

# Ascertain Knowledge Limited



## MARKET ANALYSIS MODEL

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## Objectives

The objective of this paper is to outline how “Return on Marketing Investment” (ROMI) could be achieved through a mix of working with internal and external sources, as well as what processes would need to be put in place in order to drive revenue and be successful in working with countries to establish this goal.

Unfortunately, there is no “magic” formula to achieving ROMI, but based on past experience, procedures, processes and applying data modelling business rules can certainly help drive ROMI.

This paper outlines some of the key stages that might be taken in order to help set up the various different processes.

## Business-to-Business Segmentation

The first steps towards achieving ROMI is to understand your customer data which can be achieved through a process known as *segmentation*. As the name implies, it is the ‘segmenting’ of a businesses market into manageable and distinct or identifiable groups. Ideally the groups should have similar behaviour or needs that might be satisfied by a similar “*marketing mix*” (of product, price, place & promotion).

The aim of segmentation is to help outline efficiencies in targeting and marketing. This requires understanding your current customer base and mapping this to a universe in order to determine an effective Marketing Segmentation Service (MSS).

Far greater coverage exists in marketing literature and expertise on consumer segmentation that for businesses. But as a guide, the following indicators may be useful:-

- **what** they do *i.e. their industry*
  - *SIC (Standard Industry Classification) or NAIS codes*
  - *membership of trade/professional associations*
- **who** they are *i.e. their characteristics:*
  - *size (turnover, no. of employees, contribution to profit,...)*
  - *form: (centralised/distributed)*
  - *professional associations..*
- **how** they do it *i.e. Manufacturer, sales channels used, distributor, retailer etc.*

On the assumption that most organisations have only limited resources at their disposal, the segmentation process provides as much value in identifying those segments that should *not* have time, money, effort etc. spent on them, as in identifying those segments that *should*.

Thus segmentation, rather than being an end result, is a *means to an end*: an essential component in the process of ‘*targeting*’ which segments to address and then to ‘*positioning*’ (creating a suitable *marketing mix*) for each segment.

We believe that savings and efficiency found early on in the marketing process such as through segmentation have a *multiplier* effect in terms of overall efficiencies in targeting and sales and marketing effort.

In the context of customer databases being used for marketing, it is worth mentioning two approaches to segmentation: the '*top down*' method where the known 'universe' is segmented down into manageable sets and '*bottom-up*' which uses knowledge of existing customers (through CRM-style processes and software using, for example, cluster analysis) to analyse upwards and profile potential customers into segments.

## A practical approach

In order to unlock the potential opportunities embedded in the wider market, what better way to start than by looking *upwards* from one's existing customers. The practical benefits of obtaining a deeper understanding your current customer base when mapped against a known 'universe' can include:

- the identification of those existing segments with higher potential returns
- targeting new customers in new previously untapped market segments
- a cost effective redistribution of limited sales and marketing resources
- improved measurability for management of sales territories, quotas etc. *and*
- increasing the organisation's strategic options

An example application of segmentation drawing on customer data might involve the following steps:-

- Pre-preparing the Operational file "Customer data"
- Matching Standard Industry Classification (e.g. SIC) codes to customer records
- Reducing segments to a workable number
- Analysis against the Marketing Universe
- Implementation

## Pre-preparing the Operational File (“Customer Data”)

It is often a misplaced assumption (with both cost and timing implications) that the customer data required for a segmentation exercise is in a ready-to-use form. Aside from systematic limitations, database contributions are rarely accurate, complete, up-to-date or fed by those motivated to keep the file in a pristine state.

Various data issues have a tendency to arise including:-

- records kept in different forms, file formats and locations
- inconsistent company naming convention
- lack of demographic data i.e. no SIC code, employee size, revenue
- no hierarchical structure of data is captured

Accordingly, we would typically start by putting the data through as follows:

- a) Identify: *Investigate the current data content and determine what data items are available.*
- a. Profile: *Profile the data to determine the “gaps” i.e. what key data is missing.*
- b. Plan: *Plan on how to populate the “gaps” with key data i.e. using tele-marketing, sourcing data from external data vendors or email campaigns etc.*

## Matching key information to customer data

This example draws on at least *three* key sets of information in order to achieve a segmentation analysis:-

- I. Standard Industry Classification (SIC)<sup>1</sup> code for each company record
- II. The total number of known organisations in the ‘known universe’ for the each SIC code reported
- III. At least one internal measure of value to the organisation such as:-
  - *The total annual sales or spend by customer*
  - *Contribution to profit*
  - *No. of products sold (e.g. by product, product type, division etc.)*

The depth and scope of potential analysis can be greatly enhanced though the use of additional criteria such as:

- IV. A size classification\*\* for the organisations e.g.
  - *turnover,*
  - *number of employees (typically available by band)*

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<sup>1</sup> Against a backdrop of increasing numbers and complexity of industry categories, convergence through international (ISIC) or even European (NACE) codes would seem logical. However, there appears to be widespread inertia against moving away from the US-centric “SIC” set. The UK SIC (2007) is said to conform to EUROSTAT NACE at the four digit and the UN ISIC at two digit levels.

