B2B Segmentation Solutions
Understand market opportunities to grow your customer base

October 2009
Executive summary
With business-to-business (B2B) marketers under increasing pressure to better target their customers and prospects, segmentation can be a powerful tool for strategic and tactical applications. But too many B2B segmentation approaches fail to deliver their promise in the marketplace. While marketing segmentation systems have enjoyed widespread acceptance in the consumer world for decades, similar systems for B2B marketing have languished due in part to the limited availability of accurate data and technical expertise. All too often, custom models can’t be implemented at the street level and are useless for developing high-quality leads, delivering targeted marketing or creating differentiated messages.

New methodologies for modeling data are yielding innovative B2B segmentation solutions that are both actionable and effective. Enhanced datasets and segmentation techniques developed by The Nielsen Company are helping companies develop informed strategies for prospecting new customers, re-aligning sales territories, cross-selling existing customers and predicting future opportunities. Their techniques uncover key attributes of a company’s most valuable business customers and then employ them using a segmentation approach to help focus their marketing efforts and increase sales. While B2B segmentation is still a relatively new discipline, the results have already proven their value and led to a number of best practices to help ensure success.

Introduction
The challenge for marketers has always been the same: know your customer. But with limited information on most companies—especially small and mid-sized firms—marketers traditionally have concentrated their efforts in the consumer world where ample data exists to craft effective target marketing solutions. Analysts can access demographic data from the U.S. Census Bureau (“householders age 34-54 with incomes over $100,000”), product sales statistics from marketing companies (“buyers of Tide but not Whisk”) and all manner of behavioral and psychographic research from survey houses (“early adopters” or “eco-consumers”). When all these data are sliced and diced to create consumer types, the resulting segmentation systems—like lifestyle-based Nielsen PRIZM—become powerful off-the-shelf tools for consumer target marketing.

For B2B marketers however, getting to know their end buyers is not so simple. Unlike demographic data, accurate information about businesses—so-called firmographic data—has been harder to come by, in part because of the life cycle of business establishments. According to the Small Business Administration, more than half of all new businesses fail within their first four years. And with more than 1.25 million businesses starting up and shutting down each year, market researchers are left with a confusion of addresses, phone numbers and staff titles that make tracking difficult. In addition, most private companies don’t publish detailed financials such as annual revenue, earnings and profit margins. Analysts instead must estimate this data using custom models with results that routinely reinforce the adage “garbage in-garbage out.”

Fortunately, B2B marketers are now getting their due. Comprehensive databases such as Nielsen Business-Facts give marketers access to accurate and current data within a consistent framework on 13 million business establishments—critical information such as a company’s total headcount and industry classification Standard Industrial Classification (SIC) or North American Industry Classification System (NAICS) code. By appending these data to its business customer file, a company can create a robust business segmentation approach that can guide all its marketing initiatives, including prospecting, sales territory mapping, advertising and target marketing.

In a typical segmentation analysis, business customers are sorted into categories based on company size and industry, though other defining characteristics could also be added. Using figures from a proprietary database and their own information, analysts calculate sales per employee within each business, estimate its market potential value and rank it against all other customers and prospects. At that point, the applications are limited only by a marketer’s imagination. Analysts can forecast the size of an opportunity and benchmark penetration rates within an industry segment. Core customers can be targeted for up-selling while high potential prospects are assigned a dedicated sales staff. The management team can set performance targets, redraw sales territories and reclassify prospects if the segmentation analysis indicates a large, unrealized potential, see figure 1.
Can you hear them now: Uncovering new opportunities

Acquiring new customers is a perennial challenge for most companies, but it is vital for growing the business. Like many companies serving mostly rural America, Windstream Communications struggled with identifying lucrative small business prospects in its 16-state footprint. A telecommunications company serving three million customers—one million of them business establishments—Windstream didn’t have a systematic way to prioritize prospects, a strategy for packaging its services or even a protocol for initiating contact with companies. Individual sales people approached each new business customer differently, typically offering Windstream’s phone, broadband and data services based on the number of requested phone lines.

This catch-as-catch-can approach didn’t allow Windstream to develop an understanding of the prospect’s profit potential or its potential wallet share. A small firm signing up for $200 in telecom services from Windstream may already be spending $800 at another company. “We had no way of knowing whether there was a huge opportunity left on the table,” says Michael Bek, Director of Direct Marketing at Windstream, in Little Rock, Arkansas. “Without knowing where the money was, we couldn’t prioritize where our sales department should focus its attention.”

