Market Segmentation Strategy

May 13, 2014

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Introduction

- Definition
- Best Practice
- Focus on mid-sized customer
- Current state in MA
- Next steps

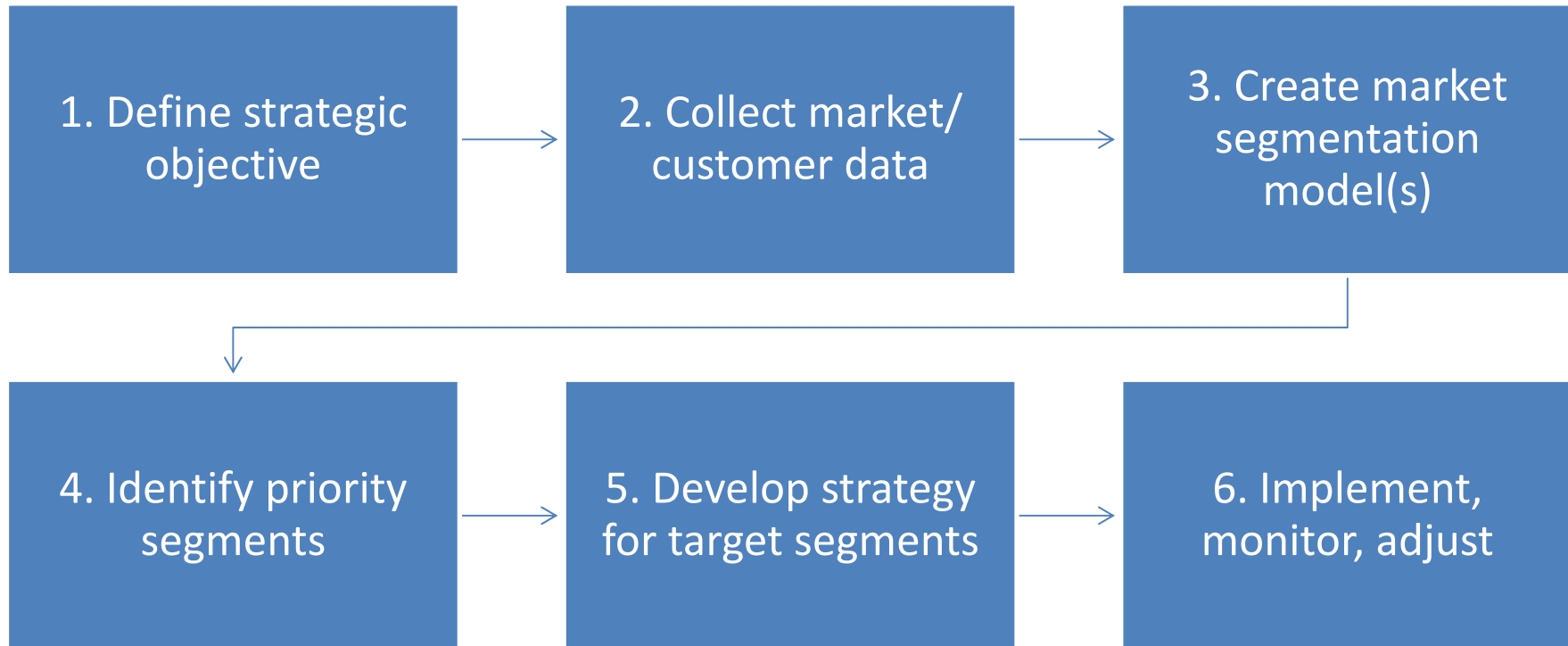# Segmentation Overview

Segmentation is:

- Process of dividing target markets into similar groups based on defined criteria in order to effectively market and deliver products and services to customers.

Segmentation can:

- Provide market intelligence
- Aid in planning
- Improve alignment of products, services, and programs with customer needs
- Improve customer satisfaction
- Increase market penetration
- Achieve higher sales (or savings)

The Segmentation Process

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1. Define strategic objective  →  2. Collect market/ customer data  →  3. Create market segmentation model(s)
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4. Identify priority segments  →  5. Develop strategy for target segments  →  6. Implement, monitor, adjust
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Adapted from review of numerous sources including:
Dowling, Lilien, and Soli, "A Business Market Segmentation Procedure for Product Planning." *Journal of Business-to-Business Marketing,* Vol. 1(4), 1993.
Moss and Cubed, "Market Segmentation and Energy Efficiency Program Design." Prepared for CIEE, November 2008.