However, for the purposes of clarity in this example we will restrict ourselves to the first three main dimensions.

It is likely that the information required in (I), (II) and (IV) will be derived from external sources. We are able to manage this potentially complicated matching process through a mix of internal processes and 3<sup>rd</sup> party data resources, depending on the country and industries concerned.

It is worth noting for a variety of reasons (*not least of all disparities between company addresses, head offices versus divisions, differing trading names etc.*) a 100% match accuracy is highly unlikely. However, a match of at least 50% of the customer file and several thousand records should be sufficient for statistical analysis purposes.

Having appended the data we are now able to move on to the next step in segmentation, that of reducing the number of segments to consider, helping one 'see the wood for the trees'; a key ingredient of customer profiling.

## Reducing segments to a workable number

With over a thousand SIC (US) codes<sup>2</sup> representing a wide range of industry sectors, the reduction process is started by making use of the hierarchical nature of all such industry coding systems.

The following example demonstrates the US SIC code structure to 4 digits:

- ◆ **Division B – Mining:**
  - ◆ **Major group 13: Oil & Gas Extraction**
    - **Industry Group 138: Oil and Gas Field Services**
      - **1382 Oil and Gas Field Exploration Services**

It is worth remembering that the SIC coding is a global taxonomy built to accommodate *all* industries at most levels. It will simply *not* be perfect for your own organisation's marketing purposes. But there is no harm in using it to build your own segmentation taxonomy in a kind of 'pick-and-mix' of SIC codes at different levels.

Our '*bottom up*' approach can be started by assessing which level is 'best' to start addressing the industry coding. This process requires both a workable data file and some data handling experience. It can be achieved by starting an analysis of each industry code *containing customers* at the lowest recorded level. Should 5 or even 6 digit codes have been used, then the likelihood of many poorly populated codes will be high and some reducing of codes will be required.

Analysis at the lowest level may indicate that it is appropriate to group and total these sub-codes at the next level up, say 4-digits in order that they achieve a statistically workable total. Similarly, if this still achieves a statistically low count<sup>3</sup>,

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<sup>2</sup> At 4 digit level. Certain countries record in where even more detail to 5 or even six digits, though typically using national systems at these lower levels.

<sup>3</sup> An arbitrary 1% may provide a workable start point, but it depends on the sample size and target number of segments

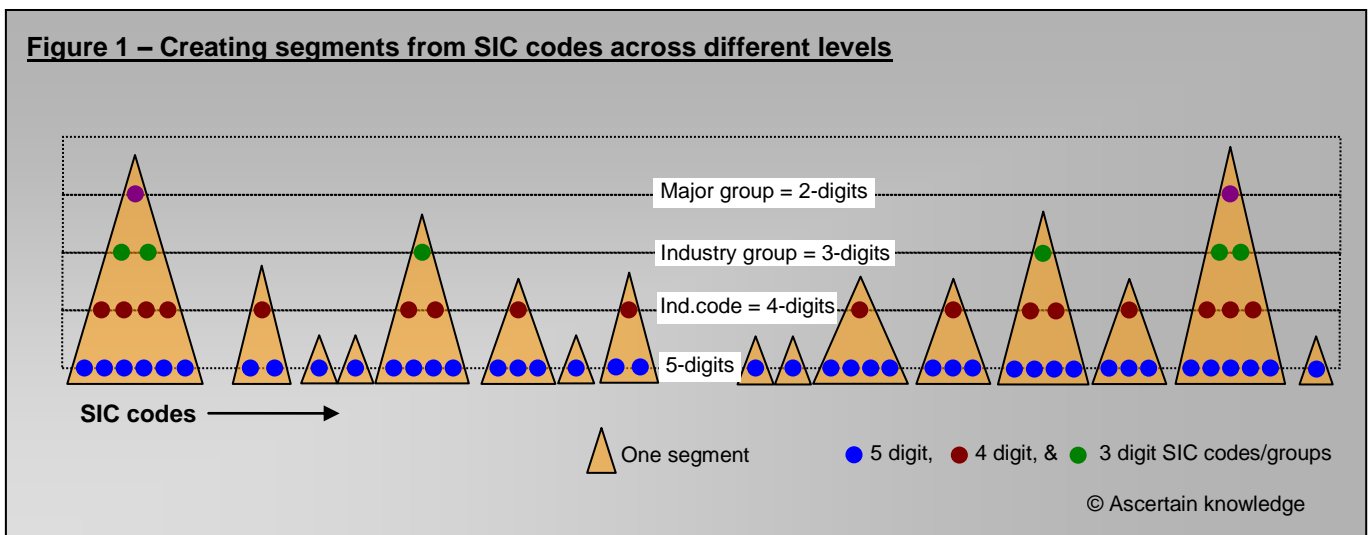
then the total should be made at the next level up, say 3-digits, and perhaps up further to 2-digits, if required.

