

Making sure you invest and develop the right customers

Customer segmentation is a subject area that continues to generate significant interest. It's potential to harness resources and focus investment for value generation has been the 'holy grail' of many organisations.

Our findings indicate that within the Business to business sector, segmentation is applied and/or developed in levels.

Most of the companies we researched through our customer management assessment programme applied basic channel type segmentation. This is allied to the route to market rather than the actual needs or value potential of the customers. However, when looking beyond the channel grouping only a few attempted to segment further.

When the climate is less than favourable and the focus is on asset utilisation and cost release, segmentation at the secondary level offers organisations real upside in these areas.

THE CRITICAL NATURE OF SEGMENTATION IN CUSTOMER MANAGEMENT

When cash is king and investment needs to work harder than it has ever done before, it is vital you invest and develop the right customers.

90% of FMCG companies we have assessed indicate some use of customer segmentation, however when exploring further we find that the segmentation typically rests only at a channel level. What this leads to is only 42% operating customer segmentation that's making a noticeable difference at customer facing level.

We can highlight where and how you could optimise your commercial resources through more effective segmentation. Within this paper we move beyond the segmentation framework and look at the how!

It is important you place your investment with the customers that represent the most value and potential in the short, medium and long term.

Organisations often spend a lot of time, analysis, resources and effort trying to develop a segmentation approach/framework that covers every angle and eventuality.

Before you run off and start drawing boxes, grids and frameworks, stop for a second and ask yourself 'what are you trying to do'?

- ~ Are you using customer traits and behaviours to uncover potential for a new brand or propensity for up sell/cross sell opportunities?
- ~ Are you using customer needs to explore those customers that have needs we don't currently fulfill and provide additional opportunity?
- ~ Understand who most important customers (value/volume/profit) are and where the potential exists (value/volume/profit)?

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for bottom line growth



The segmentation framework should reflect the strategy the organisation is trying to pursue. A simple & obvious statement, but often the first stumbling block towards the development of something that makes a difference and impact at customer facing level.

So.....if your strategy is all about share gain within the market or channel, then the axis of your segmentation framework need to reflect this approach. On a very simplistic level, what are the customers potential vs our current share? You can refine this further by looking at customer potential in terms of profitable share potential matched against value importance. The point is, if you put your mind to it you can segment using pretty much anything.

This is often where it all goes wrong, as management teams; conceptualise, debate, form political camps, take sides and generally overcomplicate the process. A lot of segmentation projects never get further than this point or a framework is developed that no one buys into or understands!

Whatever you chose on your X & Y axis you need to be clear about;

What the customers in the different boxes represent to your organisation and customer management strategy.

At this stage we imagine life is like the management books and 80% of our business is delivered by 20% of our customers from the top right hand corner or where the axis conveniently point to the high potential and high value. Unfortunately this is not always the case and often a shock for many organisations

Often we find the majority of the business and customers emanate from segments that take the business by surprise. The most common is the segment in the middle, the customers that share their business across a number of suppliers. We find two distinct approaches from this segment;

- a. Playing one supplier off against another.
- b. The business is based upon relationship and they don't want to dis-advantage one supplier over another.

This segment is often missed when a two by two framework is used as they fall into the four segments and get lost, but they offer significant potential.

So.....Aren't we clever! We have put the names in the frames.



So what!

This is only the start, as it's what you do with the information that counts. Remember, unless something different happens at customer facing level segmentation just remains a 'nice to have' management theory.

