitive benefits of segmentation. **Case Example:** The marketing organization of a B2B software company carried out a research-based customer segmentation strategy without gaining buy-in from senior leadership or involving their sales, product, professional services, and customer success teams. The customer-facing functions had conflicting priorities and did not know what to do with the customer segments.	• Ensure that senior leadership and functional stakeholders understand the rationale and benefits from the start. • Solicit feedback and buy-in before design begins, and provide regular updates throughout the process, with an agreed-upon roadmap and timeline. • Conduct workshops to gather input from sales and customer-facing functions at the start of the process and to action-plan before finalizing the strategy. • Prepare for organizational change and strategy implementation, including system updates (for example, CRM and ERP), process adjustments, and staff training on implementing the segments.

The ultimate success of a customer segmentation strategy hinges on whether the business is ready to use it. Going from selling in a one-size-fits-all way to a more targeted approach is an organizational change that needs proper preparation. Also, there must be no conflict with other strategic objectives or functional priorities. Therefore, before your company embarks on segmenting your market(s), it is critical that senior and functional leadership is all on board—and believe they have a say in the design and execution of the strategy.[7] Failing to involve key stakeholders early can lead to misalignment and the ultimate failure of the initiative.

The process often begins with rigorous research. Customer segmentation falls under the expertise of the marketing function, which ought to own and drive the entire process. Implementing what is learned from the research, however, involves other functions responsible for acquiring and retaining different groups of prospective and current customers.

Senior and functional leadership needs to be included in the earliest step to gain alignment and gather their input, including potential customer attributes to measure and validate in the segmentation research. Brainstorm with them about what insights would materially affect plans and actions, rather than simply generating interesting customer data. Then, throughout the process, there needs to be check-ins to validate the research design, followed by early socialization of results, especially if there are surprises, before the segments are finalized. Senior and functional leadership should be fully engaged in discussing key research findings and their implications for actions. Consider an action-planning workshop with agreed-upon follow-ups on implementation. Without these critical steps, the customer segmentation study risks being discounted, if not ignored altogether.

Moreover, be sure that your company is fully prepared to reap the benefits of a customer segmentation strategy. This includes being able to integrate the segmentation data into your CRM and ERP systems, as well as being set up properly to update all associated internal sales operations and accounting processes. Customer-facing functions need to be trained on how their day-to-day work will materially change.

Taking the time to plan for the organizational change associated with adopting a customer segmentation strategy is worthwhile and will maximize its success. You will not regret it.

2. Relying on Too Little, Too Much, or Outdated Data

Mistake	Correction
Customer segmentation based only on demographics or firmographics misses critical behavioral and psychographic insights. Conversely, too much non-actionable data does not help to create distinctive groups to facilitate effective targeting. **Case Example:** A retail chain relied solely on income and location for customer segmentation, without psychographics or online behavior. Marketing campaigns underperformed because they failed to speak to the high-spending customers, who research found to value convenience over price.	• Gather relevant customer data from internal systems (for example, CRM, ERP, etc.) and market insights from reputable industry or trade subscriptions. • Supplement internal data with comprehensive primary research, including a segmentation survey (and, if necessary, focus groups or interviews). • Use (or develop) field-based customer personas, including their needs, motivations, and purchase behaviors. • Consider mapping your customer journey, including key touchpoints and interactions.

Successful segmentation strategies are built upon robust data of different types. Relying solely on demographic or firmographic data creates an incomplete, if not inaccurate, picture of distinctive customer groups.[8] After all, knowing a potential customer's age, gender, household income, and/or geographic location alone doesn't shed light on *why* they may be looking for the product or service your company offers or what may sway them toward you over one of your competitors.

Know what customer attributes you may still need that would ultimately guide meaningful actions.

This is often an issue of data availability. Not all companies are equipped to track and extract customer psychology and behavioral insights from sales transactions, industry intelligence, and social media.[9] Besides, not all data is readily usable. It takes experience and know-how to cull through volumes of customer data and format it into meaningful variables for segmentation purposes—and it takes research investments to fill in the gaps. Practically speaking, having too much data can overwhelm segmentation models, which leads to less-than-useful customer groupings.

To avoid using too little, too much, or the wrong data for segmentation purposes, start with your internal systems for up-to-date customer demographics/firmographics and purchase data. Know what customer attributes you may still need that would ultimately guide meaningful actions. With that in mind, supplement your internal data by surveying customers to gather psychographic attributes like motivations and lifestyle preferences. Draw from available third-party sources like industry associations and syndicated research to complete the dataset.

