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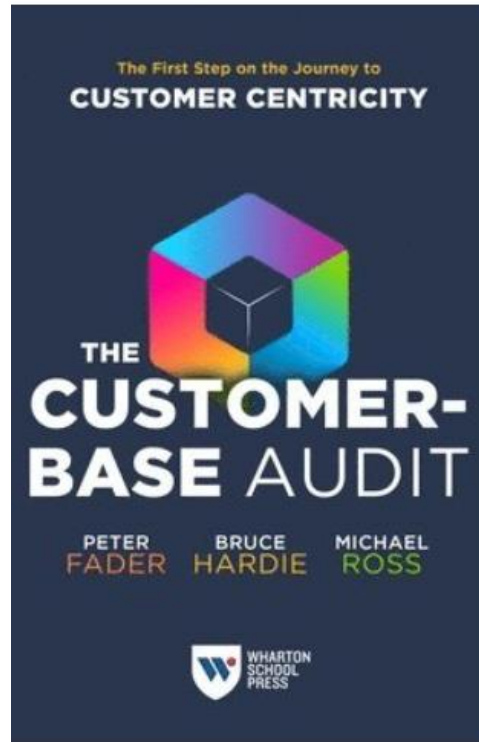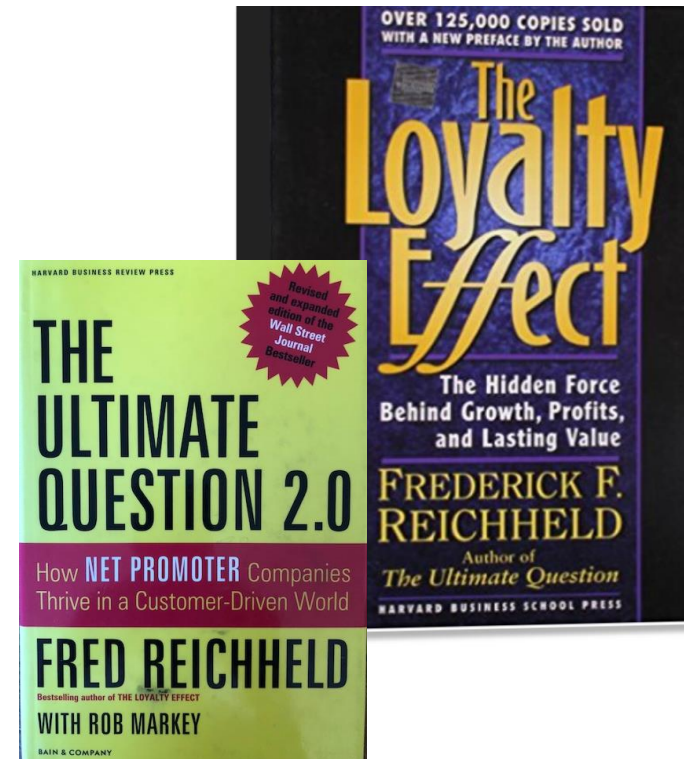in Camilla Cramner

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How many of you work with value segmentation today strategically?

Customer value & customer loyalty

Peter Fader, "CLV guru"
Professor Wharton Business School

Fred Reichheld, "Loyalty Priest"
Retention, CLV, NPS

The first step on the journey of customer centricity – a company that...

- Has the customer as the fundamental unit of analysis

- Has customer acquisition, development and retention at the core of its growth accounting framework

- Makes decision through the lens of long term customer profitability

- **Recognizes and acts on the fact that not all customers are created equal**
  - Value distribution existing customer
  - Value from new vs existing customers

80/20

Customer Loyalty as Growth strategy
-why loyal customers are more profitable

Legend (chart):
- Price premium
- Referrals
- Cost savings
- Revenue growth
- Base profit
- Acquisition cost

Annual Customer Profit (y-axis)

Year: 0 1 2 3 4 5 6 7
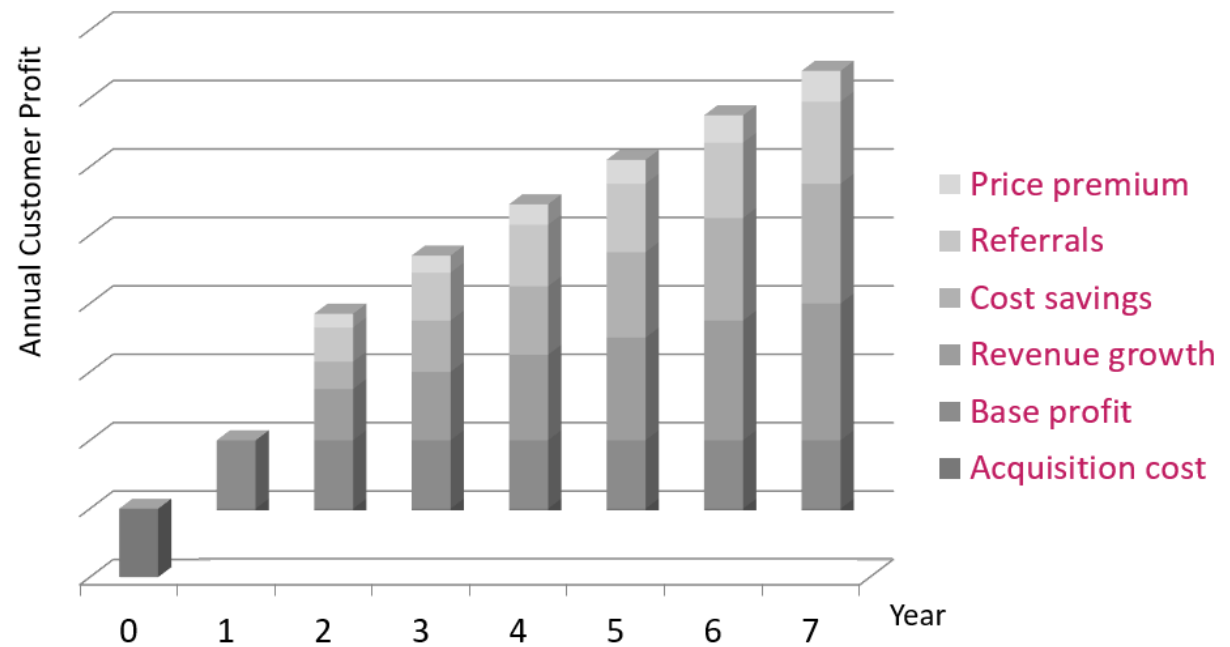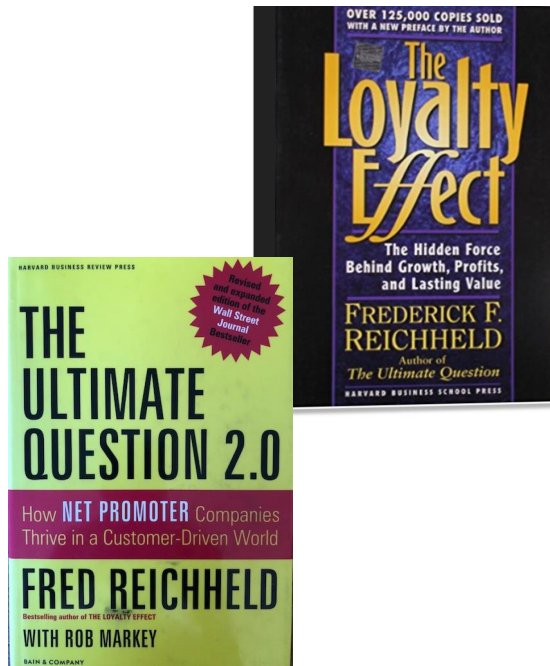
Source: Fred Reichheld, The Loyalty Effect

