# How to strengthen customer loyalty, using customer segmentation?

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**Abstract:** *Do you provide exceptional customer service?", "Is the customer service in your company extraordinary?" "How to convert satisfied customers into loyal customers?" - are the most frequent questions of today's managers and have driven the research on this article to getting the answer to a highly important marketing topic "How to strengthen customer loyalty using customer segmentation?". Anyone who has bought a product or a service has probably suffered at least once from a company's apparent indifference to what should be its first concern: the customer experiences. If this is the case, the company is in a wrong direction, since loyalty is the most powerful tool in today competitive market. To strengthen the bonds with these high-profit customers, innovative companies are deploying enterprise-wide strategies built on consumer segmentation.*

**Key-words:** *customer satisfaction, customer loyalty, captive customers, customer segmentation*

## 1. Introduction

It used to be that marketing was segmented into two categories; business-to-business (B2B) or business-to-consumer (B2C), but that's not valid anymore.

We live in a remarkable, revolutionary time where humans are more connected to technology than ever before. With technology comes the constant influx of information thrown at consumers on a daily basis.

This has, in turn, forced businesses to reevaluate their approach to marketing. With humans so attached to their technological counterparts, businesses must find ways to reconnect with consumers on each device and each social platform they use, but in a way that enables those consumers to actually feel connected to the business on a more human level than was previously ever required.

As opposed to the Industrial Era where big businesses cast a shadow on their audience with power, authority, and demanded respect, the Human Era, that we live in

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now, urges businesses to be a *peer* instead of a *superior*. Only by individualizing an audience and building authentic connections will a business thrive in the Human Era.

B2B and B2C But set forth an unnatural language for marketers. The fact is that businesses do not have emotion. Products do not have emotion, humans do. Humans want to feel something. People want to be a part of something bigger than themselves. People want to be included. People want to understand. But people are also humans and with this come mistakes.

As humans, it's in our nature to say the wrong thing, get embarrassed, and not realize the consequences of our actions. The rise of social media has given a digital platform to the dark side of anonymity, both as individuals and as crowds. The delightful side of humanity holds with it empathy, understanding, and forgiveness, and when remembered in our communication, it ties us together as a common group. Communication shouldn't be complicated. It should just be genuine and simple, with the humility and understanding that we're all multi-dimensional humans, every one of which has spent time in both the dark and delightful parts of life. That's human to human. That is H2H.

Since businesses do not have emotions, but people do, as a consequence of the changes in the markets, firms need to adept their business to H2H, in order to succeed, by carefully cultivating customer satisfaction and loyalty through customer care programs and with this approach the benefits reflect on the customer who receives superior quality services and is placed in the center of everybody's attention.

## 2. Using segmentation to strengthen the customer loyalty

### 2.1. The concept

Customer segmentation relies on identifying key differentiators that divide customers into groups that can be targeted. Information such as: customers demographics (age, race, religion, gender, family size, ethnicity, income, education level), geographic (where they live and work), psychographic (social class, lifestyle and personality characteristics) and behavioral (spending, consumption, usage and desired benefits) tendencies are taken into account when determining customer segmentation practices.

By enabling companies to target specific groups of customers, a customer segmentation model allows for the effective allocation of marketing resources and the maximization of cross- and up-selling opportunities. When a group of customers is sent personalized messages as part of a marketing mix that is designed around their needs, it's easier for companies to send those customers special offers meant to encourage them to buy more products. Customer segmentation can also improve customer service and assist in customer loyalty and retention. As a by-product of its

personalized nature, marketing materials sent out using customer segmentation tend to be more valued and appreciated by the customer who receives them as opposed to impersonal brand messaging that doesn't acknowledge purchase history or any kind of customer relationship.

Other benefits of customer segmentation include staying a step ahead of competitors in specific sections of the market and identifying new products existing or potential customers could be interested in or improving products to meet customer expectations.

Not only do companies strive to divide their customers into measurable segments according to their needs, behaviors or demographics but they also aim to determine the profit potential of each segment by analyzing its revenue and cost impacts. Value-based segmentation evaluates groups of customers in terms of the revenue they generate and the costs of establishing and maintaining relationships with them. It also helps companies determine which segments are the most and least profitable so that they can adjust their marketing budgets accordingly.

