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Customer Segmentation: The Concepts of Trust, Commitment and Relationships

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Abstract

Few studies have emphasized a service firm's customer based for segmentation purposes in identifying weak or strong relationships in a consumer's mass marketing context of services. The research contributes to an understanding of how high or low levels of trust and of commitment can be used to differentiate customers in terms of active, use of the service regularly, and passive use of the services only occasionally. The empirical study was based on a customer sample of a Nigeria processing laboratory using direct marketing (DM) and on-line activities as marketing tools. A mail survey (n =4,130) was used and multiple items were applied to seven constructs. A-t test for an independent sample was used to access whether the two customer groups were statistically different. The results are that active customer differs significantly on 22 of the 27 measured items. Consequently active customers are more rational, with high levels of trust and of commitment, and passive customers are less rational. A theoretical and managerial implication is to use the chosen constructs (i.e. indicators) as segmentation variables of a firm's customer's base in developing strategy for long term customer relationship.

Keywords: Customer, segmentation, trust, commitment, relationships.

Introduction

According to the relationship marketing management school, the growing importance of customer and a customer-centric view underlines the need for a better understanding of how markets and business to consumer (B2c) relationships are developed, maintained and structured.

An important concept in this regard is that it is more profitable for a firm to establish long term customer relationships than to adopt a short term transaction-oriented approach. According to Wang et al., customer relationship management performance refers to the success of the firms in retaining the customer, which result repurchase decision and word of mouth among the customer towards the services offered to them. Besides a tremendous amount of confusion regarding its domain and meaning, periodic assessment of results in customer relationship management is needed to evaluate if the programs are meeting expectations and if it is sustainable in the long run[1].

In relationship marketing theory, generally trust and commitment seem to be inseparable stating that if both are not in place a relationship is more likely to be a loose and unstable arrangement. Evidently, Gummerus et al, mentioned that lack of trust has been one of the most significant reasons for customer not adopting online services involving financial exchanges. Researchers have suggested that online customers generally stay away from vendors whom they do not trust[2]. Researchers warn that a lack of trust may be the most significant long-term barrier for realizing the full potential of electronic commerce. In this study the concepts of services in order to analyze the relational orientation of a firm's customer base. The aim of the empirical study is to identify the relationship character of the customer base of a service firm in terms of weak and strong relationships. On the surface it might often seem that ongoing relationships exist and develop over time, but it is sometimes unclear whether they are built upon low or high levels of trust and of commitment. marketing scholars emphasize the influence of customer satisfaction on loyalty[3] The relationship management literature emphasizes two different dimensions of relationship commitment that drive loyalty: affective commitment, as created through personal interaction, reciprocity, and trust, and calculative commitment, as created through switching costs[4]. Loyalty is often interpreted as actual retention, which is a cornerstone of customer relationship management (CRM). Yet the vast majority of prior research has demonstrated the effects of these constructs only on behavioral intentions.

In general, the terms relationship marketing and customer relationship management (CRM) are often treated as interchangeable in the academic literature the CRM concepts incorporates and integrates all activities within the firm, the value chain and the network of a firms that create, generate and deliver both customer and firm value through value creating processes. Moreover, CRM is related to business and customer strategy customer experience and knowledge. The use of information, technology and development of long term relationships with customers or customer groups. The CRM should go beyond a customer focus it requires a cross functional integration of processes, people, operations and marketing capability that is enabled through information, technology and applications.

Information technology has been used to manage customer relationships in establishing individual one-to-one relationships on a mass customization bases. The idea of mass customization based on retaining the economic advantages of mass production has been to consider each customer as a segment in order to customize product and services to meet individual needs and requirements.

Through CRM, segmentation can even be applied to smaller segments in the form of "micro marketing or customer specific marketing in order to identify the good customers. As an analytical approach, CRM also deals with the use of such tools as loyalty scheme (programme in collecting and analyzing data on individual customer for segmentation purposes.

As a result of this study a segmentation approach relating to the concepts of trust, commitment and relationships is suggested in order to analyze a firm's customer base.