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CLV is built on retention rate
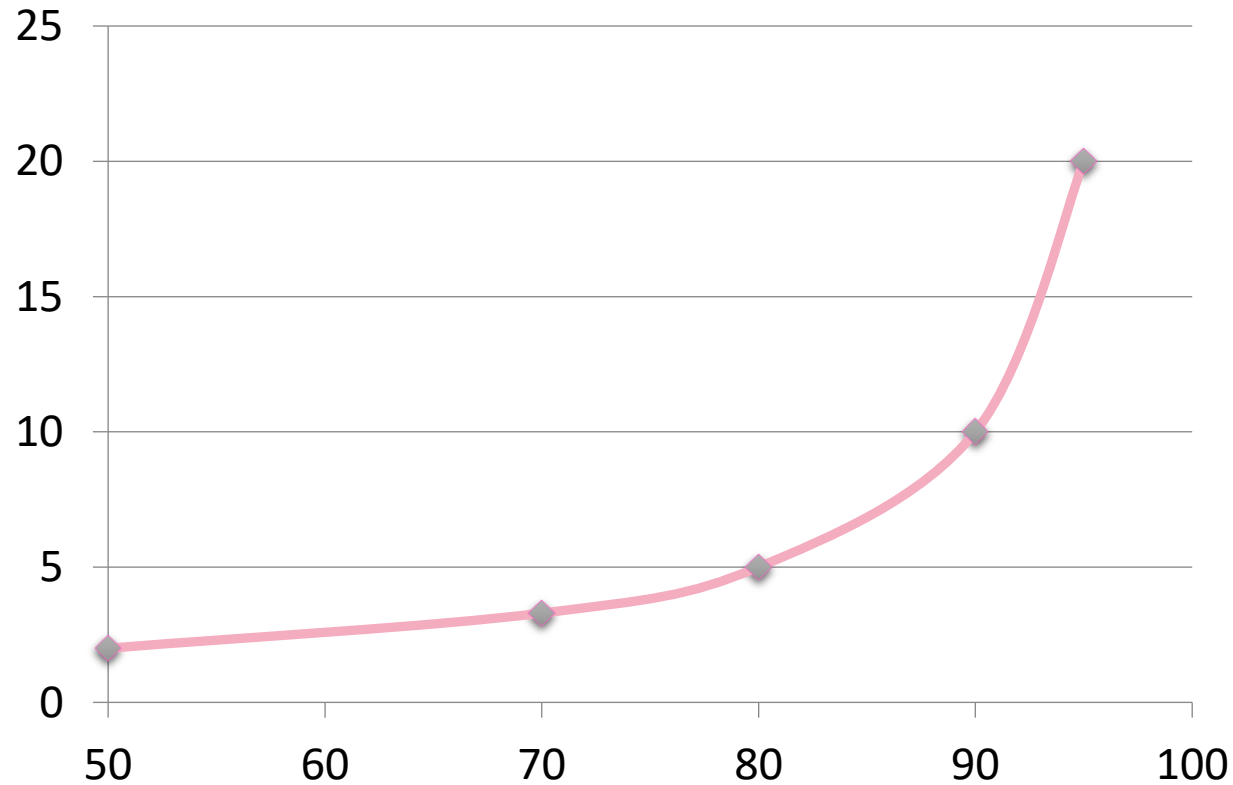## - 5% increase in retention can boost profit with 95%

Duration Customer Lifetime

$$\text{AVG CUSTOMER LIFESPAN} = \frac{1}{\text{CHURN RATE}}$$

Retention (%)

- Small increases in retention rate, especially at 80% and higher, compound into substantial changes in tenure.
- *5% increase in retention from 90% to 95% means going from 10 to 20 years duration!*

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How much does customer churn cost?
- by value segment and in total?

