Abstract

The customer segmentation is a key concept in the management of customers and in a broader sense in marketing. Without this concept, customers would be considered as an indistinctive whole and would not be divided into groups with similar needs and attitudes; without customer segmentation the marketing approach would be far more inefficient, since a good segmentation of customers implies a company focusing on customers, an increased profitability, differentiation compared to competitors and efficiency in allocating marketing budgets.

The purpose of this research is the development of a model of customer segmentation in the parapharmaceutical field, based on their lifetime value (CLV); this model would allow the allocation of marketing expenses towards the most valuable customers. The questions this paper intended to answer are: *How may one discover the value of customers?* and *How may customers be segmented according to their value?*

These questions, as well as the purpose of this research observe the current tendencies in the field of marketing, as imposed by the business environment, i.e. to provide well fundamented explanations and a wider range of answers regarding the investments made and the profits obtained from marketing programs; to interpret the results of marketing actions in terms; to make more with less; to play an active role in the turnover increase and last but not least, to take on the role of partner in business. The performance of marketing and the connection of investments to results have also been some of the main priorities indentified by MSI (Marketing Science Institute), along with the understanding of customer behavior and the market segmentation. Under these circumstances, knowing the value of a customer has become an objective itself, a competitive advantage with enormous impact on the ability to make intelligent decisions regarding the allocation of marketing budgets.

The marketing measurement tools represent nowadays the subject of numerous research, due to the capacity to quantify, compare and interpret the performance of marketing activities and to assess customers; in the specialty literature several such tools are being tackled, among which worth mentioning are: *SOW (Share of Wallet), ABC method, RFM method – recency, frequency, monetary value, customer profitability analysis (CPA), customer lifetime value (CLV)*. Among these, this PhD paper analyses and uses the customer lifetime value (CLV) because of its benefits compared to other tools, its large applicability

and its novelty degree, which allows research in the unknown and expanding the area of knowledge.

A field in which these tools prove to be highly useful, is customer segmentation, and the segmentation with the help of customer lifetime value (CLV) turned out to be more precise than other types of segmentation, especially in what regards the identification of profitable customers in present and in future, thus helping marketing play a more active role in increasing profitability and consolidating the turnover.

CLV is a measure of the value of a customer for a company. Calculating CLV for all customers helps a company under analysis classify its customers according to the contribution to profit. This may be a basis to formulate and implement certain customer strategies in order to maximize the duration and profits obtained from the entire relation with a customer. In other words, CLV helps a company treat distinctly each customer, based on their individual contribution, instead of treating all customers as a whole. Any company has limited resources and ideally it should invest them in those customers that generate a maximum profit, which is possible only by knowing the monetary flow of each customer along his entire relation with the organization, in other words the lifetime value of customers. Once the company calculates the CLV value for its customers, it may allocate resources more efficiently so as to maximize profit.

Based on this concept one has been constantly developing new concepts, the most influent among them being *Customer Equity,* defined as the sum of the current values of all customers from the portfolio, be they current or potential customers, or *Customer Engagement Value*, defined as the concrete manifestations of the customer behavior towards a company or a brand, which overcome the act of purchase resulting from motivational factors (Lemon et.al., 2009).

Calculating CLV for all customers of a company is just the first step a company may take in implementing the customer-focused strategies. CLV is a measurement tool, which may be the way in which the company identifies more easily valuable customers, who are bound to bring profit in future, and may segment more precisely the database of customers.

Besides the assessment of customers, an aspect of great interest is also represented by the identification of factors that may be controlled, so as to increase the value of customers, whereas CLV is influenced by several factors regarding the providing company, the customer company and the environment, in which the business relation takes place. The factors influencing the customer lifetime value (CLV) have been the research subject of the pilot study made on customers in the year 2010. Taking into consideration the data at disposal, the identified factors were represented by: the turnover, the county, the typology (profile of customer), the recency of the purchase, the monetary value (the history of transactions), the representative of direct sales (the way of contact).

The estimation of the customer lifetime value (CLV) on an individual level was done by the modification of the base structural model, i.e. by transforming the monetary value in customer value provided by the RFM formula (recency, frequency, monetary value). The other parameters – costs, actualization rate – were estimated and introduced in the calculation way. The data at disposal were the individual monthly sales corresponding to the period 2008 – 2011, and the contribution from the period 2012 – 2014 was estimated based on the prognosis module from the SPSS program, version 18. Thus, each client was assigned a CLV score.

Based on these individual CLV scores one developed the model of customer segmentation. According to specialty literature, segmentation was done in three different ways, using only CLV scores, CLV score and the duration of the relation, as well as the CLV scores and the typology of customers. The results thus obtained emphasize profitable customers (the categories „butterflies” and „friends”), furthermore providing an overview image of the structure of customers. Starting from these results one also drew conclusions regarding the most valuable customers (pharmacy chains and chains of stores selling bio and naturist products), as well as the less valuable customers (naturist stores of the type small individual business or organization). Furthermore, with the help of a regression function, one analyzed how much of the variation of CLV scores of the top 20% most valuable customers is explained by factors identified in the pilot study (R^2=43%).

Comparing the segmentation model based on CLV scores with the current way of segmentation from the company was a key aspect of this research. Customers were segmented with the help of trimestrial sales and the resulting segments were compared with segments previously developed. Segmentation based on CLV scores turned out to be more precise in what regards the identification of profitable customers now and in future.