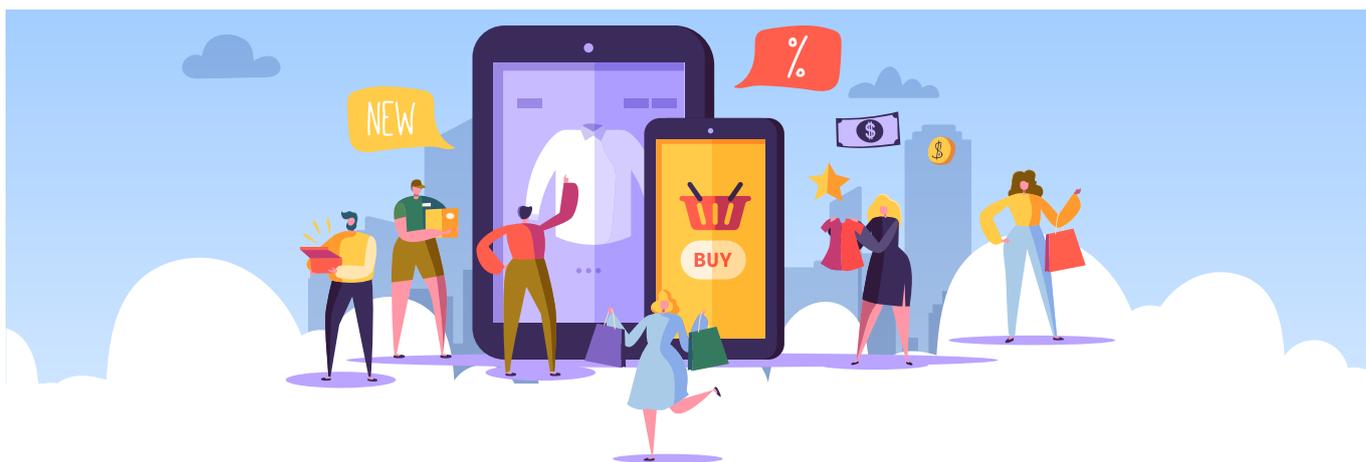SWIN
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The Customer Experience and Insight (CXI) Research Group presents

Understanding customers
Creating customer personas through segmentation

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DR JASON PALLANT

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Understanding customers: creating customer personas through segmentation

Customer personas are a popular tool for today's marketers. They are a key building block for customer experience management[1] and are used heavily in customer experience (CX) and user experience (UX) design, customer journey mapping, and design thinking.

By Dr Jason Pallant

The appeal of customer personas is clear: they represent a way of distilling the many complexities of customer needs, wants and desires into a few more personal examples. It is much easier to design an experience for an individual who has a name and a backstory than for an entire customer base. However, this also demonstrates the biggest challenge of customer personas: ensuring they represent real – and valuable – customers.

It is easy to get caught up in the creativity and excitement of developing personas, and forget that the primary purpose is to create a representation of customers that can be targeted and used as the basis for product or experience design. In order to avoid this trap, it's important to have a clear idea of both what customer personas are (or should be) and how to create them using real-world data.

WHAT ARE CUSTOMER PERSONAS?
Customer personas are defined by three key characteristics – they are:

1. **Distilled target customer profiles.** The primary purpose of customer personas is to distil the complexity of your many customers into a few representative profiles.[2] Each persona represents an individual target customer, so multiple personas may be created to represent different customer groups.

2. **Fictional/semi-fictional representations.** Personas are not created based on any actual individual customer; instead, they are fictionalised representations of customers created by you.[3] However, these elements have to be carefully balanced: purely fictional personas will be ineffective as they do not relate to any actual customers, but focusing on a single real individual customer may not provide enough insight.

3. **Based on real data.** To be effective, personas should be founded in data. Rich data is increasingly available about customers from multiple sources including CRM, transactional databases, social media and so on.[4] This data can be leveraged as a starting point to create detailed customer profiles that are based in reality.

SEGMENTS VERSUS PERSONAS
Dividing customers into groups based on common characteristics is not a new idea. Most introductory marketing textbooks and courses suggest that marketing activities should start with *segmenting* the market into groups, as this leads to *targeting* and *positioning*. However, there is some confusion about the difference – if any – between customer personas and customer segments.

In some cases, the terms 'persona' and 'segment' are used interchangeably to describe profiles that are developed to describe groups of customers; others suggest that segments and personas are quite distinct things, created in different ways for contrasting purposes.

Segments and personas are both helpful marketing tools, but they're used for different reasons at different stages of a marketing process. Based on qualitative data, personas are used early in the process to give prospects and customers personalities and preferences while segments, built from quantitative data, help marketers more effectively reach their target audiences.
—Rachel Sherman, Oho Interactive[5]

Customer personas certainly should provide detailed insights into consumers' needs, preferences and behaviours, but this does not necessarily mean that they must be developed separately from customer segments. Improvements to data analysis methods and access to data sources mean it is increasingly possible to develop customer segments that are rich enough to act as building blocks for customer personas.

CREATING RICH CUSTOMER SEGMENTS

There are some key principles to keep in mind when creating customer segments that will help increase their value to a business and provide a solid basis for customer personas:

1. Blend data with intuition

As with customer personas, it can be tempting to base customer segments on gut feel or intuition. However, it is important to remember that staff (or external consultants) may not actually represent target customers, so their intuitions may not accurately capture different customer segments. Utilising data in the development of customer segments can help ensure their representativeness and overall value.