Figure 1 below indicates graphically how a workable number of segments (spanning on occasion multiple SIC code levels) might be achieved through this iterative process.

As to how many segments to target, one realistic response is: “*it depends*”:

- on the complexity of the data and of the market,
- on how well differentiated or ‘niche’ the product is, as well as
- on what sales and marketing resources are available.

For some businesses 10 might seem adequate, for others it may seem impossible to reduce further than to down to 50 segments.



Another answer might be: “*Keep it manageable*”. This should be a deciding factor: If the purpose of creating these segments is to help us select which should be targeted, then we must ask how that will be achieved... On the assumption that each targeted segment would need an offering that is *positioned* specific to their needs, that would mean a variation of the *marketing mix* for each; *product, price, place, promotion* etc. It’s about *not* cutting off more from our cake than we can chew....

*\*\*It is worth briefly revisiting the other potential dimensions that were ‘put to one side’ previously, e.g. size of organisation (based on turnover or number of employees):-*

*Obviously a different marketing stance would need to be adopted for potential clients with less than say 10 employees to those with over a thousand. An analysis across this dimension may find that companies of a similar size might more readily benefit from a similar marketing mix that simply that based on SIC coding alone. Rather than being mutually-exclusive, the potential of segmentation analysis is greatly enhanced when such dimensions are used together, however for simplicity’s sake this approach falls outside the scope of this paper.*

## Analysis against the Marketing Universe

It's easy to visualise a colourful pie-chart which clearly demonstrates our newly formed segments. Of course it's not the only way we could have sliced-up our world, but it's a good start. But where to next ?

It's a well-documented fact that most managers spend too much of their time working internally. We may think we're doing well (or badly) but compared to what ?

We're about to put our heads above the marketing parapet in search of what's 'out there'. Whether it's the first time over the wall, or we've been there before its nice to know that there are some people to help...

What's out there is the '*marketing universe*'; it's every potential customer that could buy the product or service, including existing customers.

But whilst the universe is everywhere, it can be quite difficult to substantiate; Certain external sources compile these counts from a variety of sources and research to produce lists of businesses by SIC code, postcode etc. We are able to assist across the UK and many European countries, for example.

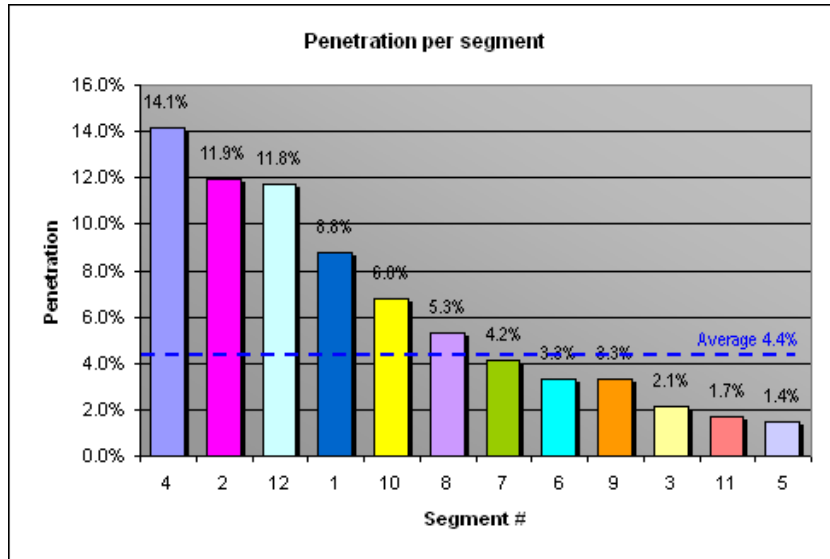
The following Table 1 is a demonstration of segments that have been identified from a customer file that has been matched to SIC codes grouped - *in some cases to 3- or even 2-digit SIC levels* – then analysed against corresponding universe figures:

