Consumer passions
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The second of two articles on identifying your business’s most profitable customers

The role of the management accountant has changed considerably over the past decade. It has moved beyond number crunching and into business and financial strategy. A management accountant with a broad knowledge and understanding of their organisation’s business can now play a significant part in designing segmentation strategies and measuring their success.

If an organisation is to develop the most effective segmentation strategy, it needs to understand what motivates different types of consumers in different areas to purchase goods and services. Management accountants can play their part in the collection and analysis of the substantial amount of data that’s needed to predict consumer behaviour. Such information needs to combine geography and demographics (geodemographics) with the consumers’ underlying characteristics, so that significant factors such as age, sex, marital status, occupation, economic position, education and location are included.

Neighbourhood classifications based on demographics tend to be better indicators than those based solely on behavioural information, because consumers generally live where they do on account of their age, household and socio-economic circumstances. Such factors generally influence their buying habits.

The level and source of the information captured does depend on the nature of the industry. For example, to predict consumer behaviour when purchasing durables, UK census information may be enough. In contrast, entertainment and leisure companies are based on the premise that people have more disposable income to spend on entertainment and leisure

Segmentation in brief
Customer segmentation can serve as the foundation stone for sustainable competitive advantage because it identifies the most profitable opportunities to be exploited. But the development of an effective customer segmentation model demands a big investment of both time and money.

In planning its strategic direction, a company needs to decide the most appropriate allocation of its marketing efforts and investments across the segments. For example:
- A financial institution’s marketing strategy may be to target wealthy consumers.
- Catering businesses may wish to target consumers with busy lifestyles, or those living in bedsits, flats and student accommodation, who tend to be most likely to eat out or buy takeaway meals.
- Organisations can develop their segmentation information internally or use the services of specialist organisations.
- Cluster analysis links behaviour to geography. The results produce a set of clusters that are different from each other and, within each cluster, sets of postcodes that are similar as possible across the variables. This information is arguably more sophisticated than that derived using demographic measures such as age, sex, income and so on.

Management accountants can play an important part in a business’s segmentation activities. They can provide support in:
- grouping consumers into segments;
- grouping the products into categories;
- constructing the market;
- identifying most profitable segments and products;
- selecting target segments;
- designing performance yardsticks to enable the chosen segments to be measured effectively.

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activities as they become more affluent. Consequently, for such organisations to understand leisure behaviour, they may need information on a wider geographic area such as a whole city. They will also need current and forecast information on factors such as population by age and sex, net worth and disposable income, areas of interest, exercise habits and so on.

You need enough information to ensure that no single type dominates the result, so highly correlated sets of variables should be ignored. It is also important that the variables correlate to consumer behaviour and that there is a sufficient sample size to be statistically valid, so the variables will need to be weighted according to their level of influence to reduce the impact of any freak values of non-census variables – for example, in postcodes with only one or two addresses. In addition, the management information system needs to be updated regularly – for instance, to incorporate data on newly built housing stock.

To ensure that the classification process is optimised the organisation may use a geo-demographic classification system such as cluster analysis. This is an “iterative relocation” method. It uses a cluster algorithm to recalculate the average score of each cluster on each input variable and reassigns postcodes to new clusters whenever a better fit can be achieved.

Clustering profiles links behaviour (profiles) to geography (location) and has the advantage of producing more meaningful results that can be easily measured right down to specific postcodes.

The main advantage of cluster segmentation is that it allows the organisation to target the consumers on whom it can focus all parts of its marketing mix. It also helps to identify the best mix of product features, prices, places (service and availability) and promotions to improve the match between benefits sought by customers and those offered by the organisation.

Depending on the extent of your information and resources available in-house, an alternative approach may be to use specialist organisations, such as Mosaic (CCN), Acorn and CACI Fruits. These have developed programmes that can be added to your company’s customer records and used to place consumers into segments. Each segment has its own distinct profile and will describe the typical demographics and financial relationships of a consumer.

Management accounting skills offer valuable support in developing appropriate customer management strategies for each segment and determining the allocation of resources.

For example, the management accountant can play an important role in:

- shaping the broad business plan derived from the customer data and information collated as part of environmental scanning process;
- identifying precise target locations for direct marketing, advertising, new product development, sales forecasting etc;
- analysing sales and marketing expenditure with respect to the different types of consumer decision-makers.

The management accountant can also play a key role in designing and developing customer measures – that is, those used for measuring trends and tracking changes within different channels. Such measures may include:

- increase of sales in the targeted clusters compared with the overall market;
- product fit – ie, overall satisfaction with the products and services provided;
- the response rate to a particular marketing initiative;
- brand preference – ie, the percentage of customers preferring brand X over most other brands;
- advocacy – ie, the percentage of customers who are highly likely to recommend the company to other consumers;
- repeat business – ie, the number of brand loyalists and “switchers” within the product portfolio;
- the ratio of cancellations to orders;
- “customer attrition”.

When complaints are analysed, specific problems may arise – for example:

- poor availability of goods and services;
- long queuing times;
- the provision of poor and/or conflicting customer information.

Specific measures can also be developed to understand how these issues influence customers’ willingness to buy from the company. The results can help to maximise value creation for individual products and the whole portfolio – and improve understanding of the impact it has on the organisation.

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