Conceptual Framework: In this paper 1 discuss the conceptual relationship between the concept of segmentation on the one hand and the concepts of trust, commitment, relationships and the transactional or relational continuum on the other. 1 discussed the development of the concept of segmentation in a CRM perspective, with an emphasis on its applicability and usefulness. A also analyze the applicability of such concept and trust. Commitment and relationships are for segmentation purpose. I subsequently defined the transactional or relational continuum as a basis for customer segmentation and discuss its contribution to the understanding of relationship development in a firm. Altogether, the conceptual framework underlines the options to use a firm's customer base as a ground for segmentation in terms of strong or weak relationships in establishing and maintaining long term relationship.

Two Dimensional Concept of Segmentation: Marketing segmentation is one of the most fundamental marketing theory concepts in terms of marking supply with demand and constituting an important component of a firm's marketing strategy. The concepts of segmentation was originally related to economic theory stating that competition is imperfect and that either the lack of homogeneity or close similarity among products in quite evident. For this reason market segmentation and product differentiation were seen as consistent with the framework of imperfect competition. The segmentation concept can be applied to an investigation of how consumers perceive market structures. The aim should also be to learn more about how consumers perceive the various different brands or products with respect to their strengths weaknesses the satisfaction they provide and so on.

Finally it should be possible to integrate and apply the findings strategically in developing and implementing a marketing mix that creates a market position in the minds of the consumers.

In a market-oriented strategy target marketing is distinguished from mass marketing in terms of targeting specific customers in a particular segment. Some researchers have argued that there is a lack of a generally acceptable, validated means of identifying and segmentation has emerged as the most well known in markets. There are geographic, demographic, psychographic and behaviouristic segmentation also other criteria have been used including product usage rates, lifestyle and brand personality.

An alternatives interpretation would seem to be that marketers should try to identify individual customers in the customer base of a firm in existing and ongoing relationships. The objectives should be to structure the relationships in new and better ways. Moreover in contrast to market segmentation, customer segmentation is related to a classification of potential and current customers, based on their market reactions.

Trust, Commitment and Relationships: Trust means the confidence of customers in supplier's products and offers for strong relationship this confidence need to be strengthen. Trust in relationship reduces the perceived risks that in turn create the strong relationship[5]. Trust in relationship marketing cannot be avoided. It actually reduces the perception of risk which further leads to strong relationship. Trust and relationship commitment are strongly related to each other. Supplier and buyer both try to reduce risk both have some mutual benefits to maintain relationship, the willingness of both parties for sacrifices and the burden is the main factor for strong relationships[6]. Trust is the most important factors to influence the relationship[7]. Trust is important for strong and long term relationship in exchanges but trust is based on continuity in interaction and fulfillment of promises[8]. Trust is the final hope for strong relationship as proved by Anderson and Weitz [9].

In a financial services context, Verhoef[10] demonstrates direct effects of commitment on both relationship maintenance (retention) and relationship development (share of a customer's business). Although both satisfaction and payment equity were positive antecedents of commitment, they did not directly affect behavior. Verhoef measured satisfaction using aggregated customer beliefs about specific dimensions of service performance (e.g., satisfaction with personal attention, willingness to explain procedures, response to claims). In contrast, we measure satisfaction as an overall evaluation of performance[11.] Customer strategy often considers relating to the potential and existing customer base as well as to decision making about segmentation. It entails deciding about appropriate forms of segmentation and levels of submission, sometimes called segment granularity. These decisions are often related to what segmentation approach, for instance macro, micro or one to one, a firm should choose so as to ensure a fit between the customer base and the market. Another issue that is closely related to segmentation procedures is whether to identify the good or bed customers and to consider retention and valuation accordingly. Many firms can surely benefit from discovering which customers are the best and differentiation between them in terms of loyalty and profitability. For this reason it is also suggested that in order to build and establish relationships the concepts of trust and of commitment are to be seen as a prerequisites. On the other hand it is also stated that it is possible to have relationship with the absence of commitment and a customer seems to be trapped rather than committed.

Trust as a concept is often related to a customer's willingness to rely upon a firm's actions and behaviour in the future. The concepts represent relationship quality in the sense that it helps to reduce uncertainty in complex human relationships. Moreover trust in itself is not behaviour instead it can result from such activities like cooperation or a business deal. Often, trust is seen as an important element and foundation for interpersonal relationships as well as a ground for stability in organizational relationship.

Commitment as a concept is most related to a relationship where two parties will be loyal and show stability to each other. Often there is a wish to maintain a relationship because of activities and investments that link a buyer and seller together. It may take some time before a commitment can be made which might imply a more mature relationship.