Segmentation Best Practices

- Segmentation framework driven by the strategic objective(s)
- Filters correlate to objectives & business characteristics
- Define identifiable groups with similar characteristics
- Segment definitions must be actionable – enabling development and implementation of effective strategies to reach targeted segments
- Level of segmentation should reflect organizational capacity
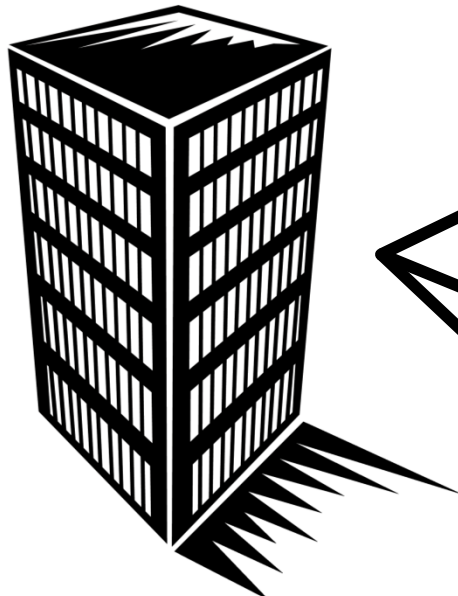- Segmentation is a continuous process, not a one-time event

Segmentation in Energy Efficiency Markets

- Targeting customer segments is an increasingly common strategy among EE programs (ACEEE "Leaders of the Pack")

- Effective segmentation frameworks help PAs to:

  - Evaluate different strategic options (investments, programmatic approaches, account management and service models) against customer needs

  - Determine which customer groups help meet efficiency goals and which may be underperforming;

  - Understand and address attitudes, behavioral characteristics, and business dynamics that influence customer decision making

Example: How would you segment this building?

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Building Facts:
- Commercial office building
- Owned by real estate investors
- Leased to local university as an administration and IT building
- 80% of space contains data centers
- University holds accounts with utility

Option 1: Commercial Real Estate?
Based on ownership and financing characteristics, property tax records

Option 2: University/large customer?
Based on account relationships, occupant use, aggregated size of customer

Option 3: Data center?
Based on load profile, energy consumption characteristics

Northwest Energy Efficiency Alliance

- Regional Segmentation of Commercial Buildings

- 15 potential target market opportunities were identified for further research and analysis

- Prioritized sub-segments to maximize impacts of new EE programs and outreach using additional filters

Northwest Energy Efficiency Alliance Cont.

Example: Chains and Franchise Market Segment Rankings

Business Category/Rating (1-5)	Grocery		Retail			Restaurant Chains and Franchises	Lodging Chain and Franchises
	National Chains	Regional Chains & Independents	National Chains	Regional Chains	Regional & Local Franchises		
Market Interet	2	4	3	3	3	3	3
Market Leverage	5	4	2	1	3	3	2
Market Packaging	3	4	2	2	2	4	2
Market Size	4	4	3	1	2	3	2
Spillover Potential	3	3	2	2	2	2	3
Geographic Spread	3	4	4	3	3	4	3
Current Efforts	3	3	2	2	1	2	2
Total Rating	**23**	**26**	**18**	**14**	**16**	**21**	**17**

Northwest Energy Efficiency Alliance Cont.

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- Based on market research, NEEA identified 5 target commercial markets for its Commercial Sector Initiative:
  – Three "vertical" (businesses serving end-use customers)
  – Two "cross-cutting" (businesses serving other businesses

Graphic Source: NEEA, "BetterBricks Design and Construction Initiative, Market Progress Evaluation Report #2." April, 2008

Northwest Energy Efficiency Alliance Cont.

- NEEA's Commercial Real Estate (CRE) Initiative
  - Started in 2007, engages commercial office real estate market to adopt Strategic Energy Management (SEM) Practices
  - Target market in OR and WA
    - Leased commercial office
    - >50,000 SF in OR and WA
  - Target market in ID and MT
    - Investor owned and not govt./publicly owned
    - >20,000 SF

MA Mid-Sized Customer Participation

Final Report

Mid-size Customer Needs Assessment

EEAC Consultants and Massachusetts Energy Efficiency Program Administrators
Prepared by KEMA, Inc.
December 22, 2013

- The number and complexity of mid-size accounts require diversified strategies
  - Mid-size customers require more complex solutions than small customers
  - Number of mid-size accounts is too great for direct PA account management
  - Issue of multi-account customers
  - Assessment of individual market segments (healthcare, lodging, and education) confirmed enough variation among segments to justify different marketing strategies

