Market Segmentation Strategy

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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

1. Define strategic objective
2. Collect market/customer data
3. Create market segmentation model(s)
4. Identify priority segments
5. Develop strategy for target segments
6. Implement, monitor, adjust

Adapted from review of numerous sources including:
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?

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

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
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
Example: Chains and Franchise Market Segment Rankings

<table>
<thead>
<tr>
<th>Business Category/Rating (1-5)</th>
<th>Grocery</th>
<th>Retail</th>
<th>Restaurant Chains and Franchises</th>
<th>Lodging Chain and Franchises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National Chains</td>
<td>Regional Chains &amp; Independents</td>
<td>National Chains</td>
<td>Regional Chains</td>
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<tr>
<td>Market Interest</td>
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<td>4</td>
<td>3</td>
<td>3</td>
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<td>Market Leverage</td>
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<td>Market Packaging</td>
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<tr>
<td>Market Size</td>
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<td>1</td>
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<tr>
<td>Spillover Potential</td>
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<td>3</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Geographic Spread</td>
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<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Current Efforts</td>
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<td>3</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Total Rating</td>
<td>23</td>
<td>26</td>
<td>18</td>
<td>14</td>
</tr>
</tbody>
</table>
Northwest Energy Efficiency Alliance Cont.

• 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)

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

– 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.
• 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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