A common opinion is that customer commitment only relates to a seller or a relationship with a seller and no other things. It is also suggested that a high commitment level might be seen as an important emotional barrier in switching behaviour.

Relationship as a concept is often related to the types of relationships that might exist between a buyer and a seller. Organizational relationships between a seller and buyer exist independent of interpersonal relationships between an employee and a customer in contrast to social relationships which always occur between individual. In this sense, organizational relationships exist between a seller and a buyer.

The Transactional/Relational Continuum: A fundamental premise in relationship marketing theory is to consider relationships as a continuum from transaction at one and to relational orientations at the other end. A firm or indeed any other organization, should take into consideration and depend on the customer's view of a relationship as other transitional or relational in order to decide how exactly to operate in this context. For this reason a firm (or any other organization) should try to determine the location of its customer's on a continuum from transaction to collaborative exchanges.

A basic hypothesis in relationship marketing (RM theory is that a firm needs transactional as well as relational strategies according to the transactional/relational continuum Brodie et al, as a result a firm might simultaneously pursue the use of both transactional and relational marketing approaches because of different customer viewpoints.

Both the industrial marketing and relationship market theory suggest that individual customers can be identified in different stages (or phases) of relationship development.

The various stages demonstrate how buyers and sellers interact with each other in terms of relational development. The proposed models of interaction illustrate the frequent emphasis on acquisition of new customers ending up with sale as transaction marketing and the emphasis on long term relationships as relationship marketing.

The above mentioned theoretical descriptive models of how two parties could relate to one another have seldom been empirically validated. A weakness of theses models is that they are based more on a logical, theoretical reasoning of what could characterize the different stages of relationship development than on empirical investigation and findings. In contrast to these models, the notion of the transactional/relational continuum can be related to relationship development over time. In the continuum a transactional approach in B2C markets and more relational approach in business to business markets have been suggested. Also, in B2C markets, it is likely that customers actively seek a relationship but it is probably that suppliers will manage the interaction in the mutual interest of both parties. The relationships between buyers and sellers in consumer markets are often considered to be much looser and characterized by fewer and weaker bonds than in business to business markets.

Hypothesis

It is generally accepted that the concepts of trust and of commitment determine whether a relationship is functional (transactional) or relational in terms of partnerships. This means that the degree of trust and of commitment indicates whether customers are real partners or just interested in a single or repeat transaction. For customers with strong relationships (relational orientation). Where there are high levels of trust and of commitment it has also been suggested that trust and commitment are vitally important in determining attitudes and belief structures.

In the present empirical study the following hypothesis are tested. They relate to weak and strong relationships in the context of the degree of trust and commitment.

Hi: Customers with a weak relational orientation yield a positive relationship between low levels and of commitment.

H2: Customers with a strong relational orientation yield a positive relationship between high levels of trust and of commitment.

Hypothesis I Is built around the assumption that there exists a positive relationship between low levels of trust and it commitment indicating weak relationships. Following the transactional/relational continuum it supports a transactional orientation of a firm's base.

Hypothesis II Is built around the assumption that there exists a positive relationship between high levels of trust and of commitment indicating strong relationships following the transactional continuum. It supports a relational orientation of a firm's customer base.

Results and Discussion

The study presented provides a new perspective on how customer groups might be differentiated in terms of weak or strong relationships in a firm's customer base. It is evident that a firm's customer base can be used for segmentation purposes by applying the concepts of trust, commitment and relationships in the managerial application of CRM. Some of the main findings in this report are considered below. i. The study provides evidence of the existence of priori hypothesis groups of customer within a service provider's customer's base, which is an active and passive customer. For this reason, the chosen constructs as indicators, could be used in differentiating between high and low levels of trust and of commitment. ii. The study shows that those groups of customers differ significantly in terms of their levels of trust and of commitment to the service provider. The results also indicate that active customers seem to be more satisfied and committed than passive customers, having more trust and stronger future intentions well as more favourable brand attitudes. iii. The study also identifies and highlights the main differences between the two types of groups of customers in terms of high or low levels of trust and of commitment as a basis for customer segmentation. It allows a firm to distinguish between transactional and relational strategies in developing long term customer relationships.