To improve that understanding, Windstream worked with Nielsen analysts to create a segmentation system that classifies its business customers into segments and determines the opportunity of each segment. Windstream’s existing customer records were first matched against the Nielsen Business-Facts database to identify each company’s SIC code and employee count. Analysts then divided the companies into three buckets based on size: small firms with fewer than 10 employees, medium-sized

Business segmentation can also drive changes to marketing communications and advertising. Instead of relying on intuition and tradition—using the same channels and messages that have been around for decades—marketers can develop initiatives based on hard data that address the needs of their business customers and reach them in the way they will be most receptive, see figure 2.

With current economic conditions putting the squeeze on budgets, business segmentation can deliver more bang for the marketing buck, helping companies cost-effectively retain their best customers and find lucrative new prospects. As with B2C marketing, the companies that are succeeding are the ones that use B2B segmentation solutions to create offerings and communicate messages that resonate with their business customers.

Business segmentation can help companies align their sales territories based on the opportunities on the ground. The BEFORE map shows territories determine by geometry—four quadrants dividing the central area—while the AFTER map shows territories that vary in size based on the number and potential value of target businesses (the red dots indicating the locations of target businesses). By mapping its business prospects by size and industry type in Lexington, Kentucky, a company can better realign its sales territories based on the concentrations of its high-quality prospects. Source: Nielsen Business-Facts

Figure 1: Realigning sales territories based on segmentation analysis
B2B Segmentation Solutions

Figure 2: Differentiated messages based on segmentation analysis

<table>
<thead>
<tr>
<th>Reward yourself for using our business credit card</th>
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<tr>
<td>• 5,000 first-use bonus points</td>
</tr>
<tr>
<td>• 1 percent cash back for each dollar charged to your account</td>
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<td>• Double points on restaurants, cell phone and Internet service</td>
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<th>Save money on business loans</th>
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<td>• Enjoy financing flexibility with a business-size credit line</td>
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<td>• Get $2,500 to $250,000 for expansion and modernization</td>
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<td>• Develop new lines of business</td>
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<td>• No closing costs, points or fees</td>
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Sincerely,

W. Chapman
William Chapman
Business Solutions Manager

After classifying its business prospects into different segments, a company can differentiate its marketing messages based on the needs of each recipient. These letters address two very different segments: one for small retail establishments like bakeries or clothing boutiques (left) and another for large industrial companies like trucking businesses or cement plants (right).

companies with 10 to 25 employees and larger businesses with more than 25. Each bucket was then further divided using SIC codes into seven industry segments, such as retail, manufacturing, finance and service. Finally, analysts looked at the preferred products and revenue associated with each business to determine the potential demand for each segment—and the sales potential per employee in that segment.

Comparing Windstream’s customer base to a “universe” file of all businesses within its service area, marketers prioritized all the prospects for every business segment, taking into account the estimated value and prior success at landing a similar account. The segmentation analysis then drove Windstream’s marketing strategy. If a prospect had fewer than 10 employees, Windstream marketers dispatched a direct mail piece to promote its products. For medium-sized businesses, an account representative would call the prospect to offer phone, data and Internet services. Companies classified as large would get in-person visits that would allow account representatives to develop more personalized relationships with the management teams.

Windstream also differentiated its marketing messages and product offerings by industry segment. For instance, for mid-sized investment firms, Windstream telemarketers promoted Internet security, web hosting and data backup offerings. For a small auto garage in the services segment, marketers sent a direct mail piece promoting a couple of phone lines and simple Internet access for ordering parts. Even the delivery method varied by segment: a large manufacturer would receive a marketing packet by UPS or FedEx, while a promotional postcard or self-mailer would be sent to a mom-and-pop retailer.

In the year since Windstream’s segmentation analysis, Bek has seen impressive results. Direct mail response rates have risen 50 to 70 percent, and telemarketing sales have jumped nearly 500 percent. Bek’s direct marketing group even hired a campaign manager and began devoting more resources to B2B marketing. “We wouldn’t have done that unless we had a clear path on how many segments we had, how many employees were in each one and what kind of dollars we could get,” says Bek. And even though the sales force was skeptical at first, they realize that a strategy based on hard data will always beat intuition. “We were able to show them markets with untapped opportunity,” says Bek, “that’s the easiest way to sell business segmentation to any sales team.”

Bank on it: Expanding business with existing customers

Every businessperson knows that retaining current customers is cheaper than finding new ones. But how do you go about expanding your relationship with existing customers without scaring them off? Is there any way to tell what cross-sell opportunities they will appreciate? Those were among the questions facing California Bank & Trust (CB&T) when it embarked on a segmentation project to better understand the business customers that banked at its more than 90 branches across the state.