Besides mining customer data from your internal systems, harness what your teams already know about your customers. If you have not already established customer personas or journeys, the exercises below are particularly valuable.

- **Create customer personas** based on what different teams know about customer characteristics.[10] Even rough sketches will do, as they serve as conceptual profiles to be validated in your segmentation primary research. You can make this exercise fun with an internal cross-functional workshop to harness the wealth of customer insights from your colleagues from sales, product, professional services, customer support, and other customer-facing teams.

- **Map out your customer journey** to include all touchpoints from initial awareness through (re) purchase and ongoing relationship.[11] Again, use whatever your teams already know about customer needs, wants, values, and other defining characteristics that can be validated in your segmentation primary research.

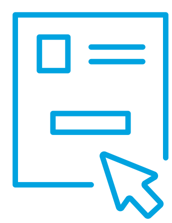
Performing your due diligence in gathering the right types and amount of data is perhaps the most critical step toward creating a successful segmentation strategy.

3. Asking Non-Actionable Segmentation Survey Questions

Mistake	Correction
Overloading surveys with irrelevant or non-actionable questions complicates data collection and overwhelms the modeling analysis with too many customer attributes to generate accurate and meaningful segments to drive desirable results. **Case Example:** A healthcare provider included too many nuanced psychographic variables, yielding segments of customers that the company could not easily locate with targeted messaging.	• Before including a question in your survey, answer the following: ◦ How will the data generated help us target customers differently? ◦ Do we know how to reach customers with this characteristic? ◦ Will it help us craft more personalized messaging or tailored engagement? • Include only segmentation questions that can guide tangible action.

While leaving out key data beyond demographics or firmographics is a top segmentation shortfall, incorporating too much data is also a common mistake. This includes asking too many segmentation survey questions that cannot materially guide marketing actions. Often, this mistake does not become apparent until it is too late: when you cannot locate customers matching the lifestyle or attitudinal traits defining your segments. This renders the survey-generated segments useless, no matter how distinctive and interesting they are.

Furthermore, asking too many non-actionable survey questions wastes market research dollars, not to mention staff time and energy. From the perspective of the survey respondent, a long and complicated questionnaire makes the survey experience unnecessarily taxing. Some may abandon the survey, and those who do answer all the questions may not be as careful and thoughtful with their responses, thereby compromising data quality. Once data collection is complete, the sheer number of variables hampers the modeling analysis from defining workable segments that reflect the real world.



From the perspective of the survey respondent, a long and complicated questionnaire makes the survey experience unnecessarily taxing.

Having the right number of segmentation attributes also affects your ability to identify and reach each target customer group. In addition to traditional media, social media platforms like Facebook, Instagram, and LinkedIn allow business-to-consumer (B2C) advertisers to target audiences by interests, hobbies, and habits beyond demographics. If there is an overly large set of targeting attributes for the ad buy, the size of the potential target audience may shrink too much, leading to missing otherwise qualified prospects.

Similarly, in the business-to-business (B2B) context, when enterprise buyer and user profiles contain too many attributes, it becomes untenable for the marketing and sales teams to create workable plans. It makes prospecting unnecessarily difficult, as the criteria get overly cumbersome and complicated, increasing the risk of staff abandoning the segmentation strategy. It may simply become cost-ineffective to put the segments into practice.

What is the remedy? Before deciding to include a survey question, ask yourself how you will be able to use the data gathered. For example, do you know how to reach a potential customer who values intangible experiences over material goods? How would you identify an enterprise customer that is more cost-sensitive than its peers before deciding whether to target it or not? While workshopping the customer persona and journey mapping exercises with your internal stakeholders (refer to mistake #2 above), you can use the opportunity to reality-test whether your teams know where and how to find the desired customer groups.

Ultimately, the ideal number of variables for a useful customer segmentation model depends on many factors, including but not limited to the competitiveness and maturity of your industry. The fewer defining traits for the segments, the more workable and actionable your strategy and plans will be. Having the discipline upfront to ask what you can do with the answer to each specific question can save you from overloading your survey and having an interesting but non-actionable segmentation model on the back end.