On the other hand, it can be just as damaging to blindly follow data. Segmentation methods will generally always provide a solution (i.e., a set of segments), but this solution is highly dependent on the inputs to the model such as the variables that are chosen to be included and other user choices (how many segments to test, whether any predicted results are included etc.). These data-defining decisions require a solid understanding of the customer base as well as the relevant category.

Intuition and an understanding of the type of customers being examined are also crucial when interpreting segments. The segment profiles must be interpreted to determine what each segment represents. At the same time, it is crucial to sense-check the results to ensure there are no artificial segments created as a result of the chosen analytical method. Hence, it is not as simple as choosing either data or intuition as the basis for segments; both need to be blended.

2. Use valuable data

One of the common criticisms of segments is that they do not provide a rich or deep understanding of customers. Much of this can be attributed to the unfortunately frequent practice of basing customer segments on data such as demographics, which provide relatively little information. An extremely common example of this is age groups or generational cohorts such as 'Millennials' or 'Baby Boomers', which are often referred to as 'segments'. However, Millennials are not a true segment. People within this age group are highly varied among each other, and they have very few real differences to people in other age categories.[6]

The inherent assumption that is made when segmenting customers on factors such as age or gender is that people with those characteristics are the same on things that matter – attitudes, beliefs or behaviours. There may be some broad trends, such as young people being more frequent online shoppers. However, the problem is that this does not hold for the whole group: some young people never shop online, while some older consumers are prolific online shoppers. Rather than hoping that demographic segments will equate to different attitudes or behaviours, a much more fruitful activity is to segment on the factors of interest, whether that be attitudes, needs, values or behaviour.

Following the online shopping example, we conducted a recent study in which my co-authors and I segmented consumers based on their attitudes and behavioural use of different shopping channels for various purposes (search, purchase and post-purchase).[7] We found a variety of segments, such as shoppers who prefer to research online before purchasing in-store. This type of segmentation provides a much richer explanation of customers and a clearer avenue for customer experience development than a segmentation based on demographics.

3. Be dynamic

One of the challenges of segmenting customers on attitudes, needs or behaviours is that these things can change. However, rather than using this as a reason to default to demographics, it should be leveraged as an opportunity – the fact that customers may change segments provides a valuable opportunity to test the influence of marketing activities on consumer behaviour. For example, one study found not only that customers could be segmented based on their online shopping behaviour, but also that they moved between segments over time in response to interacting with decision aids from retailers.[8]

These types of tests are now relatively easy to conduct, as longitudinal datasets tracking individual customers are now common. Analytical methods such as Latent Transition Analysis (also known as Hidden Markov models) and Repeated Measures Latent Class Analysis are specifically designed for longitudinal segmentation. Tracking customers as they move across segments aligns with the idea that brands should be continually reviewing and updating their customer personas.[2]

4. Accept the grey

While segmentation can be a powerful tool, it is subject to the same constraints as any analysis – data errors, and even simple random chance, can mean the results are not perfect. This creates a somewhat larger problem in segmentation, where the purpose is to allocate customers into distinct groups. In traditional segmentation methods, customers are classified in a relatively black-and-white way, being allocated to one segment only. However, in reality customers may not perfectly belong to one segment – they may have elements of multiple segments or exist somewhere in between.

Rather than seeing this is a limitation, more advanced methods such as Latent Class Analysis and Fuzzy Clustering embrace these grey areas. For example, Latent Class Analysis calculates the probability that each individual belongs to each possible segment, meaning it can distinguish between people who exactly fit a particular segment from those who may be on the borderline. Practically, this means customers may be targeted in multiple ways depending on the degree that they fit different segments. This can result in much more personalised targeting strategies.

TURNING SEGMENTS INTO PERSONAS

The suggestions above relate to developing more valuable customer segments: segments which *blend data with understanding and intuition*, are *based on valuable data* such as attitudes or behaviour, are *dynamic and allow for customers to change* over time, and can *account for the grey areas* between segments. Customer segments that follow these suggestions provide a much stronger basis for customer personas that many traditional examples. However, it can still be highly valuable to take the next step and dive into the personal experiences and stories of each segment to build a persona.

Customer personas often draw on qualitative approaches of listening to customers to supplement the quantitative segmentation and build these deeper profiles. This is a highly valuable activity, but it does not necessarily need to exist separately from customer segmentation; instead, a combined approach is possible, in which rich customer segments are developed using valuable quantitative data and are then fleshed out into personas through qualitative methods.

Therefore, customer personas and customer segments are not an either–or dichotomy, and do not need to be viewed as separate activities for contrasting purposes. If done well, customer segmentation can provide an extremely valuable starting point for the development of customer personas that provide the rich detail and personal insights needed for experience design while being robust and grounded in real-world customer data.

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About Dr Jason Pallant

Jason is an applied researcher and Pillar Leader of Service Innovation for CXI.

He has extensive experience applying advanced analytical techniques to solve applied problems.

Jason has specific expertise in customer profiling and segmentation, as well as topics including retail marketing, omni-channel customer behaviour and big data.

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About CXI Research Group

The Customer Experience and Insight (CXI) Research Group is part of Swinburne Business School.

CXI is a full-service research group that conducts leading-edge research centred on experience to build customer-led strategy and innovation.

The CXI team is specialised in a range of qualitative and quantitative research methods and frameworks. Our four pillars of expertise span the fields of retail and consumer behaviour, sport and wellbeing, service innovation, and employee experience.

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