**Table 1 – Example: Identifying key segments**

Segment #	Segment description	SIC Level	(A) Total Customers	% of Customer	(B) Universe	% of total universe	Penetration (A/B)	Index
1	369 Miscellaneous electrical equipment and supplies	3-digit	1,253	9.7%	14,227	4.9%	8.8%	199
2	5045 Computers & Computer Peripheral Equipment & Software	4-digit	989	7.7%	8,296	2.8%	11.9%	270
3	5731 Radio, Television, and Consumer Electronics Stores	4-digit	425	3.3%	20,013	6.9%	2.1%	48
4	5734 Computer and Computer Software Stores	4-digit	2,605	20.2%	18,425	6.3%	14.1%	320
5	5735 Record and Prerecorded Tape Stores	4-digit	478	3.7%	33,214	11.4%	1.4%	33
6	59 Miscellaneous electrical equipment and supplies	2-digit	768	6.0%	23,089	7.9%	3.3%	75
7	733 Mailing, reproduction, commercial art + photog. & steno. svs	3-digit	507	3.9%	12,213	4.2%	4.2%	94
8	7371 Computer Programming Services	4-digit	899	7.0%	17,003	5.8%	5.3%	120
9	7372 Prepackaged Software	4-digit	704	5.5%	21,332	7.3%	3.3%	75
10	7373 Computer Integrated Systems Design	4-digit	897	7.0%	13,244	4.5%	6.8%	153
11	7379 Computer Related Services, Not Elsewhere Classified	4-digit	615	4.8%	35,788	12.3%	1.7%	39
12	8243 Data Processing Schools	4-digit	759	5.9%	6,455	2.2%	11.8%	266
	All others		1,976	15.3%	67,947	23.3%	2.9%	66
	TOTAL		12,875	100.0%	291,246	100.0%	4.4%	100

A *high penetration* level is a positive indication of the organisation's (historical) success in that segment i.e. a high percentage of customers against the potential universe. Conversely, a *low penetration* level suggests more work is needed (than average) to acquire customers in this segment.

**Figure 2: Penetration per Segment** Here each the penetration per segment is indicated in descending order.



The “Index” figure is a simple measure of each segment’s *performance* relative to the overall penetration figure. In this example 12.4% = 100, and anything above that will assist managers *prioritise* which segments to address. An index of 200 would suggest twice the average level of *penetration* in the segment concerned.

But the full benefits of this approach are not realised until other measures of value to the organisation are added. Typical areas might include:-

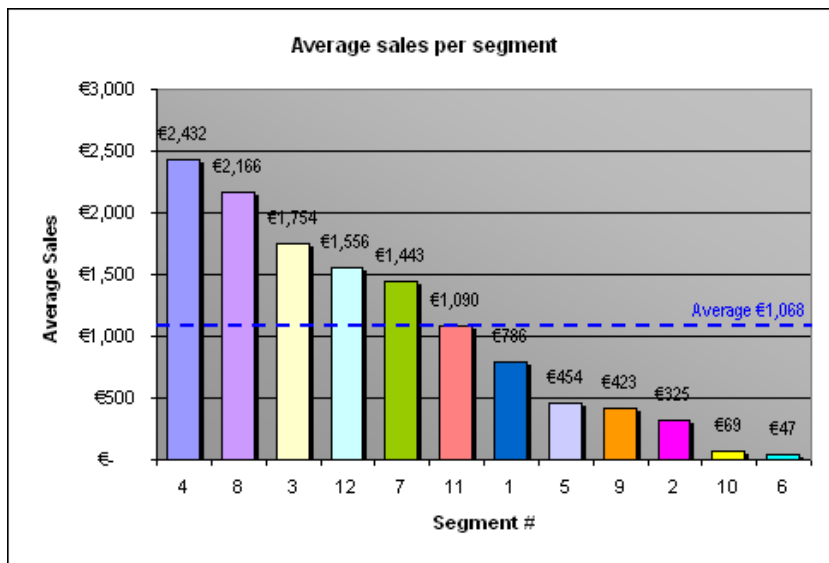
- previous year’s sales revenue
- average sales order value
- customer lifetime value (LTV)
- contribution to profit, *and so on....*

Table 2, with the addition of only one other dimension, in this case *sales* per segment, begins to unlock possibilities of far richer analysis. If *penetration* indicates historical success at targeting customers, we can begin to consider which segments might hold the best future sales potential.