Like many banks, CB&T traditionally marketed products through local branches whose managers used a variety of sales and marketing tactics in a “spray and pray”
approach to business marketing. The desire to be more targeted and effective in their marketing approach led to a reassessment of CB&T’s strategy. Earlier this year, CB&T turned to Nielsen Business-Facts to determine the employee count and SIC code of CB&T’s customers, and then grouped them according to size and industry segments, such as Professional Services and Wholesale Distribution. To measure the potential profitability of each business customer, analysts then compared 20,000 CB&T business customers against all 1.5 million establishments in the state, determining CB&T’s penetration rate in different industries and the value of each employee in each business segment.

Ultimately the bank chose to concentrate its marketing efforts on 15 or so industry segments. By using existing bank records to compare the sales figures for a range of products—such as loans, checking accounts and money market accounts—analysts developed sales indexes for each product and the optimum product mix for each industry segment. “We wanted to move away from a product focus to a segmentation focus,” explains Susan Brown, Vice President and Marketing Group Manager at CB&T, in Irvine, California. After developing a cross-sell product matrix for each segment, they determined the ideal product mix for the manufacturing segment was typically a business loan, cash management services and international banking services. For law firms, the best product mix usually consisted of a business checking account, a money market account and a business line of credit. The analysis also helped the bank benchmark customer profitability by segment. For example, if a law office with five employees typically provides the bank with $2,000 in profitability, a similar customer segment creating a lower amount should indicate a potential opportunity to grow the business relationship.

To augment the cross-selling initiative, CB&T has begun rolling out a series of customized marketing modules—dubbed “segments in a box”—complete with segment profiles, industry trends, targeted sales material and customer lists to assist branch managers in deepening their knowledge of specific segments and expanding their business customer relationships. “The segmentation focus has helped guide everyone’s efforts to ultimately be more effective,” says Brown. “We’re not trying to reach every business in the marketplace. We’re no longer guessing about what a company needs. In the long run, we’ll be able to better serve our business customers.”

Data driven marketing: Building efficiencies with vertical segmentation
Building a segmentation model can be fairly straightforward, but the goal is to make the system actionable in the marketplace. Last year Constellation Energy, a nationwide energy provider with a large industrial power customer base, launched a demand-based segmentation program for developing strategies targeted to business segments. After classifying each customer into segments by size and vertical industry, Constellation analyzed its previous history with each segment to better understand the demand usage and propensity to buy electricity. For example, while the company may have a low penetration rate among cement factories, the segment’s high energy use may still make them an attractive prospect.

“The theory behind vertical segmentation is that businesses of similar size and within a similar industry tend to behave similarly in terms of their energy usage and buyer behavior,” says Anson Asoka, Vice President of Customer Insights at Constellation Energy, in Baltimore, Maryland. “Just as important, the businesses in the same segment also tend to respond to similar marketing messages, value propositions and offers.”

Constellation created a handful of key vertical markets for targeting their sales and marketing efforts. Their goals were to prioritize prospects for acquisition and adjust sales and marketing communications depending on the targeted segment. “The whole intent is to speak the language of the businesses you’re addressing,” says Asoka. “Once you have business prospects defined in a vertical segment, it’s easier to create differentiated messaging.”

The segmentation project also provided information for an online marketing portal allowing sales and marketing employees to communicate with targeted prospects anywhere in the country. With a few clicks of a mouse, an account representative can produce a list of business prospects for any sales territory in a market. Employing demand models based on analysis, the company calculated customer potential for the various markets in its footprint. The information allowed Constellation to better optimize and balance their sales territories. And in the future, the company hopes to upgrade the portal so that a staffer can select a customized creative package to be dispatched to businesses in any customer segment.

“Depending on the target segment, we’ll be able to send out different marketing collateral,” says Asoka. “It’ll be like one-to-one marketing.”
Figure 3: Framework for B2B Segmentation Analysis

1. Prepare and cleanse your data
   - Eliminate duplicate records and standardize addresses.
   - LORRAINE’S FLOWER SHOP
     - 3701 E HARVEY ST
   - LORRAINE FLOWERS
   - SUSAN’S OFFICE SUPPLY
     - 472 E DOUGLAS AVE
   - OFFICE SUPPLY FOR YOU
     - 472 EAST DOUGLAS AVENUE

2. Append a universal dataset to your data
   - Match against a universal B2B file to append firmographic information.
   - Business ID: 142573
   - Company Name: ERICKSON & KRAMER
   - Address: 134 N STATE ST
   - City: Chicago
   - State: IL
   - ZIP: 60609
   - Phone: 312-781-5000
   - Contact: JAMES F ERICKSON
   - Title: Partner
   - SIC Code: 811100
     - Legal Services
   - # of Employees: 50