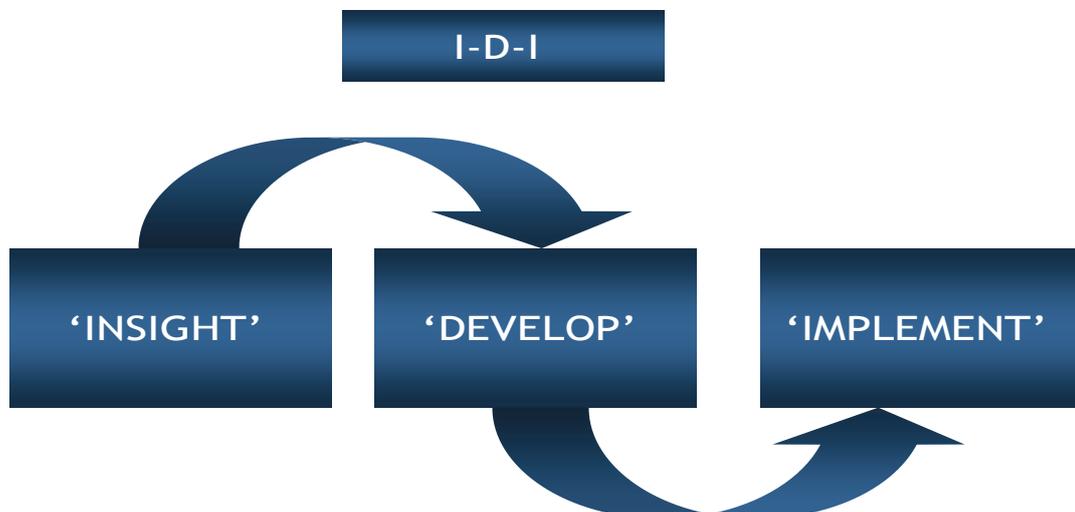
B2B customer segmentation is dynamic and evolving, customers move up, down and side-ways based upon their own ability to survive/thrive within their own market place.

We suggest a regular review is undertaken within the business. During this review customers get promoted or relegated based upon their performance and our own ability to develop them. The frequency of this review will be dependent upon; the number of customers and your level of automation.

I~D~I

We have developed what we call 'insight ~ develop ~ implementation' to focus on helping clients through the '**how**' of segmentation'.

'MAKING SEGMENTATION A
REALITY AT CUSTOMER
FACING LEVEL'



Let's start by looking at the key segments and what they are telling you.

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In some markets customer potential is relatively dynamic and small movements equate to large opportunities. Within other markets the customer potential is relatively fixed and may only be linked with overall market growth or decline.

The customers in the top left hand box or corner are often; highly loyal yet offer little medium to long term potential. You can't afford to lose them as they are often highly profitable and cost more to replace than to retain.

Is the segment stable and what do you have in place to retain these customers. Are they embedded within your business? Can you rely on the revenue stream as funding for the development of other customers? Will they grow in line with the market?

The customers in the top right hand box or corner are often; key partners, with a positive relationship and good medium to long term potential. These are the foundation of your market, holding and growing them is key.

Our proposition currently closely matches their; needs, attitudes and traits.

How are they performing and will it carry on over the medium to long term? If you were trading with Woolworth's where were they within your framework and investment profile?

Is your investment profile the same with Tesco as it was this time last year?

How can we cement and embed our position?

The customers in the bottom right hand box or corner; frustrate, challenge and offer opportunities. They have loads of potential, yet our proposition doesn't appear to match their needs, attitude and behaviours, so we fail to achieve our potential within this group. Often within this group you will find your competitors key customers. It's all about needs understanding and strategic unlocking through proposition and relationship development. It's also important to understand the customers that offer sustainable growth potential beyond gaining a greater share of the action.

The customers in the bottom left hand box or corner contain the customers that provide little potential for the organisation and/or deliver little value. Don't just ignore them as they may have category growth potential. They may have different needs, attitude or behaviours, but through an efficient and effective customer management process offer collective value.

The customers in the middle often go undetected unless you specially look for them. They can offer a bit of a dilemma!

Customers within this box or segment offer potential and deliver reasonable value, yet remain relatively static. We are often one of a few suppliers that share the business and customer management often rests at the relationship level with this group. The key is to hold onto what you have and develop the potential in small incremental steps.



With the customers allocated to the segments the following insights should be possible to develop;

Commercial

You are looking at the findings from your customer segmentation through the commercial lens.