**Table 2 – Example: Analysing key segments against sales**

Segment #	Segment description	(C) Total Sales	Ranking of total sales	(D) Average sales (C / A)	Ranking of sales	Potential 'Gap' (B * D) - C
1	369 Miscellaneous electrical equipment and supplies	€ 984,858	4	€ 786	7	€ 10,197,564
2	5045 Computers & Computer Peripheral Equipment & Software	€ 321,425	8	€ 325	10	€ 2,374,775
3	5731 Radio, Television, and Consumer Electronics Stores	€ 745,450	5	€ 1,754	3	€ 34,357,352
4	5734 Computer and Computer Software Stores	€ 6,335,360	1	€ 2,432	1	€ 38,474,240
5	5735 Record and Prerecorded Tape Stores	€ 217,012	10	€ 454	8	€ 14,862,144
6	59 Miscellaneous electrical equipment and supplies	€ 36,096	12	€ 47	12	€ 1,049,087
7	733 Mailing, reproduction, commercial art + photog.& steno. svcs	€ 731,601	6	€ 1,443	5	€ 16,891,758
8	7371 Computer Programming Services	€ 1,947,234	2	€ 2,166	2	€ 34,881,264
9	7372 Prepackaged Software	€ 297,792	9	€ 423	9	€ 8,725,644
10	7373 Computer Integrated Systems Design	€ 61,893	11	€ 69	11	€ 851,943
11	7379 Computer Related Services, Not Elsewhere Classified	€ 670,350	7	€ 1,090	6	€ 38,338,570
12	8243 Data Processing Schools	€ 1,181,004	3	€ 1,556	4	€ 8,862,976
	<i>All others</i>	€ 223,288		€ 113		€ 7,454,723
		€ 13,753,363		€ 1,068		€ 217,322,040

From the same data we could present average sales in descending order by segment as per the following Figure 3.

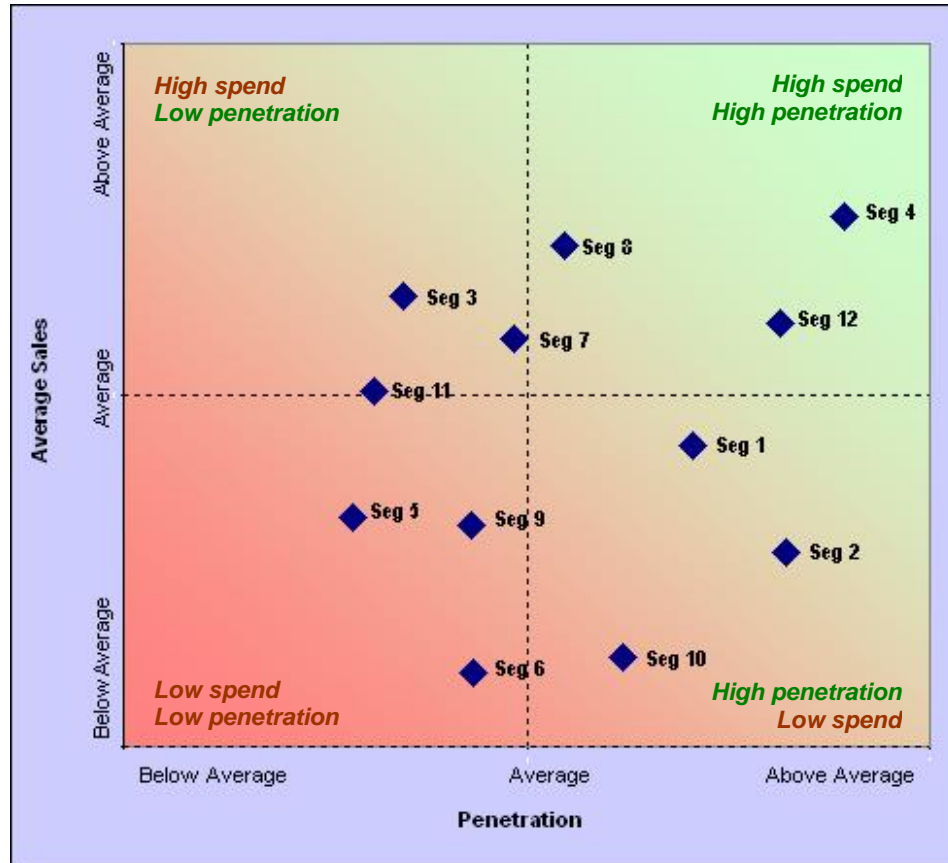


**Figure 3:**  
**Average Sales per Segment**

## Two-dimensional analysis

If a picture can paint a thousand words, then a useful analytical technique is to plot each segment's *penetration* position (relative to an overall average) against its average *sales* figure (again, relative to the overall average). Figure 4 refers.