Ex total revenue: USD 100 m

Each 1% churn costs USD 1m

30% churn = cost USD 30m

A customer lifecycle is 3.3 years

LEAKY BUCKET
Attracting New Customers

Direct Marketing
Advertising
Social
Direct Sales
Channel Sales

$

Customer Bucket
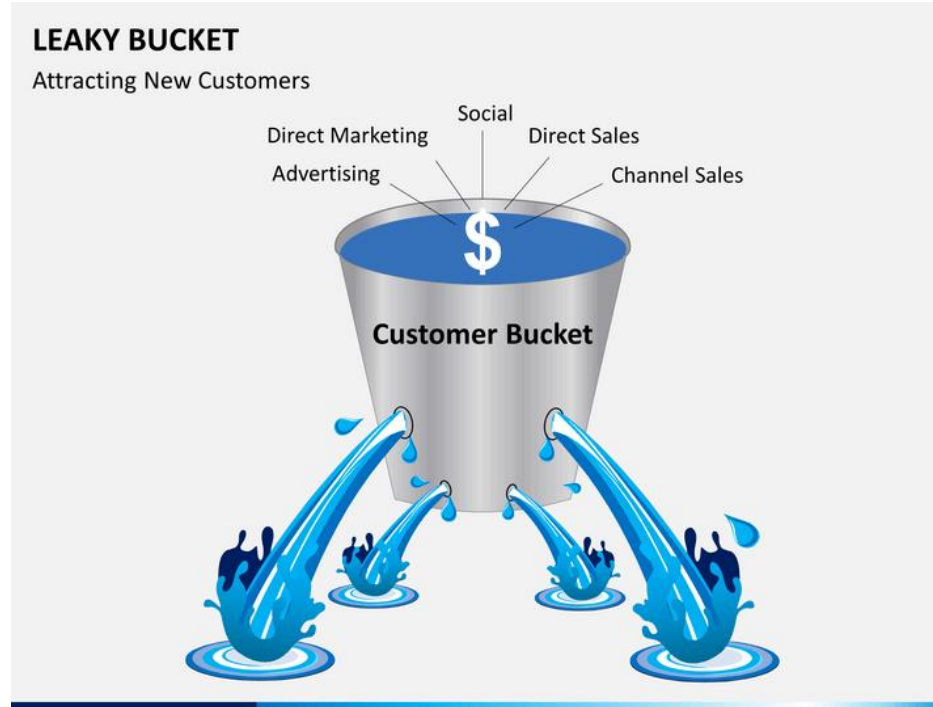
Extending the lifetime of your high-value Customers is a key strategy to optimize value of your customer base.

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LOYALTY
The BIG Handshake

Customer Retention is the new Acquisition

Customer Value Management
Strategic advantage by targeting the the right customers

Attract new customers	Develop	Retain
Right CUSTOMERS!	Right RELATIONSHIPS!	Right RETENTION!

Maximize
CLV
NPS

#, EUR, %

#, EUR, %

Winback

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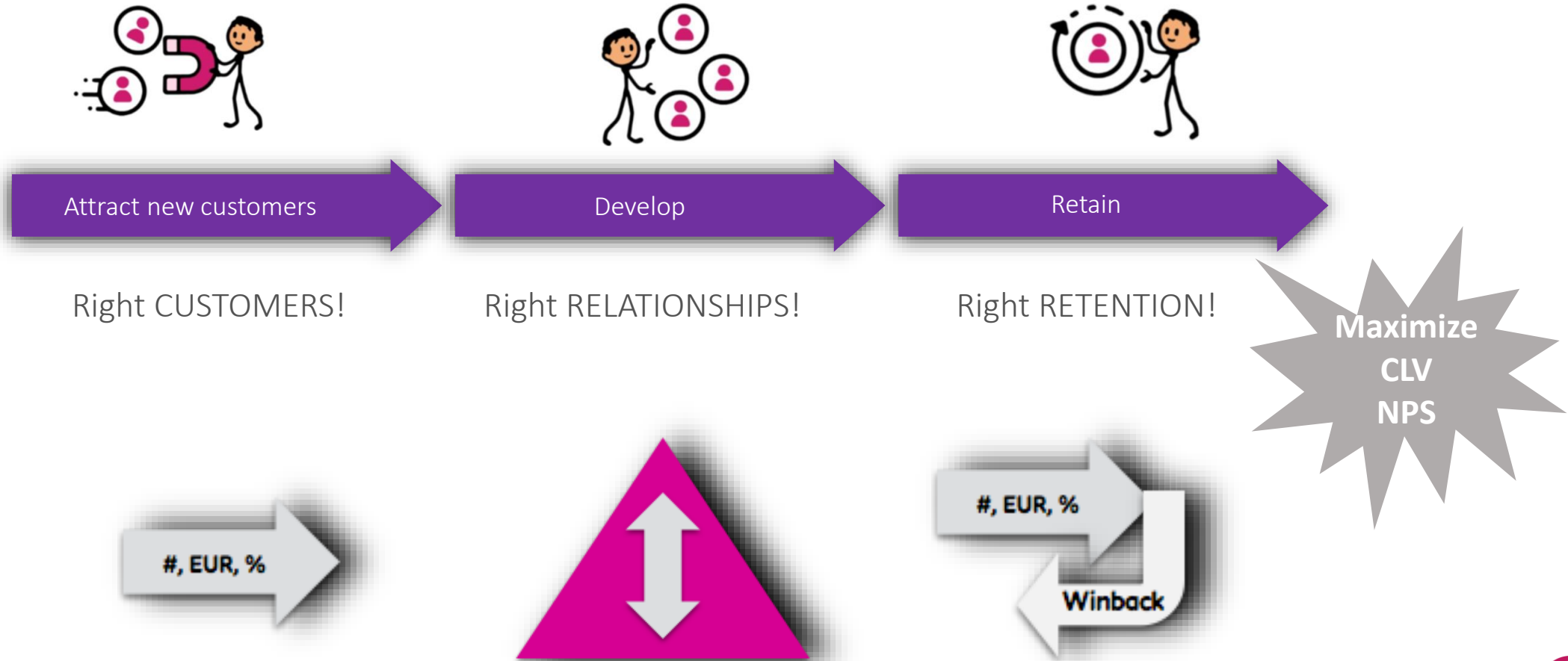
Four pillars to master (strategy & tech)–
Today's focus: Value segmentation and Customer strategy