4. Overly Broad or Specific Segments That Are Not Actionable

Mistake	Correction
Overly broad segments dilute distinctive targeting opportunities, while overly narrow ones overwhelm resources and reduce ROI. **Case Example:** A global beverage company initially created eight customer segments but quickly realized that the resources required to implement unique strategies for each are not cost-effective.	• Balance segmentation details with actionability. • Aim for three to five well-defined and targetable segments for B2B and four to six for B2C companies. • Leverage iterative modeling and real-world validation to optimize segment definitions

A powerful segmentation strategy comes with just the right number of customer groupings to drive profitable targeting. Too few segments mask crucial customer differences and leave money on the table. Including too many segments creates complexity that costs more than the benefits are worth. Arriving at the optimal number of segments is an iterative process requiring real market knowledge and experience.

Working with overly broad or overly narrow segments is one of the most common errors. When you commission a segmentation study, having the right modeling analysis is part of the undertaking. However, cluster analysis—following factor analysis for any necessary data reduction—groups respondents based solely on how they respond to a series of survey questions. Statistical modeling alone, no matter how sophisticated, does not come with real-world experience or knowledge about what is actionable for your business. Iterating on what variables to include or exclude in the analysis requires more than technical research skills.

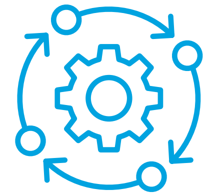
One key to arriving at just the right number of segments is to apply the preparation work outlined above under mistake #2. To avoid choosing too few segments, consider what you may be missing in your marketing efforts because you don't have granular enough insights to engage different customer groups. To avoid being too specific with your segmentation, focus on ROI: How many segments would mean investing too much in targeted marketing plans that may be counter-productive or cost too much?

Aside from helping to arrive at an optimal number of actionable, distinctive segments, a good segmentation study should also be able to help you prioritize them. It should reveal the top 2-3 segments that will give you the most bang for the buck. Depending on your industry and what you set out to assess, it could also point you to new business opportunities in adjacent markets. Companies operating in mature markets with little white space find using segmentation to inform market development efforts particularly valuable. Regardless of how many segments you decide to prioritize, you can steer your marketing spend accordingly in terms of staffing, media buys, and other campaign expenses.

5. Treating Segmentation as a One-and-Done Exercise

Mistake	Correction
Failing to revisit segmentation leads to outdated strategies that ignore customer and/or market changes. **Case Example:** An e-commerce company relied on a five-year-old segmentation model and strategy, missing changes in customer demographics and buying behavior. An updated segmentation study identified a new high-growth segment of younger consumers with distinctive attitudes and preferences.	• Periodically validate your segmentation every two to five years, depending on industry maturity and competitive market dynamics. • Use shorter annual or biennial surveys to track market and customer changes. • Plan around your company's ability to act on the data, building capacity for adapting to change to avoid losing your competitive edge.

Once your research-guided segmentation is set, the real work begins: changing how you communicate and sell to different target customer groups. All this requires updates to your internal systems and processes, along with staff training. Your company will need time to adjust to these changes while tending to other corporate objectives and priorities. While these efforts are underway, market conditions may (and often do) change. If you do not revisit your segmentation strategy, it could become stale.



If you do not revisit your segmentation strategy, it could become stale.

That is why it is a good idea to periodically revisit your segmentation model to ensure that it still reflects the most current customer preferences, market environment, and competitive landscape.[12] Not doing so could lead to relying on outdated data (mistake #3 above) that could hamper your sales and profitability goals, not to mention the returns on your staff and marketing investments. The same goes for any parallel investments in sales, product, and customer success.

You may be wondering if you have the stomach to go through another involved segmentation exercise. The good news is that once a segmentation strategy is in place, validating that it still works and making necessary tweaks to the underlying model does not require nearly the same effort as the initial setup. What you need are:

- Ongoing tracking of customer attitudes, usage, and behavior, as well as marketplace changes—for example, new competitors and changing regulations
- Periodic validation of the demographic, psychographic, and/or behavioral characteristics defining your segments

If you are in an established, stable industry, doing a segmentation survey refresh about every five years is sufficient. If your company competes in a more dynamic space with low barriers to entry and/or more rapid changes, validating your segments every two years or so is advisable. This enables you to stay abreast of who your different groups of prospective customers are, along with what they need and want, and how those might have changed.