3. Divide businesses into buckets
   - Group customers by size of business (# of employees).

4. Calculate your penetration rate
   - Understand and evaluate market penetration.

5. Develop small and manageable segments
   - Group businesses based upon customer penetration.

6. Determine the value by segment
   - Define a demand multiplier to establish potential.

7. Align marketing programs by segment
   - Choose a market
   - Select a target segment
   - Define a communication strategy
   - Determine differentiated messages and channel

8. Measure your ROI and adjust strategy
   - ROI

This composite case study illustrates how to use business segmentation for successful B2B marketing.
Taking segmentation to the next level: Gaining critical insights from potential customers

The value of business segmentation as a sales and marketing tool is undeniable. But its benefits have also been proven in other areas of an enterprise. GuideStar USA, an online data publisher that aggregates quantitative and qualitative information on over 1.7 million U.S. non-profits, used a segmentation analysis to identify the unique segments that were most likely to become GuideStar customers and most likely to generate higher than average revenue. After grouping its customers by size and industry, GuideStar calculated the sales per employee and potential demand for all businesses. With assistance from Nielsen, the segmentation analysis ultimately yielded a list of 60,000 “best of the best prospects which directly informed our go-to-market strategies for our key enterprise solutions and business lines,” in the words of Pamela Jowdy, Senior Product Manager at GuideStar USA, in Williamsburg, Virginia.

The project also brought GuideStar closer to its user communities. “It had a ripple effect throughout our organization,” Jowdy adds, noting that the analysis altered GuideStar’s approach to customer relationship management. The company is currently restructuring its registration process so that when a new customer registers on GuideStar’s website, the system automatically appends the Nielsen-derived industry code and market segment data, which will serve as the organization-wide standard for additional analysis and tailored communications. As a result, GuideStar can build a rich database of registered users and more holistically track their cradle-to-grave behavior by segment, identifying opportunities and challenges along the way. The “best of the best” prospect list has also served as the catalyst for GuideStar’s product development team to talk to potential product adopters much earlier during its software development process.

“The output of the segmentation project helped us re-align key aspects of our product development process, allowing us to gain insight and feedback critical to identifying business problems and validate the software solutions,” Jowdy says. “These well-qualified prospects have also served as an invaluable population for pricing and conjoint analysis. Capturing insight and value perceptions among potential customers is equally important as understanding the needs of our existing customer base.”

Principles to B2B marketing success

These case studies demonstrate the enormous potential of segmentation-based B2B marketing, but a few limitations remain. While an analysis can uncover high potential prospects, it can’t always correctly identify who the buyers or gatekeepers are at specific companies. Also, segmentation currently can’t predict which channel a business prospect prefers for receiving marketing communications. One obvious solution is to simply ask how the business would prefer to be contacted with a short direct mail or online test message, though care must be taken so that your initial message doesn’t end up in the junk mail bin or spam folder. Wherever your customers are coming from—online, email, direct mail—it’s important to track the source in order to develop a multichannel campaign.

Meanwhile, new segmentation applications are being developed all the time for B2B marketing. Nielsen recently unveiled a “business density model” which allows users to map the number of businesses and their employees in one, two and three-mile rings anywhere in the country. Developed for site selection support, the model can help a company determine whether a commercial area offers enough of the right kinds of customers—with few competitors—to support a business expansion. In the past that kind of information was known only by local commercial real estate agents. Business density maps can be linked to any business segmentation analysis so companies can score site locations based on the surrounding business segment density—and their establishment and employee counts—for any U.S. trade area.

The growing list of successful business segmentation projects suggests principles that any company can adopt for B2B marketing success, see figure 3. Other helpful tips include:

• Don’t underestimate the value of two pieces of basic company information: its size and industry classification.
• Make sure your segmentation model classifies customers into segments of similar businesses—so the science drives the strategy. A business database can help you compare your customer file to a known universe in order to calculate your market penetration by size and industry segment.
• Use data on existing business customers and score each segment’s profit potential so you can prioritize acquisition, cross-selling and retention initiatives.
• Measure the effectiveness of your segmentation-based sales and marketing programs using metrics like quarter-over-quarter sales, cost to convert prospects into customers and direct mail response rates. Then fine-tune your marketing based on the metrics.
Just as innovative applications drove the acceptance of segmentation systems in consumer marketing, successful B2B programs will lead more marketers to explore how information products like Nielsen Business-Facts can help them gain an edge in an increasingly competitive world. The job of developing business customers can no longer be left to intuition and a chance meeting at a local golf course. The data is out there, and your business customers are waiting.

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