Segmentation 101

Best Friends
SAVE THEM ALL
What is segmentation?

Segmentation is the process of taking a group of constituents and breaking it into “parts” for the purpose of message customization and analysis.

Segmentation is important for two different purposes: tracking and targeting.

- **Tracking** allows you to more accurately track where donations are coming from, and what types of appeals or messages your donors respond to better.

- **Targeting** allows you to customize the messaging to your donors. By analyzing which segments respond to particular appeals or message types, you can refine future appeals to better target different types of donors, supporters, prospects.
What is segmentation?

Segmentation allows you to send the right message to the right person at the right time, utilizing known behavioral patterns to inform this decision-making.

Segmentation also helps foster a deeper connection with a large set of constituents by allowing for more meaningful personalization of communications.
Other benefits of segmentation

Split testing allows you to refine your approach further by testing two or more variables within a package to see which might garner a better response rate or larger gift (generate more donations). The test results help drive future strategy.

For example, you might test a plainer outer envelope vs. a more colorful outer envelope:

VS.
What is a segment?

Segments are the individual “parts” in which your group of constituents is broken down.

You can segment your file using many different types of data points, such as:

- Recent giving behaviors
- Demographic information
- Interests or affiliation
- Other behaviors
RFM (recency, frequency, monetary)

RFM segmentation is tried and true, and has been used by many organizations for a long time. A typical RFM segment might look like this:

\[[\text{recency}] \ [\text{frequency}] \ [\text{monetary value (HPC*)}]\]

Example: 0-6 months, multi, $5.00 – $14.99

Donors who fall within this segment gave their last gift between 0 and 6 months ago [recency], they have given more than one gift in their lifetime [frequency], and their largest gift was between $5 and $14.99 [monetary value].

*HPC means highest previous contribution. You can also select MRC (most recent contribution), average gift, etc.
RFM

Benefits

• RFM is a longstanding and highly tested method that has worked for many organizations.
• RFM is easy to quantify and it create new segments.
• Donors who have given more recently, have given multiple gifts, and have given larger gifts are more likely to give again. Targeting donors based on recent giving behavior will allow you to select the best segments who are most likely to respond.

Drawbacks

• It’s a one-dimensional way to look at your donors. There may be more valuable data points to use for your selection criteria.
• There’s a limited number of selection variables, which could limit personalization opportunities.
How does Best Friends segment?

Two years ago, we switched from RFM segmentation to a behavior segmentation strategy.

We still apply some basic RFM selection criteria, but we added additional data points, such as relationship to the organization (volunteers, visitors, adopters), response behaviors (newsletter-only donors) and channel preference (digital-only donors, multichannel donors).
Benefits of behavior segmentation

• It gives us a much deeper look at our relationship with these donors as well as donor preferences.

• It saves money: It’s easier to identify lower-performing segments, which we can exclude from many of our mailings.

• It allows more personalization: Segmenting on relationship type and behavior allows us to talk to donors in a way that lets them know we know who they are. They are not just a number to us.

Example: Create a package for volunteers who donate, recognizing and thanking them for volunteering and donating.
Source codes are the lifeblood of direct mail. They are codes that are printed on reply devices to indicate the solicitation type, package version, segment, etc.

Without source codes, we wouldn’t have the ability to track responses in a meaningful way.

Be sure to have a unique source code for all of your mailings. Each segment within the mailing should have its own unique source code.
## Best Friends source code structure

<table>
<thead>
<tr>
<th>SOLICITATION TYPE</th>
<th>OUTBOUND CHANNEL</th>
<th>MONTH</th>
<th>YEAR</th>
<th>EFFORT</th>
<th>PACKAGE</th>
<th>TEST</th>
<th>SEGMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position 1-2</td>
<td>Position 3</td>
<td>Positions 4-5</td>
<td>Positions 6-7</td>
<td>Position 8</td>
<td>Positions 9-11</td>
<td>Position 12</td>
<td>Positions 13-16</td>
</tr>
<tr>
<td>GC = Golden Circle</td>
<td>M=Mail</td>
<td>01 = January</td>
<td>11 = 2011</td>
<td>1 = First Effort</td>
<td></td>
<td>R=Remainder</td>
<td>House Segment</td>
</tr>
<tr>
<td>NR = Newsletter</td>
<td>E=Email</td>
<td>02 = February</td>
<td>12 = 2012</td>
<td>2 = Second Effort</td>
<td></td>
<td>T=Test</td>
<td></td>
</tr>
<tr>
<td>AP = Follow ups/Appeals</td>
<td>P=Phone</td>
<td>03 = March</td>
<td>13 = 2013</td>
<td>3 = Third Effort</td>
<td></td>
<td>C=Control</td>
<td></td>
</tr>
<tr>
<td>RN = Renewal</td>
<td></td>
<td>04 = April</td>
<td></td>
<td>4 = Fourth Effort</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BL = Monthly Giving</td>
<td></td>
<td>05 = May</td>
<td></td>
<td>5 = Fifth Effort</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MA = Magazine</td>
<td></td>
<td>06 = June</td>
<td></td>
<td>6 = Sixth Effort</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TY = Thank You</td>
<td></td>
<td>07 = July</td>
<td></td>
<td>7 = Seventh Effort</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WD = Web</td>
<td></td>
<td>08 = August</td>
<td></td>
<td>8 = Eighth Effort</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VI = Welcome Center</td>
<td></td>
<td>09 = September</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RG = Major Giving</td>
<td></td>
<td>10 = October</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>PG = Planned Giving</td>
<td></td>
<td>11 = November</td>
<td></td>
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</tr>
<tr>
<td>SW = Stewardship</td>
<td></td>
<td>12 = December</td>
<td></td>
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</tr>
<tr>
<td>CF = Corps/Foundations</td>
<td></td>
<td>00 = All Year</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**Ex:** APM07171AR5CNMCD

Appeal | Mail | Mailed July 2017 | 1st effort | Angels Rest low $ package | Control | Multi-year, multi-gift donor
• **Solicitation type**: Used to track type of mailing, such as appeal, newsletter, renewal, acquisition

• **Outbound channel**: Tracks the channel in which the message was sent, such as mail, email, website, telemarketing

• **Month/year**: Keeps track of when the mailing was sent

• **Effort**: Used to track multiple efforts in a campaign (e.g., follow-ups)

• **Package**: Tracks which version of the mailing the segment received

• **Test**: Tracks if it is a control or test package so you can measure the effectiveness of various testing or package techniques

• **Segment**: Identifies the segment for which the donor was selected

*You may not need such extensive source coding, but at minimum you should track the parts in orange above.*
Most organizations use a “waterfall” segmentation process, which creates a hierarchy of segments. Segments at the top receive priority over segments below.

Donors can exist in more than one segment at a time, so you should give careful consideration to the order of your segments.

- Someone can exist in the monthly donor segment and also exist in the digital-only donor segment. If we create a special package for monthly donors, we will place the monthly donor segment higher, so we can ensure that they are selected for the monthly donor package.
- Make sure your selections are mutually exclusive so that once someone is selected for a segment, they can’t be selected for an additional segment.
Measuring responses

You can use a spreadsheet to measure responses to all of your mailings, including average gift, total raised, net per donor, cost per dollar raised, and much more. Other metrics to track: package results, acquisition list results, ask string tests, retention rates, reactivation rates.

See the “Sample Direct-Mail Summary Report” for a template.
Tools for segmentation

- Excel
- Raiser’s Edge
- Microsoft Access
- NeonCRM

You can also work with a letter shop or a direct response agency, which can do your segmentation for you.