Customer segmentation can have a great effect on customer management in that, by dividing customers into different groups that share similar needs, the company can market to each group differently and focus on what each kind of customer needs at any given moment. Large or small, and niche customer segments can be targeted depending on the company's resources or needs. (Customer Loyalty - Meaning and its Important Concepts)

According to *Mike Mancini, Vice President of Data Product Management Nielsen Claritas, c*ustomer loyalty comes in many forms: consumers who wouldn't think of buying a car from another dealer, shoppers who are on a first-name basis with a boutique store clerk, coffee shop regulars who don't even need to place an order to get their half-cafe, no-whip soy latte. Loyal customers, built one positive experience at a time, provide businesses with a steady revenue stream, higher profit margins and spread good news about the brand widely.

## 2.2. The principles

According to Nielsen Holdings[2], the most important principles to achieving success are presented here.

**a) Identify key customer segments.**

Identify the best segments by comparing the customers or sales in each segment to the market average or nationwide using syndicated data. But determining who

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[2] N**ielsen Holdings PLC** is a global information and measurement company with headquarters in The United Kingdom. Nielsen is a leading global, independent measurement and data company for fast moving consumer goods, customer behavior and media. With a presence in more than 100 countries and services covering more than 90% of the globe's GDP and population, Nielsen provides clients with a comprehensive understanding of what consumers watch (programming, advertising) and what they buy (categories, brands, products) on a global and local basis and how those choices intersect.

the best customers are requires analyzing not just transaction level profitability, but also the cost of maintaining them. Do they use a lot of discount coupons, rain checks or rebates? Do they return a lot of items? These factors play an important role in developing the optimal model.

b) **Create target groups of similar segments.** After merging similar segments of the best customers into four to eight target groups, the analysis should focus on each group, to determine who they are (demographics), what they're like (lifestyle activities and product preferences), where they live (geographic concentration) and how to reach them (media consumption). If possible, identify their psychographics to help determine whether they're early adopters, price sensitive or green consumers.

c) **Prospect for look-alikes in target markets and own customer database.**
Perform a market analysis that projects the concentration of target groups to potential trade areas, and then rank promising areas by profitability and long-term value. After determining each target group's preferences, it can be developed a media and marketing strategy for each market.

d) **Deliver differentiated messages and experiences.**
Develop different product positioning or messages for top target groups to keep current customers from defecting. Also, customize merchandising strategies to the target groups to win greater share of wallet. Each approach should reflect their backgrounds, lifestyles and preferences. And your sales staff should be thoroughly briefed on your top customer groups.

e) **Keep it simple** by using simple custom models that can be applied in the real marketplace.

f) **Get everyone involved in the consumer segmentation approach.**
Advanced segmentation initiatives require multiple departments to adopt the strategies. It means that a company's merchandising department presents products that appeal to the target audience.

g) **Measure the effectiveness and adjust the strategy.**
Use ROI analytics to ensure that the strategy is gaining traction and delivering on goals. By measuring how the customers respond to the firm's efforts, it can better predict future behavior and refine the segmentation strategies accordingly.

Using consumer segmentation to build customer loyalty can help companies prosper even in a difficult economy with comprehensive data and a willingness to modify practices throughout the enterprise.

By shifting resources away from mass marketing channels to a focused campaign that puts their best customers front and center, businesses can improve sales and decrease costs, while building a loyal clientele that allows them to weather this challenging market. (Nielsen Company, 2009)

## 2.3. The methodology

Customer Segmentation is the subdivision of a market into discrete customer groups that share similar characteristics. Customer Segmentation can be a powerful means to identify unmet customer needs. Companies that identify underserved segments can then outperform the competition by developing uniquely appealing products and services. Customer Segmentation is most effective when a company tailors offerings to segments that are the most profitable and serves them with distinct competitive advantages. This prioritization can help companies develop marketing campaigns and pricing strategies to extract maximum value from both high- and low-profit customers. A company can use Customer Segmentation as the principal basis for allocating resources to product development, marketing, service and delivery programs.