Value Segmentation
Customer Strategy

CUSTOMER

Win back   New
End   Care
Save   Develop
Antichurn

Advanced &
Predictive Analytics

Customer Lifecycle &
Customer Journeys

Reseller
Store   Contact center
eDM   Single view of the customer Next Best Activity   Invoice
DM   TM
Web

Omnichannel Marketing automation
Next best action

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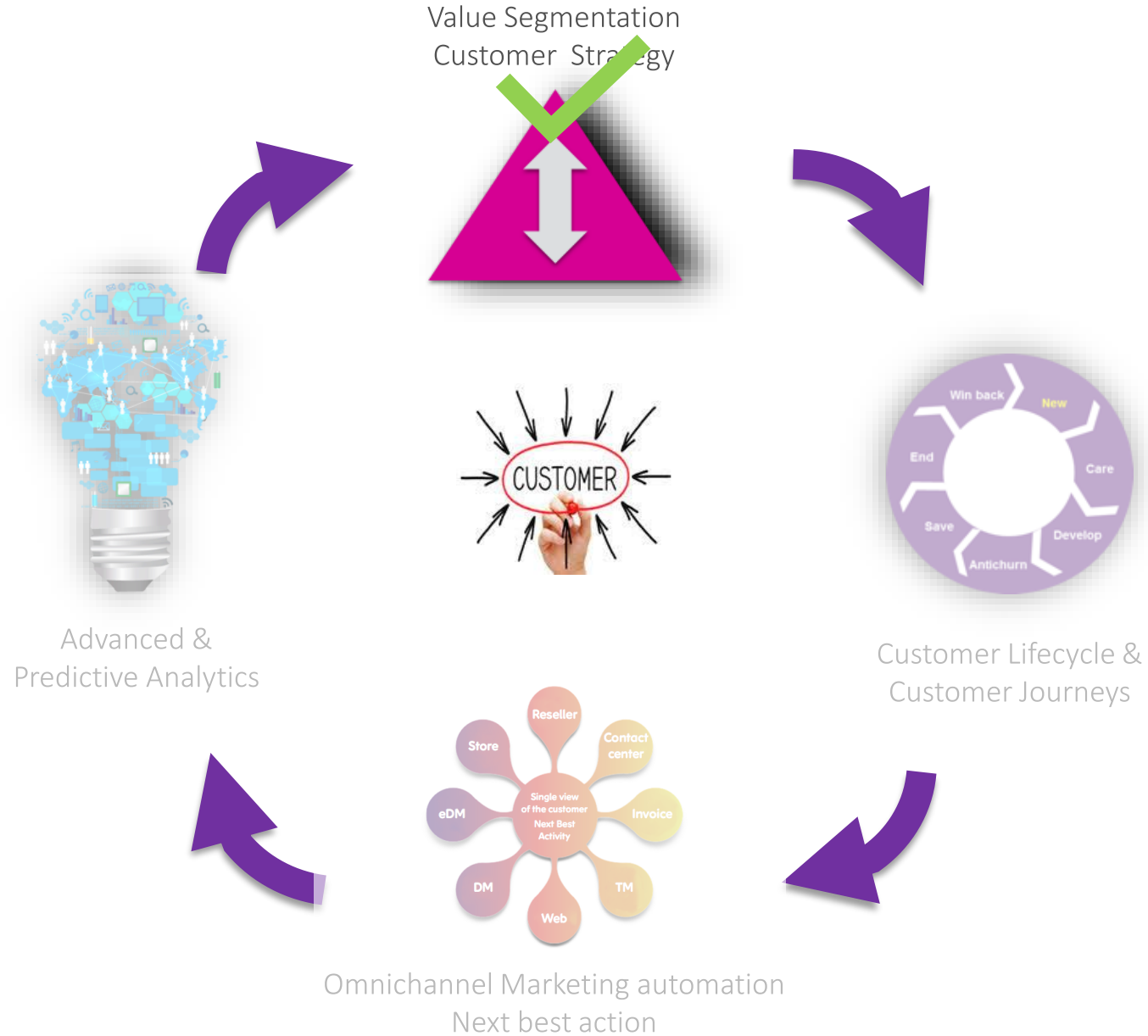
Customer value segmentation & strategy

Focus your CX investment on your Royals and Loyals-
operationalize the 80/20 rule
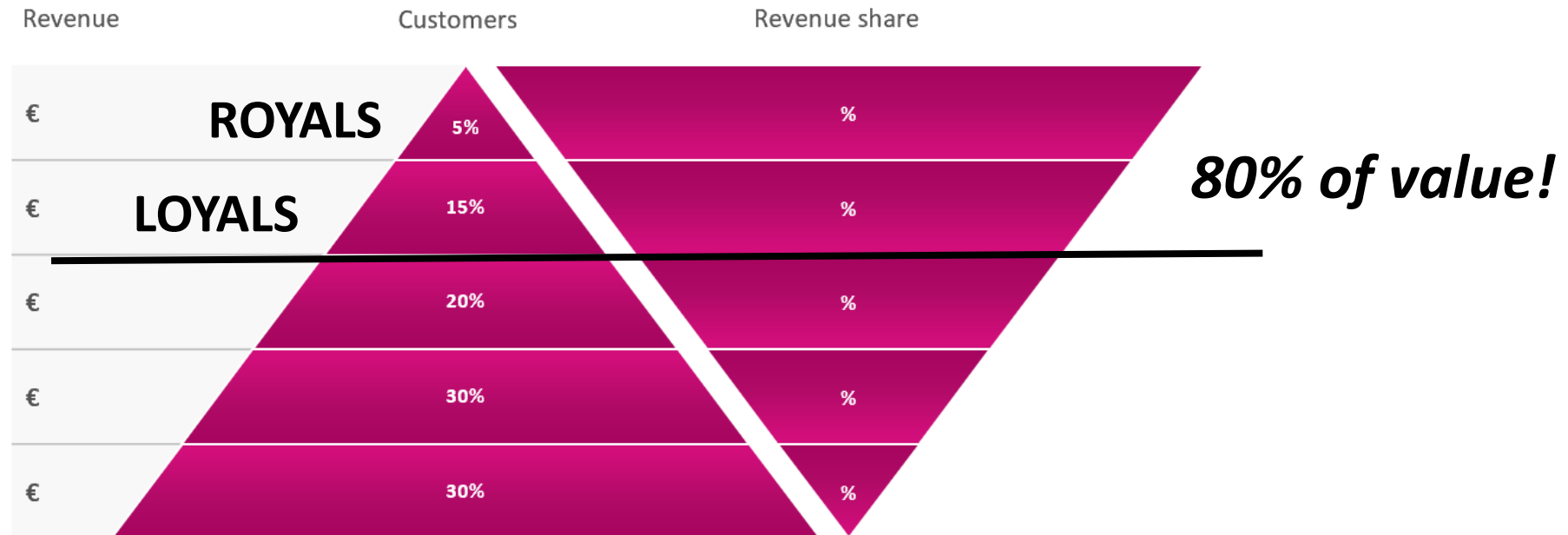
- Know your best customers!

