

Marketing Segmentation – An Approach to Optimising Reward

Why should a reward newsletter be focusing on the themes of market segmentation and aspirational spending? A good question! But with all of us feeling the pinch at the moment, it's fair to say that "consumerism" is well and truly alive in the workplace. It will become clearer as I go along!

The US Geographic Society defines a consumer as any organism that cannot produce its own food and must, therefore, get its energy by eating, or consuming, other organisms. Now I'm not suggesting that employees are in the habit of devouring their colleagues – this is aspiration at its most survivalist form! A more relevant definition might be from Hargreaves Landsdown who break down the DNA of a consumer into three parts – demographics, health and wellness and aspiration. In the workplace, we would interpret that demographics do have an influence on employee choices. Assuming that most employees' basic health and hygiene factors are satisfied, they will have other higher level aspirations.

Taking the aspirations theme further, we all have a will to succeed, whether it's through materialism or by some other form of self actualisation. There are, however, different levels of aspiration, and it manifests itself when we "lose" ourselves in a given activity. This form of motivation is defined as "flow", when we engage in something that we love and feel "out of time". Ultimately, all employers would like their people to be in "flow" as this is when they will be at their most motivated. But like a consumer being discretionary about when and how they use their wallet or purse to satisfy their spending needs, an employee will be equally discerning about how much currency they are likely to exchange in terms of productive behavior. As we all know this concept of discretionary effort translates itself into a form of employee engagement.

But what has employee engagement got to do with consumer trends, and what's in it for the employer? The problem with many employers is that when it comes to reward, they tend to treat their people as one homogeneous mass, as if they were something from a penguin colony. This is all very well if you were all huddled together against a bracing Arctic wind, but today's employees are cushioned from such extremities, and have choices. The rational choice theorists will explain that individuals are motivated by rewards and will only act on the basis of precise information about the benefits they will gain by making a specific choice. It almost harks back to the Pavlov dog experiments. Critics of this theory will assert that:

- People have both the time and capability to weigh all choices against each other.
- Individuals are fully aware of possible choices when making a decision.

These criticisms are reflected in the experience of ill-fated incentives, target based reward for performance and benefits packages, built on incomplete information.

The problem now is that the theorists have since done a full 360 degree circle and we're back into the realms of human capital theory and mass consumer behaviour within a "value" framework; that being People Assets + People Motivation = People Contribution to Added Value. It is early days and the jury is still out with this theory, but there is a strong feeling that human capital theory merely perpetuates the assumption that people are economic units, with uniform tastes and behaviours.

But some leading organisations have taken on board that employees are also consumers, and thus should be offered their own, individual "shopping basket" of rewards and benefits. To do this for every single employee, however, would be too complicated and costly, let alone the administrative nightmare that would entail. So leaning on the experience of consumer marketing research, there is a realisation that employees can be segmented into broad groups, each with their own characteristics, aspirations, attributes, values and preferences. But how does one segment employees? Again, the marketers have come to the rescue with a simple methodology based on four key categories, as depicted in the matrix below:

| | |
|--------------------------|---------------------------|
| <u>Geographic</u> | <u>Demographic</u> |
|--------------------------|---------------------------|

| | |
|---|---|
| <ul style="list-style-type: none"> • Region • Business Unit/Area • Acorn classification • Job level | <ul style="list-style-type: none"> • Age • Gender • Occupation • Length of Service |
| <u>Psychographic</u> | <u>Behavioural</u> |
| <ul style="list-style-type: none"> • Lifestyle • Personality • Values • Preferences | <ul style="list-style-type: none"> • Rate of usage • Rewards/benefits sought • Loyalty/commitment status • Readiness to purchase/flex |

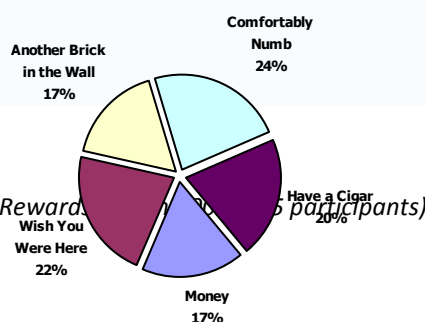
To implement this marketing approach, an employer will firstly need to draw up a representative sample of employees based on geographic and demographic factors. They should then hold focus groups and construct a survey. The survey will involve the presentation of “shopping baskets” of rewards and benefits, for employees to choose and trade-off against each other. There is also a supplementary series of questions directly related to psychographic and behavioural factors in order to square the circle with segmentation.

The trade-off approach is well established in marketing and it is based on the premise that every consumer is faced with opportunity costs when it comes down to choosing a product. Therefore, a combination “phic” and behavioural factors will influence their choice. A small but growing number of employers have firmly grasped this concept and converted survey data into clearly defined and statistically significant employee segments. Finally, a marketing mix of rewards and benefits can be simulated or modelled to predict optimisation of the package for each of the employee segments. Examples and descriptions of typical employee segments are overleaf.

Some commentators may argue that this technique is like taking a hammer to crack a nut. But Conjoint, as it is known in marketing circles, is emerging as a rigorous and scientific approach to reward optimisation, especially when HR departments are coming under increasing pressure to justify and reduce staff costs. Ironically, this is occurring at a time when research shows that few employers actually know how much they spend on reward.¹ If employers have any hope of engaging employees within current financial constraints, then they must provide differentiated “shopping baskets” of rewards, rather than persevering with the “one size fits all” approach. But, as previously stated, it requires an intelligent employee segmentation methodology, such as Conjoint. Using predictive consumer marketing techniques might render some of the HR “old school” speechless but as Confucius once said; “You can’t reach your destination if you don’t know your starting position.”

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Employee Segmentation – Group Characteristics



¹ Thomson Online Benefits – Employee Rewards

Another Brick in the Wall

Fairly low engaged and committed employees who are dissatisfied with their jobs and conditions. Likely that most “corporate terrorists” will belong to this group. It presents a dilemma as to whether they should be managed in or out! Tend to be longer serving employees with little prospect of career progression or growth. It will be very difficult to please them whatever benefits are thrown at them because fundamentally they will be disengaged.

Wish you Were Here

Totally committed to and happy with the organisation. Love everything about the reward and benefits package, and don't really want anything to change. Tend to be longer serving and more mature workers who predominantly serve in headquarters or admin centres rather than outlying business units. Most productive group in an organisation.

Have a Cigar

Fairly well engaged employees provided that the conditions are right. Tend to be “what's in it for me” type people who will be quite selective as to what they will commit themselves to. A fine balance has to be struck in retaining their motivation and performance. May be predominantly younger people with no great career aspirations. Reasonably satisfied with the reward package but will tend to like lifestyle benefits.

Money

Speaks for itself. Younger lower paid employees who live each day as it comes. Would prefer the money instead of benefits in order to service their lifestyle and debts. Very ambivalent to the organisation and will only commit themselves if the conditions are right and the package is competitive. Higher levels of turnover in this group.

Comfortably Numb

Neither satisfied or dissatisfied with the organisation. Employees who see the organisation as nothing more than a “job” and are “clock watchers” who will do a competent and reasonable job without going totally out of their way. These employees can come from right across the age spectrum but will tend to be middle and lower grades that are comfortable with their job, and have probably reached their ceiling. Their preferences will vary according to their lifestyle but they will be reasonably satisfied with whatever the employer will provide them.