# *The 8-Ball of Customer Portfolio Segmentation for Finance*

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***Abstract:***

*If you've found yourself sweating in a smoky billiard room, wondering about what role customer data should play in finance - as well as in your company's long-term strategy - this document provides a tool for Finance Leaders - a strategy to unify disparate customer data with business strategy ROI.*

As any pool shark will tell you, emerging victorious in a game of billiards means understanding the angles, envisioning the possibilities and staying one shot ahead. Succeeding in business is no different.

Winning a match against the competition in your growth efforts takes a mix of strategic thinking, mastery of the landscape and excellent timing. With so much at stake – cash flow, profit margins, customer satisfaction, retention and investor relationships – it's no wonder that navigating risk effectively and identifying opportunities can make you feel like you're sweating in a smoky billiard room with all eyes focused on your next move.

Enter customer segmentation.

If this term makes you feel like you've just wandered over to the corner of the room where your marketing colleagues sit hovered over a mysterious data cauldron with brightly-colored drinks in hand, stay a while and have a cosmo. Customer segmentation is a pet topic among marketers and a mysterious black box to most everyone else. There are endless ways to mix and match data points, but finding and aligning on a customer segmentation strategy that positively correlates with purchase behavior and drives top-line growth is the result of a strong command of enterprise data, a dash of math and a sprinkle of art. It's a powerful potion that finance should not only contribute to, but co-create.

What does customer segmentation have to do with enterprise finance? Returning to your pool table, take a look inside the rack. All the balls seem neatly grouped together. The balls are like your customer data; for now, the chaos of the data is artificially contained in the rack, and it looks orderly. Think: CRM, ERP, back-office system. But your data probably isn't orderly. Not if you really look at it. Solids and stripes are mixed, in no particular order and – if you've gotten an especially raw deal – the paint on the balls may be old and chipped. In order to win, you have to break into your data and start taking shots.

Finance arguably owns more insight than any other group. You have a deep, familial intimacy with corporate controls, systems and technology, budgets, customer behavior, resource requirements, processes and organizational goals – not to mention data. All eyes are on you – and it's up to you to take your cue and play like a pro.

Your first move is the data break. The balls will scatter, and your job is to pick stripes or solids and to get the balls into the appropriate pockets. It's every billiard champion's ultimate goal to walk away with balls purposefully tucked into pockets, and it's your goal – in fact, the entire enterprise's goal – to create, implement and drive your strategic growth and manage your enterprise risk in a way that helps your company win.

Superb customer segmentation is the pool shark business leader's strategy to get there.

If you're ready to begin winning the game of portfolio segmentation, read on.

THE BIG BREAK: Identifying Patterns in Your Customer Portfolio

First, a look at the game itself. What are the primary benefits of effective customer portfolio segmentation for finance – and for your company at large? Finance has the power to drive increased cash flow, collaboration and profitable growth with analytics. Deloitte highlights the emerging benefits of this approach to segmentation for finance. "The time is now for finance leaders to help influence, and in some cases to outright own, the business analytics to help drive top and bottom-line growth."

1. INCREASED CASH FLOW. Having all the balls on the table in the beginning of the game complicates the moves you can make and therefore increases the force needed to pocket the ball. Mounds of uncategorized, unclean and unmanaged customer data will present similar obstacles to increasing your cash flow. Segmented appropriately, your clean customer data will command unique treatments and targeting strategies for each customer group, ultimately leading to increased cash flow.

2. INCREASED COLLABORATION. Successful segmentation isn't performed in a vacuum – and it's much more than slicing a key lime pie into pieces. Segmentation allows you and your organization to define and align on the key attributes that unite people with your enterprise mission. Performing segmentation and strategizing on it in a finance silo, perhaps as a well-meaning exercise in departmental efficiency, will result in a structural misalignment at best – and a poor customer experience at worst. In the end, collaboration isn't just a benefit for companies financially; it's a benefit for customers.

   When you've successfully defined the messaging, resource constraints, treatment and service package as a management unit that commands the greatest value from and for your customers, you've succeeded as business leaders.