- Differentiated value proposition

- Measure KPIs per tier

- Invest in CX and Loyalty marketing
  with top segment!

- Public or "hidden" loyalty program

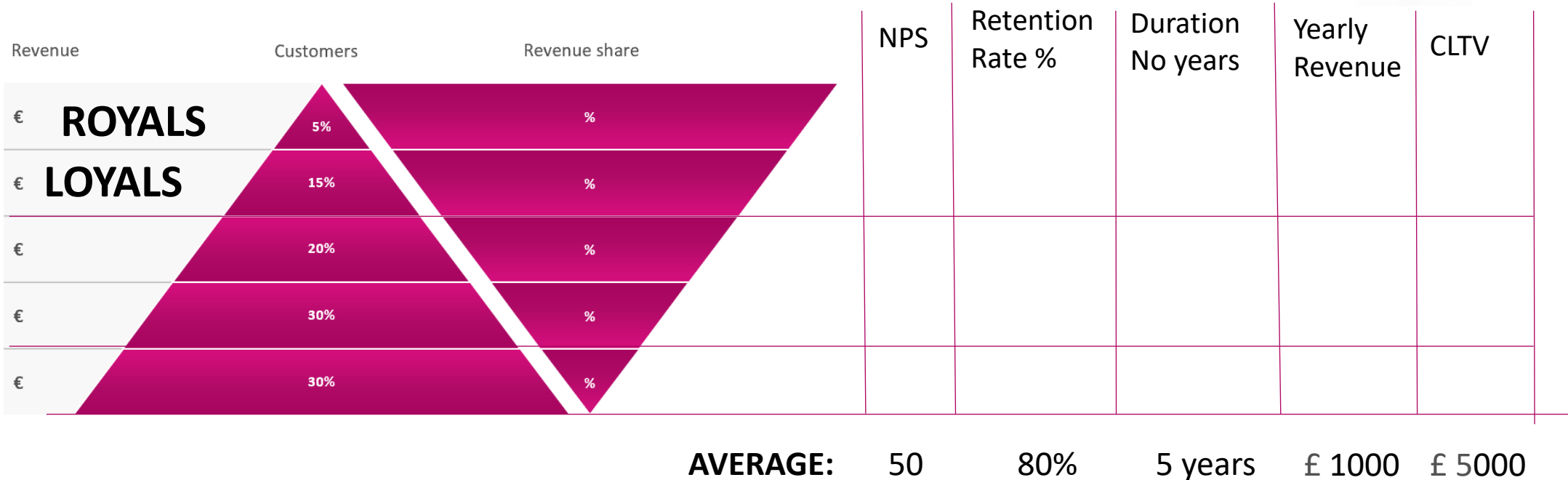| Revenue		Customers	Revenue share
€	**ROYALS**	5%	%
€	**LOYALS**	15%	%
€		20%	%
€		30%	%
€		30%	%

80% of value!

LOYALTY
The BIG Handshake

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Customers are similar but also different
- understand emotional and behavioral loyalty

| Revenue	Customers	Revenue share	NPS	Retention Rate %	Duration No years	Yearly Revenue	CLTV
€ ROYALS	5%	%					
€ LOYALS	15%	%					
€	20%	%					
€	30%	%					
€	30%	%					
AVERAGE:			50	80%	5 years	£ 1000	£ 5000

How healty is your customer base?

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Key questions relating to value segmentation

- Do you rely on a small group of customers? For example; how many customers (%) accounted for half of your revenue?

- Your top 10, 20% customers – what % of revenue do they stand for?
  - Who are they? Products? Segments?

- Are your high value customers your promotors (high NPS)?

- Revenue and retention by value tier?

