

# Divide and conquer

**Martin Green**, vice president EMEA at Net Promoter company Satmetrix, provides some practical advice on how to build revenue by segmenting according to customer loyalty

**A**s the recession takes its toll, marketers are increasingly expected to do more with less. So what can you do? One answer is to segment your customers by the experience they have with you so that you can focus on the most loyal, lucrative and influential segments.

## Why segment by loyalty?

According to research Satmetrix conducted with Fred Reichheld and Bain & Company, loyal customers exhibit four key behaviours that drive growth and profitability:

### 1. Repurchase

Vitally important in a downturn.

### 2. Increased purchase

B2B companies are more likely to up-sell and cross-sell additional products and services to loyal customers.

### 3. Refer you

This word-of-mouth recommendation both drives new business growth and reduces the cost-of-sale.

### 4. Provide feedback

Insight on product and service innovation can be extremely valuable when every decision needs to pay off.

Consequently, being able to identify which customers will behave in this way, and why, is critical to success and to making your marketing budget work harder.

## Use Net Promoter

Obviously, there is no one-size-fits-all approach to segmentation. Net Promoter helps you identify the strategic value of a customer because it segments by the level of loyalty and attributes financial value to the resulting behaviour. The answers to the Net Promoter question ("How likely are you to recommend product/company/service x to a colleague or a friend?") segments customers into three groups based on whether you have missed (detractors), met (passives) or exceeded (promoters) their expectations. As a result you can take immediate actions as follows:

### • Activate your promoters to positively refer your business more often.

Passives are often prone to accepting more compelling offers from competitors. Consequently, these accounts may require more urgent attention to first retain, then

convert to promoters – perhaps by targeting with tailored offers that exceed their expectations.

Detractors can cost your business, either by defecting (despite making investments to recover the relationship) or by feeding the marketplace with negative comments about your business. We suggest you take the most profitable detractor accounts first and identify if you can turn around the relationship. If you can, great! But if not, exit the relationship in a positive manner and minimise the negative word-of-mouth. (Clearly the level of revenue and margin impacted by this process will drive the extent of this action).



"Activate your promoters to positively refer your business more often"

**Martin Green**, vice president EMEA, Satmetrix

• **Obtain Net Promoter scores at multiple levels of the account.** Ensure you capture feedback from decision-makers, influencers, and end-users of your product or service.

Use the feedback as a catalyst to drive a strategic account review with the most senior contacts you can reach.

• **Overlay account-level NPS feedback on sales pipeline data.** We expect you'll qualify what's real, plus understand where there are quick wins for the business to close.

In a benchmark study of 10 enterprise software companies, Satmetrix calculated that each promoter customer generated an additional £400,000 of revenue through positive recommendations while each detractor customer created a loss of £500,000 through negative recommendations. While these economics may not apply precisely in your business,

## Segmentation considerations

1. **Enterprise roadmap.** It's all about executive sponsorship! Long-term vision from the top, coupled with Net Promoter economics and segmentation strategy, will serve as a fundamental underpinning for the critical business decisions that impact business performance.

2. **Trustworthy data.** The key to business outcomes is what we call 'voice according to value', to ensure you target, obtain and serve your most valuable and strategic customers. An effective segmentation strategy is essential to capture accurate, reliable and representative data.

3. **Root cause analysis.** To achieve Net Promoter success you must not only know your promoters, detractors and passives, but also the root cause of what creates or detracts from loyalty. Correlating this with your customer segments will give you a blueprint for action.

4. **Action and accountability.** In the end, Net Promoter is all about taking action to increase loyalty. By segmenting strategically you will enable employees across the enterprise to tailor their response according to specific segments, and truly make a difference to the bottom line!

5. **Innovation and transformation.** By listening to your customer, you will be able to identify segments where there's an opportunity to wow your customers, either by delivering standard services in an exceptional way, or by creating new and outstanding services.

we anticipate they will be directionally similar in many B2B markets.

By adding key questions to your Net Promoter programme you can calculate the impact of word-of-mouth recommendations on your business and provide further proof of the value of driving referrals and loyal behaviour.

Using Net Promoter as an integral part of your segmentation and strategic account management will help you to prioritise and focus marketing action on delighting the most loyal, influential and lucrative customer segments.

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## Question: In the current climate, should B2B marketers transfer all budget and focus onto customer retention activity?



By Karine Del Moro, European director of marketing, Satmetrix

### YES – FOCUS ON LOYAL CUSTOMERS

There's an old adage that it costs several times more to attract a new customer than to keep an existing one. When we developed Net Promoter with Fred Reichheld and Bain, the research provided compelling financial proof that it's smarter to focus efforts on building loyalty – particularly in a recession.

The research showed that loyal customers will repurchase more frequently than non-loyal customers, spend more on additional products and services, and have a higher propensity to recommend.

I believe that focus on customer experience that creates positive word of mouth holds the key to success in a recession. With trust at a premium in a recession, personal recommendations take on even greater significance.

Attracting new customers costs more in a recession for many reasons, including:

- Customers are risk-averse and more demanding. To overcome this inertia requires either a 'breakthrough' proposition or a compelling cost advantage.

- Special deals created to attract new customers will alienate existing customers.

When you compare the benefits of growing with existing customers with the cost of attracting new ones, the answer is simple. Rather than drain cash and reduce margins with expensive customer acquisition activities, smart businesses will succeed in a recession by concentrating on growing with existing customers by:

- Addressing issues that impact retention.
- Motivating customers to purchase additional offerings by exceeding expectations.
- Activating their desire to attract new customers through word of mouth referrals.



By Heather Westgate, chief executive, TDA

### NO – BUILD A HOLISTIC CUSTOMER VIEW

It's common knowledge that it costs more to win a new customer than to retain an existing one. However, it doesn't follow that acquisition is a waste of money. New customers are the life-blood of any organisation and transferring the entire marketing budget into customer retention could be a reckless move.

Rather than taking an either/or approach to acquisition and retention, B2B marketers should be looking for innovative ways to enhance the customer cycle and improve profitability. A strategic approach that takes a holistic view of acquisition and retention will put businesses in a stronger position to survive – even thrive – during the downturn and beyond.

Businesses need to minimise wastage and maximise the return on every pound spent. Customer-centricity is essential: to remain relevant and

competitive in these challenging times, we have to understand exactly what motivates buyers and align activity as appropriate.

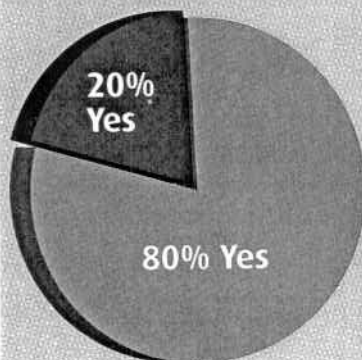
This is equally true for new customers as it is for existing customers. So, when allocating marketing spend, the question we should be asking is not 'acquisition or retention?'

Instead we need to establish which customers it will be most profitable to acquire and which it will be most profitable to retain – over the short term and long term – and then weight the budget accordingly.

Investing in sophisticated data analysis and segmentation helps to drive more astute budget allocation. It leads to a better understanding of existing customers (facilitating cross-selling and up-selling) and enables acquisition to concentrate on business customers with the propensity to deliver a higher lifetime value.

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## Interactive poll: The readers' opinion



Question posed on B2B Marketing eBulletin sent February 4 2009

**In the current climate, should B2B marketers transfer all budget and focus onto customer retention activity?**

**Yes** 80%  
**No** 20%

The email was sent to 20,000 recipients

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