3. INCREASED PROFITABLE GROWTH. Profitable growth is the byproduct of effective strategy, and what strategy can be effective without galvanizing the opportunities within your current landscape? Segmentation is more than visualizing patterns in your customer database; it's also about action and forward movement. There should be a twinkle in your eye on the day that you can visualize your opportunity areas so clearly that your next moves are practically spelled out for you in brightly-colored neon lights. Follow the neon lights!

**Where to start?**

Like a game of pool between professionals, creating and following a superior segmentation strategy is an iterative process.

AIM AND PIVOT: Preparing for the Game by Avoiding 4 Dangerous Assumptions

You're standing in a smoky room and you've shot your break on the pool table, scattering the balls. It's time to understand the lay of the land. The end game – to shoot stripes or solids into the best pockets - is no different when you are eyeing balls of data, creating your winning customer portfolio segmentation strategy.

It's important to understand the rules of the game – to incorporate best practices, solicit advice from experts and ensure you have the right tools to do the job. You may be eager to dive in, but before you do, understanding some of the most common data billiard blunders will certainly help steer you on the path to success before you spend valuable time and energy constructing your strategy.

Without insight into financial data such as payment behavior, profitability or failure risk, the organization's sales and marketing segmentation efforts are shots in the dark, no matter how data-driven they appear to be. In finance's corner of the cocktail party, segmentation efforts based on aging reports alone may keep your receivables from sinking your ship, but they won't help you maximize opportunities or innovate on your approach to risk management.

Now that you're ready to play, here are the most common areas for fatal blunders when performing your customer portfolio segmentation:

ASSUMPTION #1: What is visible is true. What is hidden is not.

Ever try to pocket a ball in the dark? You can't see what you're doing. You think you know where the balls might be on the table, and odds are relatively good about hitting one. And since you've played this game many times before, you think you're in a good position to win without having to actually 'see' the balls.

It's time to turn on the lights.

Finance leaders understand the importance of this data visibility and accuracy better than most. Every day they must grapple with the regulatory complexities of SEC filings and Sarbanes-Oxley requirements - legally binding reminders of how important transparency has become.

The PwC 'Gut & Gigabytes' global survey (http://download.pwc.com/ie/pubs/2014-pwc-global-data-and-analytics-survey-big-decisions.pdf) on data and analytics warns of the inherent bias in the data-analysis process. "Thus, big data needs human involvement to make sense of it. However, the process of analyzing data also introduces a lot of biases that managers and executives bring to bear, particularly when looking at big data sets." The same survey reports that 71% of executives don't regard data and analysis as having the key role in their "big decisions." If that isn't frightening, nothing is.

Embracing data visibility means understanding and accounting for the quality, composition, velocity, origin and human manipulations of the data within your scope of decision-making. Furthermore, a responsible executive also asks the question, "What's not visible here?"

Sound like a big deal? It is.

Here's the reality. When you turn the lights on, your segmentation in finance, sales, HR or anywhere else in your company has a high likelihood of being totally and completely wrong. Why? Because you made assumptions based on the data sets that you know when in fact your data may be sitting in different systems that do not talk to each other. Or human hands may generate your data—as in layers of human analysis performed prior to your review. Alarmingly, only 38% of companies share results of their analytic insights outside their departments, according to Dun & Bradstreet's 2016 Enterprise Analytics Study. Questioning what's visible early and often is a true pro tip. Once you and your colleagues collectively grasp the implications of the data you have, the data you need and how to use it collaboratively, the lights turn on, and possibilities open up.

Once you see all the balls on the table, the possibilities open up. You aren't limited to looking at your customer segmentation strategy within the realm of financial ratios or payment behavior. A wealth of CRM data, industry profiles, social feeds, contact history and business linkages can and will enrich the way in which you look at your customers as a collective executive unit. And when you are all looking at the same table, with the lights on, the possibilities for growth are endless.