**Figure 4 – Plotting Sales Average against Penetration**



Averages are demonstrated by a comparison to the overall average:

For example, consider **Segment 7** in Table 1; It shows a penetration of 4.2% which is close to the overall average of 4.2% - roughly the mid-point on the vertical *penetration* average scale.

Similarly, **Segment 11** in Table 2 indicates an average sales value of €1,090 which compares closely with the overall average of €1,068. Accordingly this sits close to the horizontal "average sales" position.

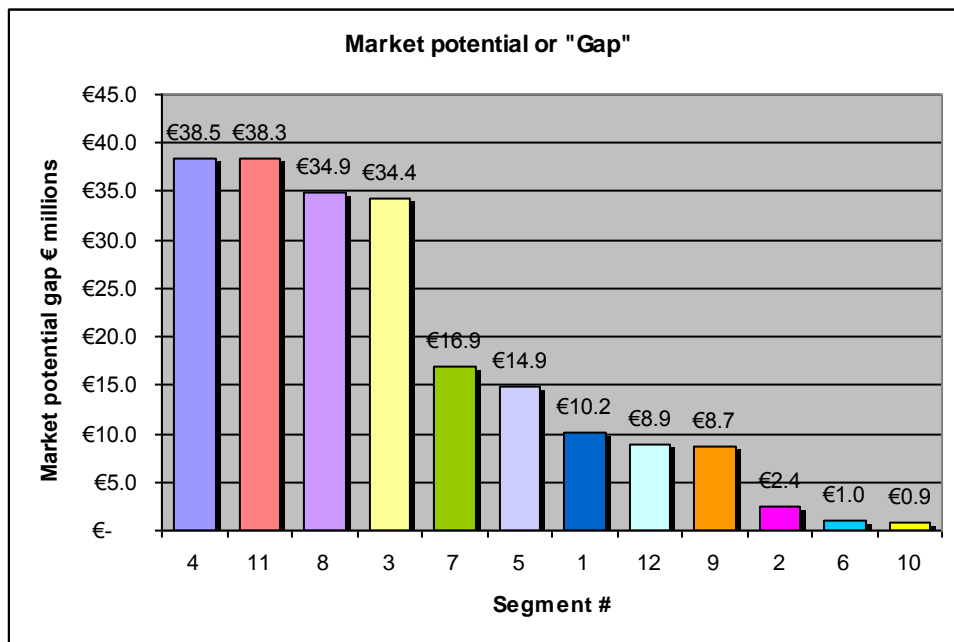
From the above, we might deduce that **Segment 5**, for example, has been both difficult to penetrate and below average in terms of sales per order. On the other hand, **Segments 4** and **12** have proved relatively successful in terms of acquiring customers, as well as having a customer spend being above average. Even a simplistic assessment at this level offers possible illumination on prioritising and allocating limited sales resources...

## When “3-D” gives perspective

So far we've created segments, analysed the data against two dimensions, but still have a missing ingredient:- an idea of the potential that exists in terms of the external market or, more specifically, *segment* size. There is little point in getting excited over already saturated segments or indeed devoting effort towards segments that are too small to prove viable.

A simple sorting of segment potential as taken from the marketing 'gap' figures might provide the following graph:

**Figure 5 – Graph of segment potential by segment (in descending order)**



What extra does this tell us ? A simple rating of high, medium and low for all three dimensions might appear as follows, remembering that the 'gap' is an estimate of the remaining maximum potential value of each segment.

**Table 3 – Adding a 3<sup>rd</sup> dimension: Market Potential**

Segment #	Penetration	Average sales	Market Gap
4	1.High	1.High	1.High
8	2.Mid	1.High	1.High
3	3.Low	1.High	1.High
11	3.Low	2.Mid	1.High
7	2.Mid	2.Mid	2.Mid
5	3.Low	3.Low	2.Mid
12	1.High	1.High	3.Low
1	1.High	2.Mid	3.Low
2	1.High	3.Low	3.Low
10	2.Mid	3.Low	3.Low
6	2.Mid	3.Low	3.Low
9	2.Mid	3.Low	3.Low

Whereas 4 remains unchanged as a favourite, what might now appear on our “radar screens” are **segments 11** and **3**, which appear to have a potential size which is worth addressing yet are in quadrants which might otherwise have meant their potential was overlooked.