MA Mid-sized Customer Needs

2012 Commercial Participation Rates by Business Type
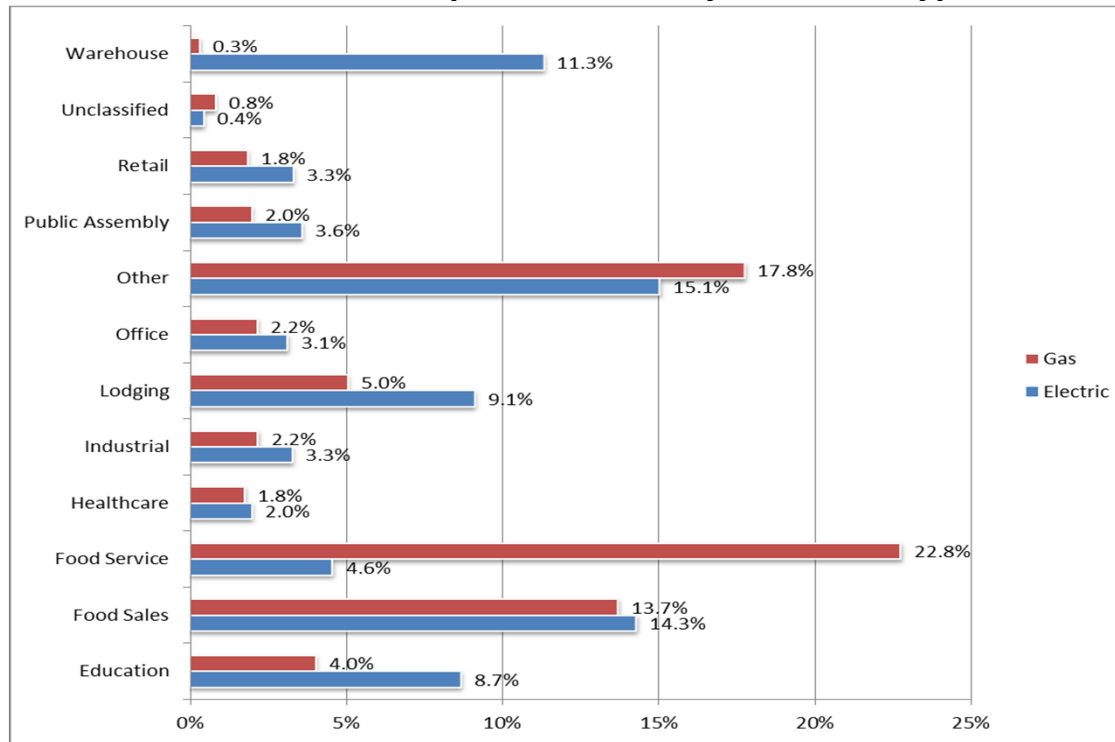
- Applying multiple segmentation filters may provide greater insight into additional EE opportunities and prioritize target markets

Current Status

- One large PA uses geographic and vertical segmentation depending on fuel as the basis for assigning outreach staff

- The other large PA, which is more geographically concentrated, uses mostly vertical alignment for segment strategy

- Small PAs have tried to piggyback on large PA models and do find a common baseline of tools/messaging is helpful
  - Small PAs actively manage a significant percentage of their large customers

- At the highest level, there are consistent programs and offerings, including fuel integration, but this does not hold true for all customer classes

Current Status

- MA EE Segmentation strategies *start* with customer size—quartiles--which is not an ideal first filter for segmentation from a customer standpoint

- Segment strategies must be actionable – size is not actionable

- Other strategies may align better with the market, e.g., ownership type, financial decision making

- Once the customer size falls below ~500-600 kW, and above ~300kW, "one to many" strategies are not clearly available or articulated.

Current Status Cont.

- Segment strategies into channels are not clearly articulated and are not clear to channel partners (mid customer needs assessment)

- Few statewide strategies in mid-size. Where they exist, they are well regarded.

- MA PAs would benefit from a process to define a consistent statewide strategy and to train and monitor market actors

- No clear process/strategies means gravitation to prescriptive solutions

Suggested Next Steps

- Use CIMC to develop consistent segmentation and outreach process or protocols going forward
- Review existing large PA strategies for:
  - Consistent statewide approach where practical
  - Development of segment level tools and strategies to enhance channel actor and trade ally capabilities
  - Drive segmentation best practice to channel partners
- Assign particular market segment, e.g., manufacturing, to a single large PA for strategy development. Bring back to group for size-, territory- and fuel-specific application.
- Mid sized market segmentation analysis. Prioritization exercise to find additional opportunities

Questions?

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