**Customer segmentation** requires managers to:
> ➢ Divide the market into meaningful and measurable segments according to customers' needs, their past behaviors or their demographic profiles
> ➢ Determine the profit potential of each segment by analyzing the revenue and cost impacts of serving each segment
> ➢ Target segments according to their profit potential and the company's ability to serve them in a proprietary way\
> ➢ Invest resources to tailor product, service, marketing and distribution programs to match the needs of each target segment
> ➢ Measure performance of each segment and adjust the segmentation approach over time as market conditions change decision making throughout the organization

Companies can use Customer Segmentation to:
> ➢ Prioritize new product development efforts
> ➢ Develop customized marketing programs
> ➢ Choose specific product features
> ➢ Establish appropriate service options
> ➢ Design an optimal distribution strategy
> ➢ Determine appropriate product pricing.


## 3. Satisfaction and loyalty management tools

Those tools grow a business' revenues and profits by improving retention among its customers, employees and investors. Loyalty programs measure and track the loyalty of the groups, diagnose the root causes of defection among them and develop ways not only to boost their allegiance, but also to turn them into advocates for the company.

Satisfaction and Loyalty Management quantifiably links financial results to changes in retention rates, maintaining that even small shifts in retention can yield signify cant changes in company profit performance and growth.

A comprehensive Satisfaction and Loyalty Management program requires companies to:

➢ Regularly assess current loyalty levels through surveys and behavioral data. The most effective approaches distinguish mere satisfaction from true loyalty. They ask current customer show likely they would be to recommend the company to a friend or a colleague, and also ask frontline employees whether they believe the organization deserves their loyalty.
➢ Benchmark current loyalty levels against those of competitors.
➢ Identify the few dimensions of performance that matter most to customers and employees, and track them rigorously.
➢ Systematically communicate survey feedback throughout the organization.
➢ Build loyalty and retention targets into the company's incentive, planning and budgeting systems.
➢ Develop new programs to reduce customer and employee churn rates.
➢ Revise policies that drive short-term results at the expense of long-term loyalty, such as high service fees and discounts given only to new customers.
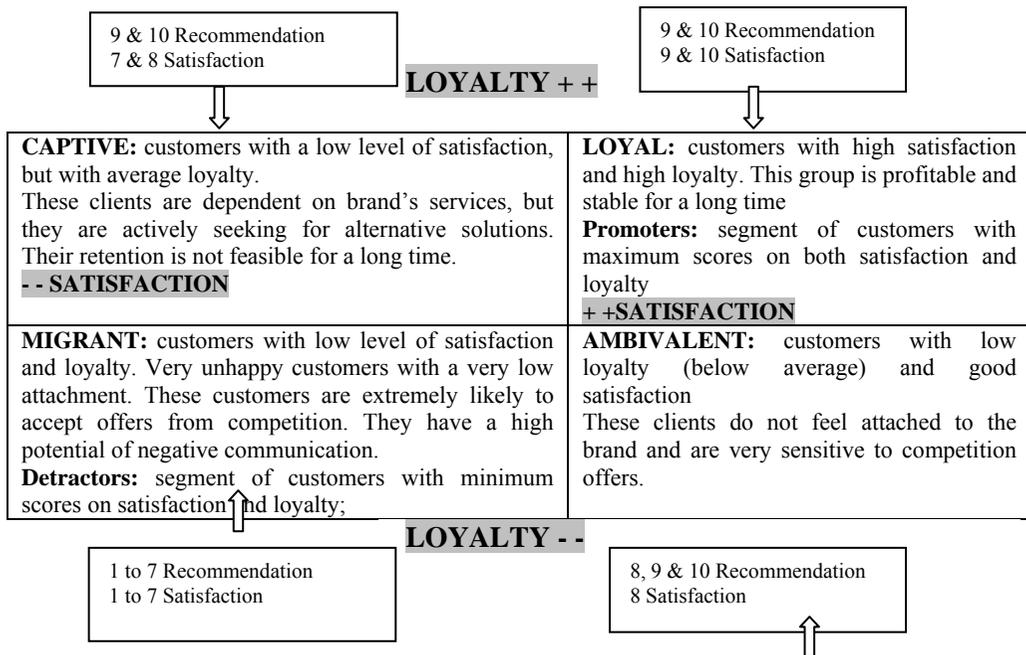➢ Reach out to investors and suppliers to learn what drives their loyalty.