Initially it should identify the customers that are providing the majority of your; volume/ value/profit, etc. It should also highlight where the value exists in the short, medium and long term. Closer scrutiny of the customers within each segment should enable the additional analysis to highlight the potential winners and losers. It will identify the segments where you are over trading and those where you are under-trading.

Which segments are currently delivering my business and what are the implications from this? If you applied the 80/20 rule does this apply when held up against your current segmentation profiling, or is it somewhat different.

What is the balance / profile of my customer segments. Am I exposed with lots of small customers delivering low share and value.

Where is my business coming from and how reliant am I on one segment.

Where is my short term development going to come from?

What's my medium development options look like and are there enough customers within the bottom right hand corner or box to drive growth for the long term.

Do I have enough customers in the top left hand box or segment to self fund development or do I need to seek external support.

When digging a little deeper within each segment do some customers offer greater long term investment opportunities than others?

Contact

You are looking to see if you are spending time with the right customers

During the insight stage it is important to establish where the commercial resources are being focused. This covers all aspects of customer facing contact and interaction. Unfortunately, human nature often finds sales people gravitating to customer within their comfort zone. These are not always necessarily the ones you want them to focus on and develop. The segmentation will also enable the development of a rough analysis of your resource requirements. If you call on your top customers monthly a change in numbers bought about through the customer segmentation will have a profound effective on your resource requirements. It is also worth exploring the use of other contact mediums to augment or supplement face to face resource for customers within the bottom left hand box or segment; such as, self help, web, telesales, wholesaler, distributor, etc.



- Are my commercial resources targeted in the right place?
- Have I sufficient commercial resource to effectively cover my customer base.
- Is face to face sales coverage my best options?
- Are my sales people visiting the right customers, in the right frequency?

Marketing

The development of a proposition that matches and meets the customer's needs grouped within each segment.

The customers within the top right and top left hand boxes or segments currently place a significant share of their business with you. This means you must be doing something right for these customers and the proposition matches their needs closer than that of your competition. All you need to do is establish the elements of the proposition provided for this group. If you are fortunate to operate customer linked marketing then the customer segmentation should provide a view of where your current investment is being placed and the return/effect it is having.

- Can I tailor my proposition to meet the differing segment needs?
- What is the impact of my promotional investment across the segments?
- Am I focusing my customer investment into the development of the right customers?
- What is the competition up to?

Linkage

Information systems that enable a joined up approach to managing segmented/grouped customers.

The development of the framework axis and allocation of customers into their respective segments will require a certain amount of automation. At this stage you should be able to understand the 'art of the possible' and requirement going forward.

Can any customer facing member of staff access a joined up view of the customer across all the potential touch points to help frame their sales call?

We have been surprised with the systems that go widely unused and functionality not enabled, disabled or ignored. Often expensive customer management systems are used as glorified electronic customer record cards, etc.

Can all customer facing staff access a system that provides a joined up view and does this match their level within the organisation?



Approach

Developing a differentiated customer approach based upon need, attitude, behaviour and segmented position.

Customers in different groups/segments should be managed in a way that reflects their potential, needs, behaviours and attitudes. What have you been doing in the past and how will they need to change to reflect the customer positioning.

- Should my commercial team approach each segment in a slightly different way?
- Should the customer management approach vary according to the segment?

Summary

Our research points to organisations attempting customer segmentation on a channel level and then failing to go beyond and really develop a segmented approach to customers within each channel.

When cash is king and investment needs to work harder than it has ever done before, it is vital you invest and develop the right customers. Segmentation has never been more in demand at all levels of an organisation.

Getting beyond the framework is often the key issue for many organisations as they grapple with the axis and what they want the framework to ultimately do for them.

Once the 'names are in the frames' the real work starts and often results in the start of a customer management change programme.

The insight generated from the first stage often provides a clear customer based view of where the organisation generates its business for the first time.

We can highlight where and how you could optimise your commercial resources through more effective segmentation. If you would like us to call or drop in, then let us know.

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Sources:-

CMA assessment data base

SCS research

SCS consulting experience.

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