ASSUMPTION #2: All data is created equal

Finance has a special relationship with Mater Data Management (http://ww2.cfo.com/it-value/2014/03/time-clean-master-data/), or linking key business information across the enterprise in cohesive records. Yet, even in the cleanest data sets on earth, more lurks beneath the surface than meets the eye.

Each time a business transaction takes place, be it a customer service call, a supplier shipment or a stocked piece of inventory, a record is (hopefully) generated somewhere. It goes without saying that these records should be procedurally linked within an ERP or other system. The very act of creating a balance sheet each quarter necessitates some act of MDM, and yet, when data is not directly linked to a company's books, it can often take on a life of its own.

When a company goes to link any of its masterfully managed data with systems and data sets that aren't as closely scrutinized, the marriage between data sets can end as unscrupulously as it began. Ensure that duplicate records are accounted for, that data cleansing processes are understood and that linkages between departments and groups are identified prior to the great stirring of the segmentation soup.

ASSUMPTION # 3:  More analytics = better analytics.

Another temptation when performing enterprise-wide customer segmentation is to assume that more is better. As the great pool sharks know, it's not about having more stats – it's about making effective decisions within the game you're currently playing. Doing so requires powerful discipline. Organizations are awash in analytics today, but ensuring that the analytics are right for the strategy and the enterprise at large is an entirely different story.

Tell the right story with the words you have in your data sets. For example, you may decide to further segment and profile your customers utilizing their full credit limits by also looking at their likelihood to go out of business. Add information such as a score for propensity to buy and customer satisfaction, and your segmentation efforts can soon lose focus and gain complexity.

When segmenting your customer portfolio, do take some time to revel in the analytics available to you and establish what the best metrics are for measuring your desired path. But just as more shots in pool might mean fewer chances of winning, clarity and vision will ultimately help your enterprise succeed – not multi-page dashboards.

ASSUMPTION #4:  The past is more important than the future.

Many organizational efforts today focus on behavioral and descriptive analytical exercises to segment customer data. It's the data devil you know, and far easier to use to segment your organizational data since it's already inside your systems. But as in any good game of pool, you have to anticipate your opponent's next move and how you will need to adapt in the future as you play the game.

Predictive and prescriptive analytics ask your data, "What next?" Don't be afraid to do some scrappy modelling on optimal pricing trends or on supply chain formations to scope out what the future might look for you. While what you have in your history is valuable, the audience watching you play pool cares only about your next move.

Avoiding these common mistakes in preparing to segment your customer base will significantly increase your chance of doing it right the first time.

Now that we've gone over a few common areas of data danger, we'll explore a few best practices on customer segmentation.

WINNING THE GAME:  Increasing Cash Flow, Collaboration and Profitability with Customer Segmentation

Now that you've committed, as a finance leader, to the benefits of customer segmentation and learned the potential pitfalls of segmenting your customer base, it's time to return to your pool table to win the game.

The stakes are high, so here are some guidelines for increasing your odds of winning once you set out to navigate your winning segmentation strategy.

1. DEFINE YOUR GOALS

   What do you seek to get out of effectively segmenting your customer portfolio? It may seem obvious. You're a pool shark. You want to win. You want to create value. But the term "value" can translate into entirely different scenarios depending upon whom you ask. Finance may understand this subtle dynamic more than anyone.

   Ultimately, the most important task you can perform when you seek to create and align your customer portfolio segmentation strategy is to ensure that it also aligns with your corporate strategy. Whether that strategy is to claim larger chunks of market share by being a loss leader, to grow through M&A, to increase free cash flow to invest in product development or to increase profit margins, your customer segmentation strategy should reflect and enable those efforts across the board.

   Defining your goals boils down to having clear corporate vision as a management team. Why? Think of a road trip you've taken as a group without a map. You might ultimately get to your final destination, but the odds are that getting there, if you do make it, will be a rocky, convoluted process. Jason Karaian writes in The Chief Financial Officer (https://www.amazon.com/Chief-Financial-Officer-Influence-conomist/dp/1610393856) that, "The lure of near unlimited information to inform decision-making is powerful, but CFOs must beware of drowning their organizations in data, blindly following spurious correlations, or blunting a company's creative drive." Identifying goals appropriately ensures that you are steering your ship toward land and away from the sirens.