| 9 & 10 Recommendation<br>7 & 8 Satisfaction | | 9 & 10 Recommendation<br>9 & 10 Satisfaction | |
|---|---|---|---|
| **LOYALTY + +** | | | |
| **CAPTIVE:** customers with a low level of satisfaction, but with average loyalty.<br>These clients are dependent on brand's services, but they are actively seeking for alternative solutions. Their retention is not feasible for a long time.<br>**- - SATISFACTION** | | **LOYAL:** customers with high satisfaction and high loyalty. This group is profitable and stable for a long time<br>**Promoters:** segment of customers with maximum scores on both satisfaction and loyalty<br>**+ +SATISFACTION** | |
| **MIGRANT:** customers with low level of satisfaction and loyalty. Very unhappy customers with a very low attachment. These customers are extremely likely to accept offers from competition. They have a high potential of negative communication.<br>**Detractors:** segment of customers with minimum scores on satisfaction and loyalty; | | **AMBIVALENT:** customers with low loyalty (below average) and good satisfaction<br>These clients do not feel attached to the brand and are very sensitive to competition offers. | |
| **LOYALTY - -** | | | |
| 1 to 7 Recommendation<br>1 to 7 Satisfaction | | 8, 9 & 10 Recommendation<br>8 Satisfaction | |

Fig. 1. *Customer segmentation based on satisfaction and loyalty*

The concept of **"captive customers"** is the notion that customers are held captive by the companies with whom they business as evidenced by extremely low churn rates. These companies mistakenly equate retention with satisfaction. "Prisoners cannot leave the prison so why bother making their stay more pleasant," the thinking goes (Arussy, 2006).

There are several reasons why customers can become captive. One reason is the result of customers' delight from an amazing customer experience – a total value proposition that is so attractive that they will have no reason to shop for competing products and services. The second reason bears no semblance to the first. Customers are often held captive as a result of monopolistic industries and unfriendly business regulations. The utility industry is a classic example of a monopolistic industry where the absence of competition leaves customers at their providers' mercy and prevents them from defecting to a competitor. Other reasons behind customer captivity include the following:

- ➢ Lack of quality competition – The quality of competitors is often so poor that despite the desire to defect, a lack of suitable alternatives inhibits customers' ability to do so.
- ➢ Inertia – After years of poor customer service, customers have simply gotten used to the idea that nothing will change, leaving them with no will to fight their company. In some cases, customers perceive the product or service as a commodity and lack the desire to take the time and effort to search for better alternatives.
- ➢ High barriers to defection – Until the passage of legislation allowing consumers to leave their mobile carriers with their mobile numbers, defecting from mobile carriers was extremely challenging. Customers preferred to remain in a state of permanent dissatisfaction with their carriers so long as they kept their mobile numbers rather than defect and update their family, friends and colleagues on their number.
- ➢ Lack of knowledge – historically a significant reason, the proliferation of the internet and the speed of information flow is leading increasingly educated consumers to seek other alternatives in growing numbers.

The belief that customers are captive frequently leads companies to mistreat the very people who keep them in business. These companies operate under the mistaken belief that mistreating customers is free. Mistreating captive customers comes with a price – a hefty price.

Captive customers view the products and services that are provided by their vendors as commodities. They do not associate significant value with these products and services and expect they tend to complain excessively and frequently abuse their vendors' employees. Each complaint comes with a price. As the length of the call

from an irate customer increases, so does the cost. Transferring the customer to a manager or supervisor increases that cost. Calling to complain about the inability of the company to resolve the problem on the first, second or third call increases the cost. Customers on hold while other customers complain further increases that cost. Captive customers utilize a disproportionate amount of resources and companies cannot generally operate effectively and profitably under these conditions (Arussy, 2006).

**"Loyal customers"** are those who stick to the supplier on certain grounds though they may be having other options also. It may be possible that the supplier may not have the best product or the customer may be having some problems with the supplier in respect of his supply of the product but the customer likes to ignore other options and prefers to continue with the same supplier as the customer thinks the supplier provides him more value and benefit than others. Such loyal customers tend to spend more money buy more, buy longer and tell more people about the product or supplier. This type of long-term customer loyalty can only be created by making the customers feel that they are number one priority with the supplier.
Some customers are inherently predictable and loyal, irrespective of the supplier with which they are doing business. They simply prefer long-term relationships with him. Loyal customers are predisposed to stay with one product or supplier, resisting competitive offers and also recommend the supplier to others. (Customer Loyalty - Meaning and its Important Concepts)