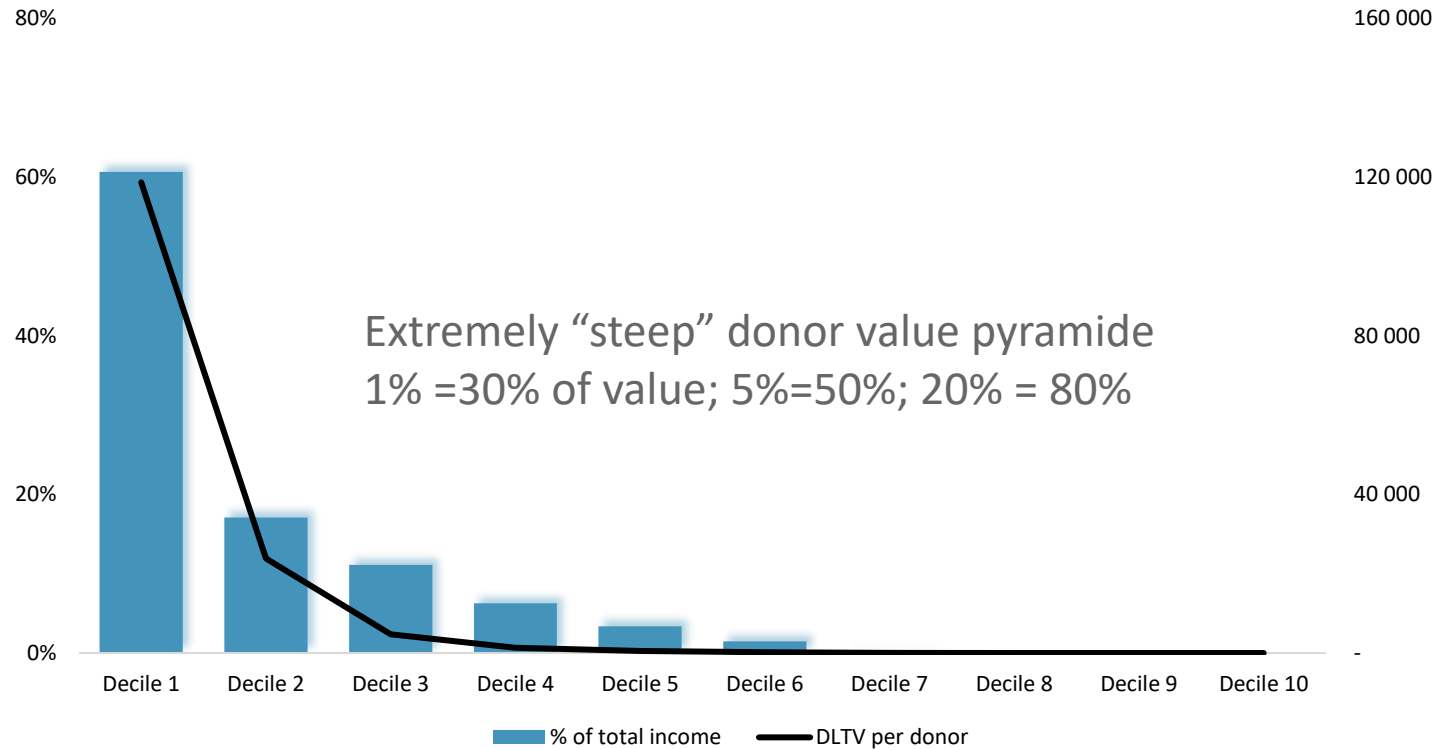- *RECOMMENDED IS A DECILE ANALYSIS – A CUSTOMER BASE AUDIT!*
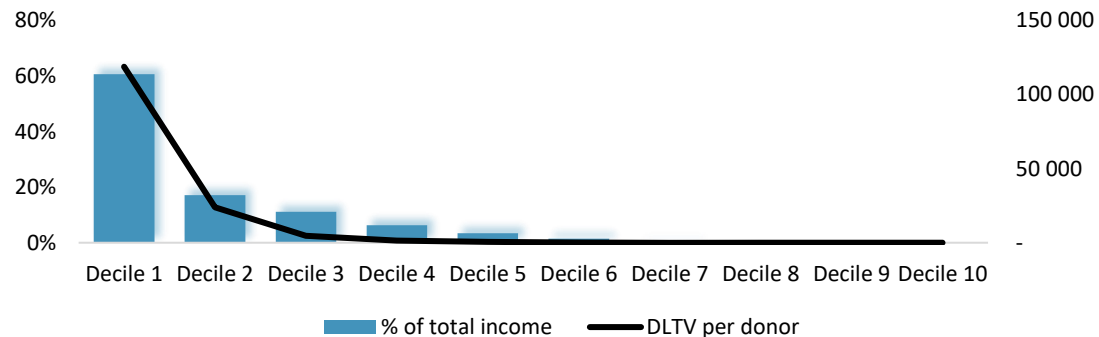
Example Case Value segmentation
Who are our loyal and profitable customers?

Decile analysis & data collection – value distribution and other customer insights

Extremely "steep" donor value pyramide
1% =30% of value; 5%=50%; 20% = 80%

Legend: ■ % of total income — DLTV per donor

Analyzed per decile, key areas:

1. Revenue/donation patterns per decile, monthly/one off/cross-over; frequency, mini/ max/ mean revenue/donor

2. Segment definitions (current), demographics, communication access, first channel

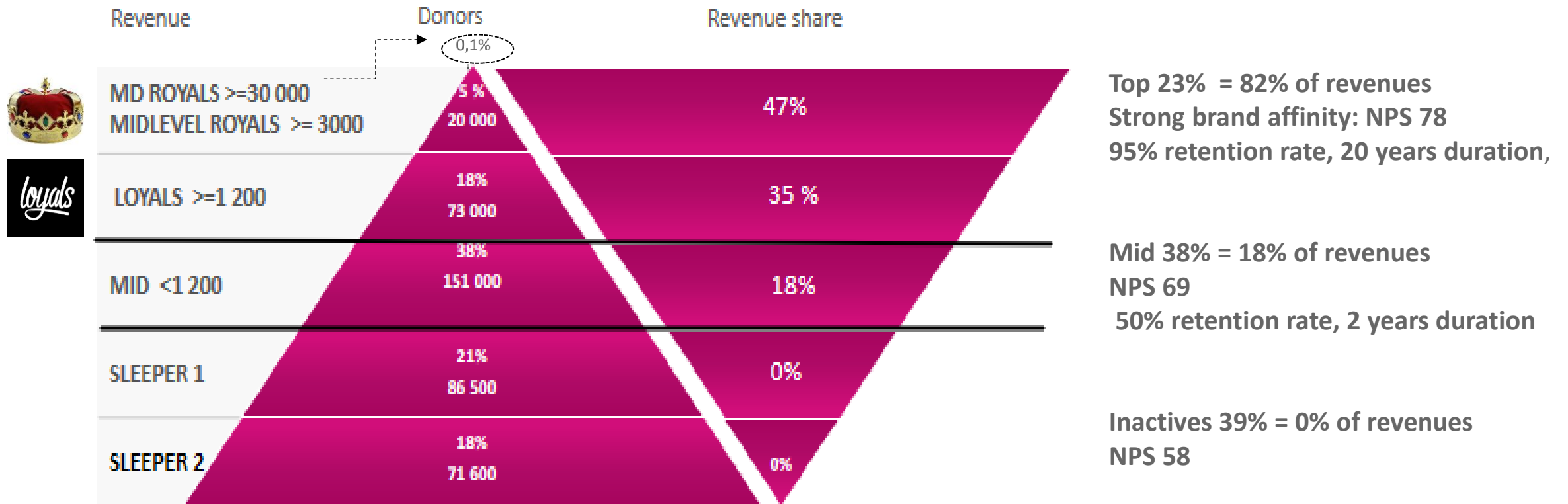3. Loyalty indicators/KPI's: retention rate, duration, DLTV, NPS