2. CREATE A CROSS-FUNCTIONAL SEGMENTATION EXECUTION PLAN

   It's not quite time to begin knocking your data around with your pool cue yet. After understanding and aligning on your vision for the future, the best next step is to seek input from cross-functional colleagues on the best methods to go about segmenting your customer base effectively. This step goes beyond aligning on organizational goals to diving deep into individual functional goals and data sources.

   Perhaps the most difficult step in the process, seeking crossfunctional input from the beginning will ultimately add windfalls to your segmentation efforts.

Here are a few questions to ask your management colleagues to get started:

- What are your top priorities?
- What 2-3 metrics are you using to define success?
- Which data sources do you rely on to make decisions?
- How does the data you're using flow?
- How are you segmenting your customer data today?
- What's worked? What hasn't?
- What key attributes should be carried across the organization?
- How can you create a single source of the truth?
- What are the gaps today?

Gathering this input may be overwhelming. You might hear that your sales teams are segmenting their data by renewal date, that your marketing colleagues are segmenting by industry to drive product awareness, that your operations group is segmenting by inventory requirements. Listen carefully for common themes and assess whether or not these themes align with your corporate strategy. For example, if you decide as a management collective that your top priority is to grow your profit margins, listen to whether your colleagues' current efforts support that corporate priority.

Ultimately, the goal is to align on how segmentation will inform the rest of your business strategy and to pick the attributes that best reflect that strategy.

3. SIZE UP YOUR DATA

Once you've defined your criteria, it's time to rope together your data. This can also be a challenging step to take, depending on your organization's Master Data Management maturity. You may have decided as a management team that your segmentation efforts should be universally focused on account size, industry, payment behavior and product usage. (If you've gotten this far, congratulations! It's not easy.) The next step is to find out how to make all of this data universally consistent and available to all functional areas.

The pool shark knows where each ball is on the table and has a mental map of its final destination. You need to go beneath the surface of what your data is telling you and find out what your data's dirty secrets are, in order to diagnose and fix any potential issues and problems by implementing appropriate technology and controls. This may seem like ERP 101, but in fact it can prove extremely difficult if even one of your key data sources is managed by human hands, isn't universally available or clean, and doesn't flow through multiple systems. Once you've spotted and diagnosed your key issues, it's time to move on to the next step.

4. CHOOSE THE RIGHT TOOLS

   Picture trying to play pool with a pencil. It might work, but it won't work well or easily. Finance is arguably more familiar with the organization's systems and tools than most teams. Finance must look far beyond legacy issues such as depreciation rates and up-front investment to corporate strategy. If you've decided that your goal for a given year is to increase profit margins, you need systems and tools to help dissect and deliver the data that will help you accomplish this goal. Making the investment in these tools may require a heavy management input of time and resources, but getting it right is critical to business success.

   Winning a game of pool isn't easy, and neither is implementing a solid segmentation strategy. Yet, taking the plunge is a worthy endeavor—especially in the modern business landscape where all eyes, and all bets, are on the finance arm of the organization.

   Next, we'll examine what it takes to track your success and how you can rally around a reporting system as a management team.

## SHARING YOUR STATS: Strategic Finance Management Reporting on Customer Segmentation

If you've won at billiards like a true pool shark, it means your rationale, strategy and execution were probably collectively effective. It also means that you might hear the sound of applause in the background of the smoky billiard room. Your cosmo-wielding business fans in other departments such as marketing are cheering for you, because winning at the game is not easy. And neither is effective customer portfolio segmentation.

Pause from the sound of slow clapping for a moment. The game isn't actually over.