### Turning analysis into action

Analysis should serve one clear purpose, the simplification of (complex) information into a manageable and usable form. The approach taken in the above demonstration was intended to demystify the mechanics of a segmentation process with a view to stimulating potential sales and marketing activity.

It is hoped that this approach not only helps organise but also stimulates responses to a host of questions such as:

- Which segments might we do well to divert energy away from ? (e.g. *low penetration, low average sales*)
- Which deserves our fullest attention ? (e.g. *high penetration, high average sales and high market gap*)
- What sort of approach might we do best with where there is a *high, low, high* opportunity indicated ?
- What promotions might entice those lower-right quadrant segments to spend more ?

## Install base campaigning

Having identified the penetration within each of the market segment the data acquisition for non-customers process should take place to purchase the data set.

### Target Marketing

Identifying the target groups within the database is an important stage allowing for different messages to be compiled for the different types of segment.

Having built a database with key profile information a targeted marketing campaign can be compiled and executed.

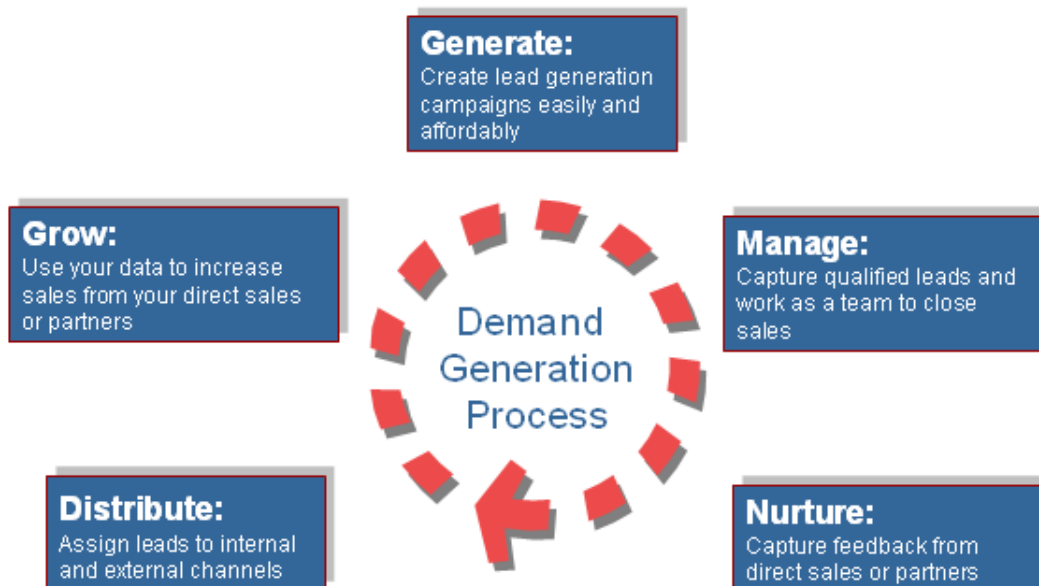
### Activity and Lead Management Process

The objective of this process is to build a framework to drive the campaign process effectively to the prospect base.

These processes can include various methods such as the use of

- Call centres
- Email marketing
- Web seminars
- Direct mail for those in the low penetration and low sales grouping

The end to end marketing process can be illustrated in a typical demand generation process flow as show below:



## Activity Stage

The 1<sup>st</sup> stage of this marketing cycle is the activity management process which is focused on gathering information about the company and contacts and to determine the level of interest in the product that is being offered