Example Case Value segmentation & CLV
Who are our loyal and profitable customers?
CLV analysis – basis for strategy, KPIs and differentiated customer experience

Three major value segments and six granular segments

Revenue	Donors	Revenue share
	0,1%	
MD ROYALS >=30 000 / MIDLEVEL ROYALS >= 3000	5 % / 20 000	47%
LOYALS >=1 200	18% / 73 000	35 %
MID <1 200	38% / 151 000	18%
SLEEPER 1	21% / 86 500	0%
SLEEPER 2	18% / 71 600	0%

Top 23% = 82% of revenues
Strong brand affinity: NPS 78
95% retention rate, 20 years duration,

Mid 38% = 18% of revenues
NPS 69
50% retention rate, 2 years duration

Inactives 39% = 0% of revenues
NPS 58

Strategies and KPI's built from this
-Differentiated experience-Royal program
-Value drivers retention rate, upgrades, reactivation

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Strategies for value creation?

How would you work with different segments and where is the biggest potential?
Which value drivers/KPI's would you focus on?

Typically

- **Top 20% of customers** contribute to **80% of total revenue**.

- **Middle 30% of customers** contribute to a smaller proportion, say **10-15%** of revenue.

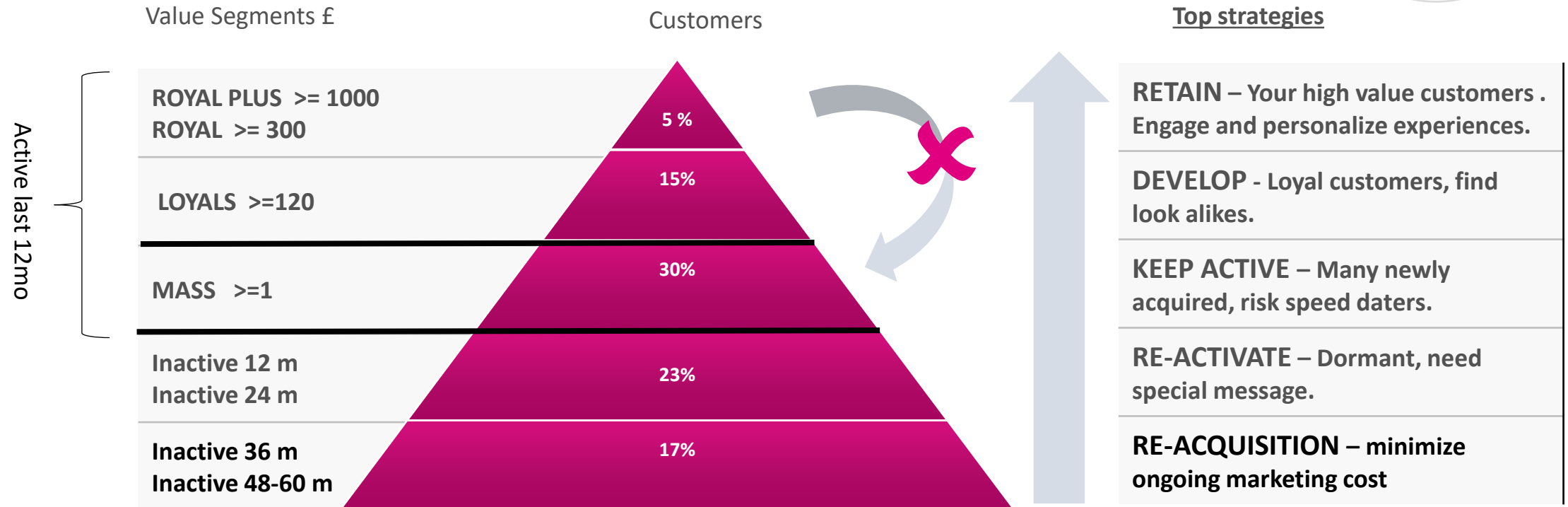- **Bottom 50% of customers** contribute to a very small amount, often around **5-10%**.

Marketing budget spread
All over...one size fits all..

Strategy and Objectives
Value creation

Value Segments £

Customers

Top strategies

Active last 12mo

Value Segments	Customers %
ROYAL PLUS >= 1000 ROYAL >= 300	5 %
LOYALS >=120	15%
MASS >=1	30%
Inactive 12 m Inactive 24 m	23%
Inactive 36 m Inactive 48-60 m	17%

RETAIN – Your high value customers . Engage and personalize experiences.

DEVELOP - Loyal customers, find look alikes.

KEEP ACTIVE – Many newly acquired, risk speed daters.

RE-ACTIVATE – Dormant, need special message.

RE-ACQUISITION – minimize ongoing marketing cost

Step 1 to increasing value:
Increase retention of high value customers!

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Public or hidden Loyalty program?

