

6. Customer segmentation

Purpose, participants and application

- **Purpose**

- To identify customer segments.
- To support a dialogue about differentiated management and customer strategies, ensuring that focus and resources are directed towards the most important customers.

- **Participants**

- Sales, company management team.

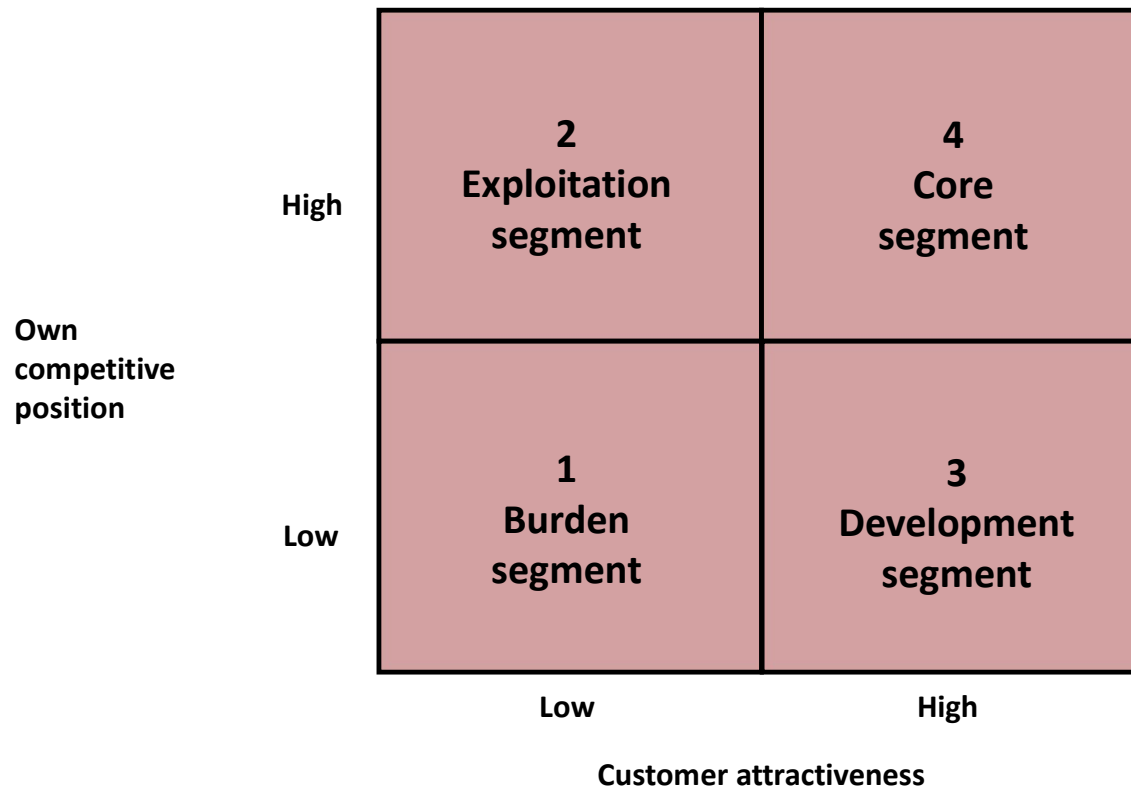
- **Application**

- Especially relevant in phase 1.

Procedure

- Assess the customer's position based on the dimensions (for example):
 - Customer attractiveness
 - Customer attractiveness can be based on factors such as profit margin on orders, the customer's current revenue and share of total revenue, whether the customer has or is expected to have revenue growth, whether the customer's technology is interesting, whether the customer is challenging and makes us better, how the customer's payment behavior is (e.g., on time), whether the customer's image is important to us, customer integrity, etc.
 - Our own competitive position
 - Our own competitive position may be based on factors such as whether the market is a monopoly or full competition (e.g., the number of direct competitors), whether we are easily replaceable with low switching costs for the customer, product substitutability, the level (high/low) of market entry barriers and exit costs, etc.
- The dimensions provide four possible customer segments.

Potential customer segments (example)



Based on Van Weele (2018) *Purchasing and supply chain management*, Seventh Edition, Cengage Learning, Andover, UK.

Potential customer segments and approaches

1 - Burden segment: Here we are exposed to competition. The customer is of little economic significance and lacks positive prospects. The customer does not possess an interesting technology or image that can justify more than minimal resource investment or a standard service. The customer is often seen as a nuisance, as they can and often will change suppliers, as it is easy, because there are many, and often it is standard products that are exchanged. Some customers may even be directly unprofitable. Long-term and sustainable relationships are difficult to build in this segment.

2 - Exploitation segment: Here we have a dominant position over our customers. The customer has few, if any, alternatives and is dependent. This may be because we are the only ones who can deliver in the desired quality, perhaps we own the patent, or we are the only ones in the market who can make it. This allows for charging a higher price due to a strong position.

3 - Development segment: Here we are exposed to competition and in a weak position. The customer has several possible choices among multiple suppliers. The customer is attractive, either due to economic significance, the customer's image, or technology. A strategy could be to deliver increased value added to the customer to increase revenue at the expense of competitors. This could be in terms of assortment, additional services, increased quality, better conditions, or similar. It is important to invest in the relationship and to tie the customer closer to us.

4 - Core segment: This segment is suitable for building long-term and close customer relationships. The customer often has a crucial impact on our company's results, not only financially but perhaps also technologically and in terms of own performance towards to other customers. Given the importance of the customer, they are often handled by dedicated employees such as Key Account Managers (KAM), as it is important that this type of customers are satisfied. It is important to build close and long-lasting relationships with the customer and to be willing to invest in the relationship.