When you return home after a successful game of pool, you might regale your family and friends with qualitative information about how strategic your timing was for this specific game, about how inept your competition was, about how you masterminded your wins in a powerful way. Similarly, when you start seeing wins from your effective customer portfolio segmentation strategy, it may be tempting to look at them in celebratory isolation. Yet, the true pool shark isn't a pool shark until a pattern of winning has been established, and can be shared with others.

If you've gotten this far, you've already done most of the hard work. Yet, the final step in your plan might be the most important of all: reporting on your results.

Finance lives and breathes reporting. No other group is more familiar with the importance of data quality, visibility and governance in a post-Enron world. Indeed, finance is uniquely poised to understand and use customer segmentation to drive value, according to Accenture (https://www.accenture.com/us-en/insight-outlook-cfo-as-corporate-strategist-finance). "They can better judge such critical key performance indicators as the cash conversion cycle, which measures how well a company is converting investments in products and services into cash through sales. They can pinpoint opportunities more quickly. And they can manage risk much more effectively." These skills are absolutely essential in the creation of and communication of the success of portfolio segmentation, because the segmentation of customers ultimately affects the bottom line (hopefully in a positive way!).

Finance's close eye on the management of daily business, alignment of employee incentives and establishment of strong controls are all deeply impacted by the portfolio segmentation strategy. Knowing how it's doing in the moment, as well as over time, is the final frontier of value creation.

How do you go about navigating the difficult terrain of effective reporting?

HERE ARE A FEW GUIDING PRINCIPLES TO HELP YOU.

1. SIMPLICITY

    Possibly one of the most difficult aspects of conveying information using data is effective communication. Finance is deeply familiar with the importance of choosing the right metrics to report on and the art of conveying them in an understandable way. Yet, as in day-to-day business life, it's extremely easy to under-communicate, mis-communicate and to over-communicate.

    Choosing and monitoring the right set of metrics is critical to change management and effective reporting. Operate with the mindset that you are seeking to find the fewest possible visualizations, metrics and data points to convey a single view of the truth about how your customer portfolio strategy is performing. Be careful about pre-defining what you want your story to be and using the data to back that story up.

2. VISUALIZATION

    Visualization is much more art than science. Behind effective data visualation, again, is the art of strong communication – the data has to rise up to meet its intended audience. When you create your final reports, think about both your audience and how meaningful the information is. Strive to make any of your data visualizations easily grasped (or understood) within 10 to 15 seconds, or less. The richness of the story your data needs to tell will be lost if your audience struggles to interpret your graphs and pie charts.

3. FLEXIBILITY

    Retaining simplicity and strong visualization takes powerful discipline. While reporting on trends over time is crucial to business success, it's equally important to be able to drill down into patterns or move up a level to identify the behavior that's driving your portfolio segmentation strategy. Technology and integration play a strong role in making your reporting efforts simple enough to be meaningful while flexible enough to provide more information where needed.

4. DELIVERY

   Lastly, it's critical to deliver your reports in a meaningful way. While Excel spreadsheets and paper reports continue to be used in day-to-day business life, it makes sense to implement flexible tools to share and interpret data on a cross-functional basis. Tools such as cloud-based dashboards (http://ww2.cfo.com/risk-management/2014/07/dashboards-can-help-cfos-manage-risk/) continue to gain popularity due to their simplicity and ability to be customized. Co-creating and driving excitement behind an executive dashboard that illustrates the effectiveness of the portfolio segmentation strategy will drive both alignment, as well as a mutual understanding of the business reality.

CONCLUSION – THE END GAME

Finance's immediate concerns—cash flow, profit margins, customer satisfaction, retention and investor relationships—focus your attention on the finance imperatives—navigating risk effectively and identifying opportunities. Improved cash flow, collaboration and profit are all potential outcomes of wielding your pool cue of portfolio segmentation in just the right way. This article has provided pro tips on what to avoid, as well as some effective tips for winning at this highly complex game.

Staying nimble and agile in your quest to become a data-savvy pool shark in finance can take time, but with the right levels of collaboration, data inspiration and organizational alignment, you can begin the process of driving enterprise growth as a team.

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