For some time now, the managerial school has been preoccupied with marketing management, planning and strategy marketing management is heavily associated with the development of a marketing mix which in turn has led to a particular form of marketing strategy. The marketing segmentation process has been based on mass marketing and concerned largely or even exclusively with identifying market segment.

The result from the current research indicate that in a traditional consumer mass marketing service context, according to the managerial school there arte customer groups with either a high or low relational orientation that can be depicted on a transactional/relational continuum. In this consumer mass marketing service context, individual customers are not the focus of attention in contrast to the relationship marketing management school which emphases customer and partner relationship management.

The foundation of relationship marketing has been customer-centric so that it has been seen as a paradigm shift in marketing in contrast to the seller perspective of marketing where marketers consider the classic 4P's from a consumer-oriented perspective.

The first theoretical implication is the shift from identifying consumer segments in identifying customer groups. In this research as a basis for analysis, planning and strategy were related to the actual customer base of the company and not the anonymous consumer base in the market. The results support the notion that the only meaningful categorization of customers is actual behaviour and not potential or speculative behaviour. This conclusion also confirms the importance of defining customers from a customer centric perspective in contrast to the perspective of consumers.

The second implication is the shift from the consumer as a transactional entity to the consumer as a relational entity. In many research the assumption in that the hypothetical customer groups are defined as active (relational) and passive (transactional). The results confirm that the two customer groups are different in terms of relational orientation with respect to the levels of trust and of commitment.

The third implication is the shift from a good-centered context to a service-centered context which combines tangible products with intangible se4rvice. In this case the product forms the basis for service provision.

The main implication of the study is clear support for the notion that a paradigm shift is taking place from the traditional marketing, marketing mix to a focus on customers and relationships, or from the managerial school to the relationship marketing management school.

Conclusions

This study is one of the few empirical studies of relationship marketing concepts within a consumer mass marketing context of services.

The context entails an interaction between the firm, as a brand and its customers in terms of non-personal relationships compared to interpersonal relationships, where the direct interaction is generally emphasized.

A major conclusion is that in a consumer mass marketing context for services, it is possible to identify customer/supplier relationships related to the concepts of trust and of commitment it is also evident that within the customer base of a service firm, it is possible to identify different levels of trust and of commitment between two hypothetical groups of customers as a basis for customer segmentation and strategy.

It is evident that customers characterized by strong relationships are highly satisfied and committed with positive future intentions while consumers with weak relationships are passive less satisfied and less committed with less positive future intentions in terms of relationship sustainability customers with strong relationships seem to be more local partners while customers with weak relationships seem to be more in the nature of sleeping partners often referred to as defective customers.

In my study however it has been shown that a segmentation approach in a CRM perspective using the concepts of trust commitment and relationship allows a firm to develop and structure existing relationships in new ways, it is evident that active customers are characterized by high levels of trust and of commitment which means that strong relationships exist over time active customers are loyal to the brand, proud of it and have feeling for it for this reason a firm should concentrate on developing a brand strategy that reinforces commitment to the brand through emotional, knowledge-based or other experiential elements of personal value to the customer.

On the other hand it has also been shown that passive customers are characterized by low levels of trust and of commitment which means weak relationship that come and go from time to time, passive customers trust the brand but are for certain reasons not so highly committed in terms of loyalty, pride or emotions as active customers. For this reason a firm should concentrate on developing a brand strategy building and establishing relationships based on elements of personal value that could lead to commitment.

In my study, the analysis gives support for the notion that levels of trust and of commitment exist among active as well as passive customers. But in order to build strong relationships with passive customers, it is obvious that commitment is the crucial factor in terms of successful brand strategy. For this reason a commitment based approach will probably strengthen the relationships with both active as well as passive customer. In this sense, it does not matter what type of customer group that is active or passive a firm should approach with its brand strategy in order to develop and maintain relationships.

The notion here is that organizational trust already exists among both groups of customers. But in order to emphasize relationship development over time. Commitment is the critical element of a firm's brand strategy. In this sense, active customers are already highly committed but passive customers are not.

Finally, some of the limitations of the study should be mentioned. The research context is a profit-driving organization in a service processing industry; it is possible that the generalizations derived from the study on differences among customer groups do not apply to other kind of firms, For instance retail and banking organizations. In addition the study is based on indirect interactions with the firm and its brand in terms of non-personal relationships rather than interpersonal relationships.

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