Rewarding and driving value through eco system of benefits and 1:1 communication and inspiration.
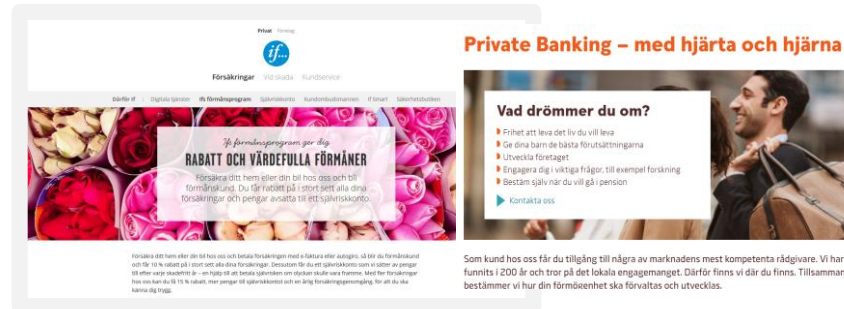
Retail & Food
1:1 omnichannel communication to drive Sales/Store visits

Travel, leisure & credit cards
Points, membership levels, service benefits- differentiated customer experience

Amazon: world's largest loyalty program. Yearly fee, includes free and faster shipping. No points. Paid loyalty. Members spend 4x more than non members.

Insurance & banking
Bundles/Discount "full customer", high spend: Extra service, advise

Co creation, Beta testing
Engage & Involve

No/Hidden Loyalty program
Bundles, overall loyalty focus

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Trends: data and technology, experiences, sustainability.

Steps to implement Value segmentation

1. Decile analysis - Analyze your data and loyalty KPI's

2. Value segmentation & Persona

3. Customer feedback, loyalty drivers by segment

4. Strategies & KPI's by value segment

5. Loyalty business case

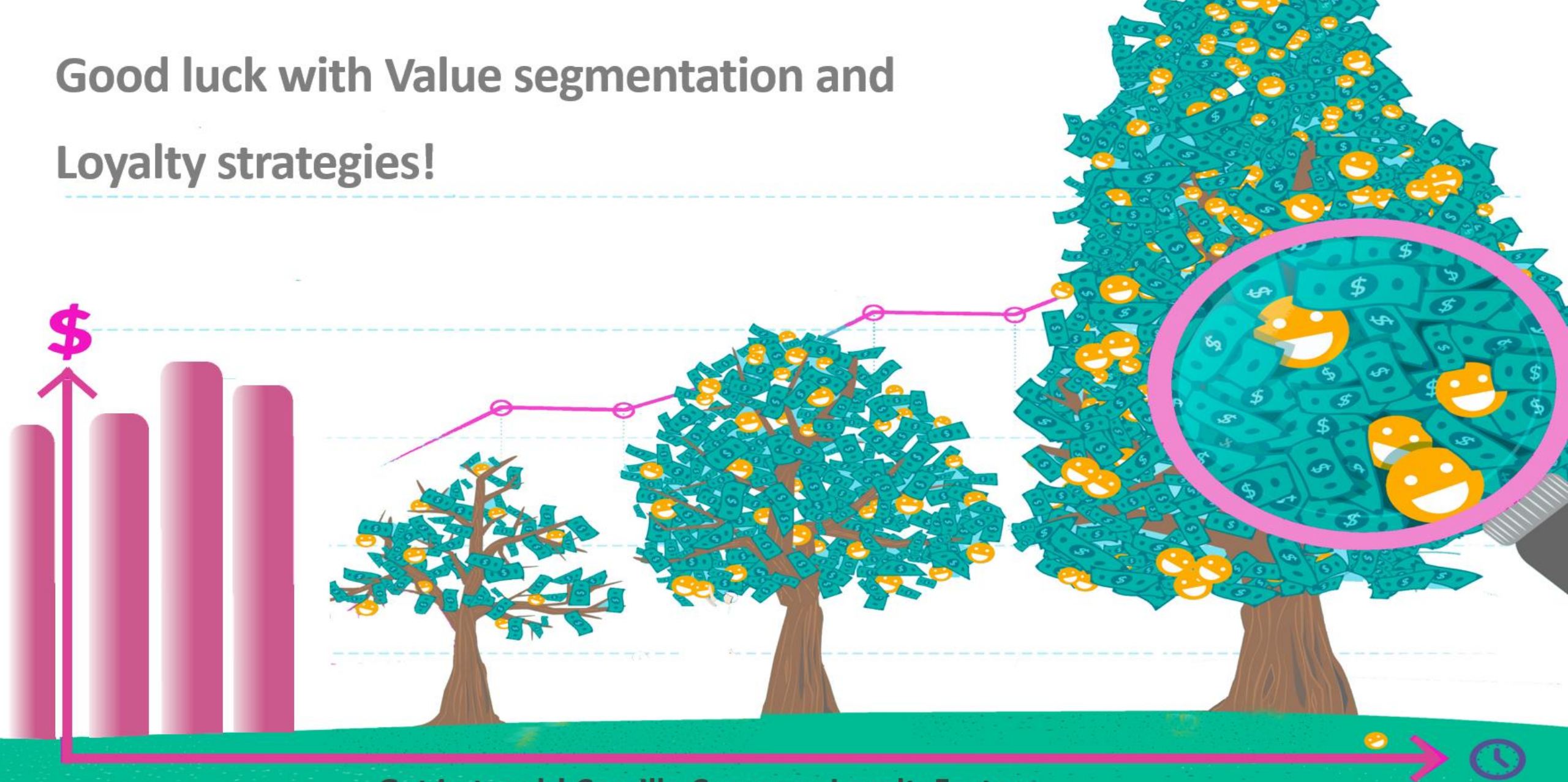6. Customer base segment reporting & performance

What are your next steps when it comes to value segmentation? Any new ideas?

Good luck with Value segmentation and Loyalty strategies!

Get in touch! Camilla Cramner, LoyaltyFactory
camilla.cramner@loyaltyfactory.se

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