Ultimately, the right frequency depends on your company's ability to absorb and take effective action on the survey results. Otherwise, simply collecting data would be a waste. The key takeaway is not whether you should conduct periodic research to keep your segmentation strategy relevant and fresh, but how often.

Key Takeaways and Strategic Partnerships

By following these guidelines and avoiding the five common mistakes, your company can achieve more precise customer targeting, increased sales, profitability, ROI, and a sustainable competitive advantage.

- Involve cross-functional stakeholders from the start.
- Use the right combination of demographic, psychographic, and behavioral data.
- Design segmentation and tracking research with actionable outcomes in mind.
- Aim to define three to five actionable segments to guide strategy.
- Track and validate your segments to stay aligned with customer and market changes

If you are ready to elevate your organization's customer segmentation strategy with expert guidance and strategic survey research, connect with the IMS Legal Strategies team to discuss how we can support your next big decision.

References

[1] Nourijanian, E. (2024, July 1). Using enhanced marketing segmentation to engage audiences. *Forbes*. https://www.forbes.com/councils/forbescommunicationscouncil/2024/07/01/using-enhanced-marketing-segmentation-to-engage-audiences

[2] What percent B2B and B2C companies practice customer segmentation vary by industry and other factors. The most cited source of segmentation statistics, including the 4% used here, is NotifyVisitors, a marketing automation platform. Sara. "Segmentation statistics that you must know in 2025." *NotifyVisitors*, November 25, 2021, https://www.notifyvisitors.com/blog/segmentation-statistics/. Accessed February 10, 2025).

[3] Matz, S. C., & Netzer, O. (2017, December). Using big data as a window into consumers' psychology. *Current Opinion in Behavioral Sciences*, 18, 7-12. https://doi.org/10.1016/j.cobeha.2017.05.009

[4] Magid, S., Zorfas, A. & Leemon, D. (2015, November). The new science of customer emotions:

A better way to drive growth and profitability. *Harvard Business Review*. Pg. 66-74, 76. https://hbr.org/2015/11/the-new-science-of-customer-emotions

[5] Doraszelski, U., & Draganska, M. (2006, March 15). Market segmentation strategies of multiproduct firms. *The Journal of Industrial Economics*, 54(1), 125–149. https://doi.org/10.1111/j.1467-6427.2006.00278.x

[6] Doraszelski & Draganska (2006, March 15).

[7] Dijols, F., Christian, M. M., & Chang, C. (2023, December 8). Is it time to rethink your customer segmentation strategy? *The Wall Street Journal*. https://deloitte.wsj.com/cmo/is-it-time-to-rethink-your-customer-segmentation-strategy-4d5a58be

[8] Dolnicar, S., Grun, B., & Leisch, F. (2018). *Market Segmentation Analysis: Understanding It, Doing It, and Making it Useful*. Springer. https://link.springer.com/book/10.1007/978-981-10-8818-6

[9] Liu, X., Shin H., & Burns, A. (2021, March). Examining the impact of luxury brand's social media marketing on customer engagement: Using big data analytics and natural language processing. *Journal of Business Research*, 125, 815-826. https://doi.org/10.1016/j.jbusres.2019.04.042

[10] There is a myriad of online resources for facilitating the creation of customer personas. Find one that best fits your industry and target market. An example is this one from Hubspot: https://www.hubspot.com/make-my-persona/persona-examples.

[11] Similarly, there are online resources to guide the mapping of your customer journey. An example is this: https://business.adobe.com/blog/how-to/customer-journey-map.

[12] Chea, A. C. (2024). Market segmentation strategies: Analysis, practice, and marketing implications. *Journal of Applied Business and Economics*, 26(4). https://doi.org/10.33423/jabe.v26i4.7177

IMS Legal Strategies serves trusted law firms and corporations worldwide to elevate strategies and protect reputations. IMS provides comprehensive solutions for complex legal and business matters, including specialized advisory and analytical support, global expert witness services, data-driven litigation consulting, powerful visual advocacy, and flawless presentation technology. As a strategic partner for the full case lifecycle, we work collaboratively with clients to uncover and analyze core arguments, develop a strong story around key themes, and deliver compelling presentations that reinforce the narrative.

IMS offers a fully integrated international team with decades of practical experience in more than 65,000 cases and 6,500 trials. We are driven to help clients overcome challenges and achieve the best possible results. Together, we win. **Visit imslegal.com for more.**