## Lead Stage

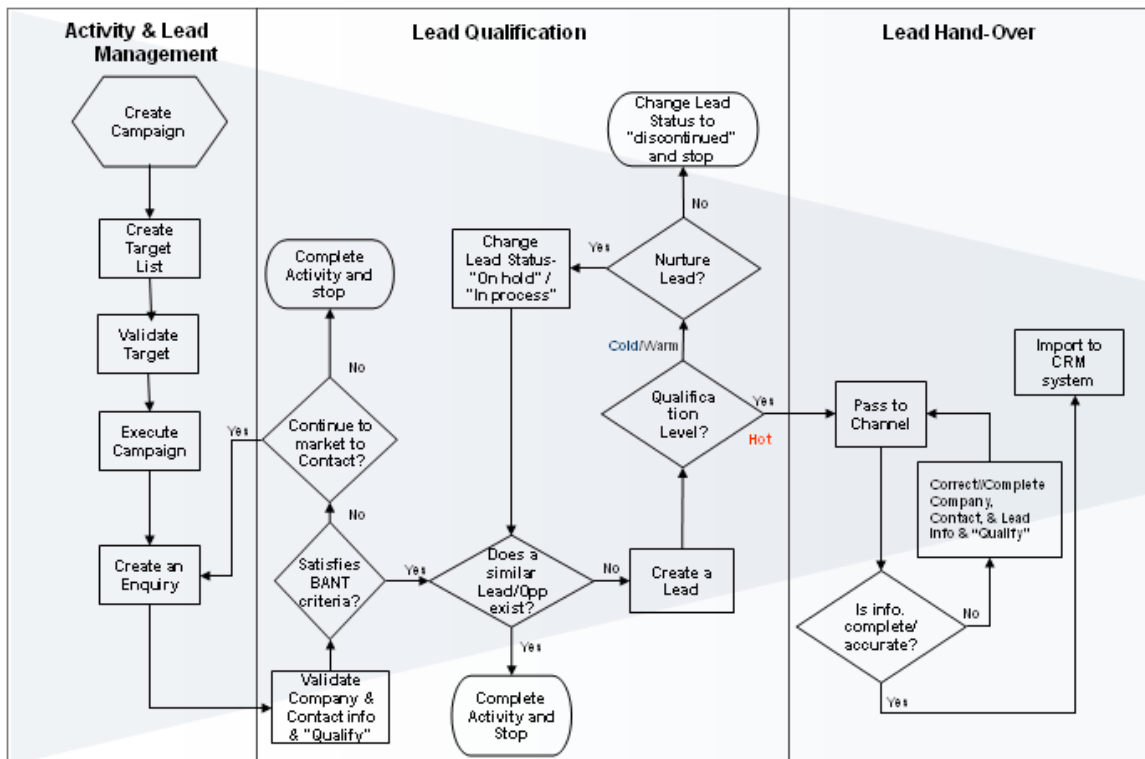
Having conducted the “needs analysis” of the prospect and identified the potential interest in the product to drive business benefit the activity moves to a “Lead” stage. The Lead stage could also be segmented into various degrees of categories such as Hot, Warm or Cold. Each category within a lead would be defined to action a process ie if the Lead is a Hot lead than this would need to be passed to channel sales or partners for further qualification.

## The Opportunity Stage

An opportunity represents a potential sale of the product and key information needs to be captured such as Budget, Authority, Needs and timescales in order to turn a lead into an opportunity.

## A typical process

The diagram below illustrates a workflow for the Activity and Lead management process.



## Customer Life Time Value (LTV)

Customer lifetime value, also known as CLV or LTV, represents the net present value of profits, coming from the individual customers, which creates a flow of transactions over time.

In general LTV has 3 components

- Customers value over time
- Customers length of service
- Discounting factor

In order to calculate the LTV model the above information needs to be available on a customer basis.

To calculate LTV here is a simple example

If you have 1000 customer and these remain with you for an average of 2 years and for the past 2 years your net profit was £800,000

The LTV can be calculated as  $£800,000/1000 = £800$

This means that over an average customer lifespan of 2 years each new customer acquired and keep is worth £800 in profits.

Knowing the LTV of the customer is therefore crucial to the marketing department and the business as it serves a benchmark without which its impossible to know where the spend is being more effective and you can determine how much time, effort and money the business can afford to invest to acquire new customer and retain existing customers.

The LTV of customers is also a good indicator to focus o keeping existing customers instead of acquiring new customers which is always a struggle.

## What can we offer?

In summary the following services would be offered in order to drive the whole marketing cycle.

### Market Intelligence

- Obtain the customer data file.
- Analyse the existing data and show the market potential with a segment by country
- Identify the number of potential customers within the specified segment
- Carry out penetration analysis

### Database Management

- Profile and analyse the data
- Identify the GAP in the data ready to acquire new data via different sources
- Enhance the customer data by De-duping, merging and matching
- Host data in a suitable system ready for marketing segmentation

### Call Centre Services

- Identify marketing campaigns
- Create target selections and scripting if required
- Execute campaigns via Tele, email or direct mail
- Track and manage the full lead cycle

In summary the following diagram outlines the demand generation process that we can offer as a closed loop solution known as the pre-CRM model.