In a typically survey, in order to determine **the secure customers**, the clients are asked upon their level of:
  ➢ *satisfaction,* usually asked like "*How satisfied are you in general with ...?*",
  ➢ *recommendation* "*Would you recommend the product/ the brand.to your friends or acquaintances?*
  ➢ *future intention* to buy from the brand "*How likely it's for you to consider in the future using the services and products of ...?*"

The scale of answers is between 1 and 10.
The secure customers are those who score 9 & 10 on all three questions.
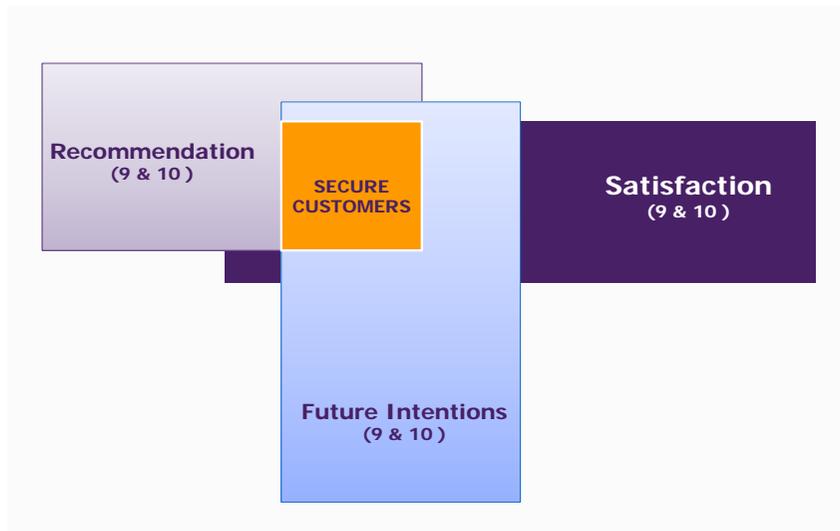The graphical representation can be seen bellow.

Fig. 2. *Secure customers*

## 4. Conclusions

Every supplier wants to create and retain a loyal customer who engages in continued profitable business with him.

Customer Loyalty is the measure of success of the supplier in retaining a long term relationship with the customer. Thus customer loyalty is when a supplier receives the ultimate reward of his efforts in interacting with its customer.

Customer loyalty tends the customer to voluntarily choose a particular product against another for his need. The loyalty may be product specific or it may be company specific. When a loyal customer has repetitive requirement of the same product, such customers may be described as being 'brand loyal'. On the other hand he may also require different products of the same manufacturer. That is to say he makes significant purchases direct from the same supplier and that counts as the company specific loyalty.

In case the business is done directly the relationship is direct so also the loyalty. But if the selling is through two or more intermediaries then the loyalty has to be measured at different levels. In that case the end customer loyalty is influenced by the loyalty of the intermediate customers. Then the supplier has to focus his loyalty retention plan accordingly and has to judge and analyze the loyalties of the intermediaries. This process depends on what amount of importance he gives to each of the intermediaries and how much to the ultimate customer. But it is certain that well-managed customer retention programs are sure to give the ultimate customer loyalty.

True, the customers who are targeted by a retention program demonstrate higher loyalty to a business. Therefore such customer retention programs should include regular communication with customers, and provide them opportunities to remain active and choosing to do business with the supplier.

Loyalty is demonstrated by the actions of the customer. But it doesn't mean that the customer satisfaction level can measure his loyalty. Customer loyalty is not customer satisfaction. Customer satisfaction is the basic entry point for a good business to start with. A customer can be very satisfied with the deal and still not be loyal. On the other hand a customer may not express satisfaction but wants to remain loyal to the supplier due to some reasons which keeps him benefited from that supplier. For the same degree of satisfaction, the loyalty level may also be different for different suppliers.

On the other hand, loyalty should not be considered as just an attitude. Customer loyalty should have a direct connection to a company's financial results. The supplier should be able to plan a clear and direct economic benefit of some kind, as the result of the strategies and tactics he employs to increase its customers' loyalty.

Measuring customer loyalty and developing a retention strategy are of great importance to an organization's success. (Customer Loyalty - Meaning and its Important Concepts)

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