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# CLEAR CUSTOMER STRATEGY AND MANAGING B2B CUSTOMER SEGMENTS DIFFERENTLY

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The aim of this paper is to investigate the relationship between clear customer strategy and how B2B customers are taken care of. It is hypothesized that a clear customer strategy affects positively B2B customers as are segmented and taken care of differently.

This paper is based on the analysis of quantitative data from 118 respondents representing Key Account Management and sales management professionals in Finnish firms in various industries. Secondary sources have also been used.

Marketing literature suggests that firms ought to formulate a clear customer strategy that would have an effect how different kinds of customers are taken care of. The paper provides guidance on how firms can improve their customer strategy and its implementation in practice.

**Keywords:** Customer strategy, Segmentation, Prioritization, B2B.

## Literature Review

It is not self-evident that each firm has a well-defined strategy. Actually, such an assumption should be challenged that they have thoroughly planned how to manage their customer relationships (Chalmeta, 2006). Even though there would have been strategy development related activity within a firm, there is a difference between intended and realized strategies (Mintzberg, 1978) and many intended strategies remain unrealized. Customer strategy deals with how to maintain and develop existing valuable customer relationships as well as how to attract new customers (Grönroos, 1994). The primary objective of the customer strategy is to increase firm's profitability and support its growth opportunities within the existing and forthcoming customers. Customer strategy is dependent on firm's business strategy. This means that while strategy is being developed both business strategy as well as customer strategy are formulated (Payne & Frow, 2006). In a positive case, a customer strategy strengthens trust and commitment between a firm and its customers and this is expected to improve firm's profitability (Morgan & Hunt, 1994). One of the reasons why companies find it challenging to define a clear customer strategy is that they prefer acting according to their own objectives rather than in a coordinated and participative way with their customers (Chalmeta, 2006).

Also, it should be noted that in case customers are prioritized then the involvement of firm's senior-level management should vary (Workman, Homburg, & Jensen, 2003). This means that special attention should be paid to interaction with most valuable customers. In order the customer prioritization to have a major practical effect on everyday customer experience also all employees involved in customer care should be informed and motivated (Shah, Rust, Parasuraman, Staelin, & Day, 2006). When the employees see and sense the management prioritizing certain customers they are also more motivated to implement prioritization strategy themselves (Noble & Mokwa, 1999).

All customers should not be treated in a similar way. A firm can better manage its customer relationships when customers are differentiated between themselves and the different levels of profitability between customers is identified (Kenyon & Vakola, 2001). The firm should differentiate and thus segment its customers which it wishes to retain and which are about to provide highest returns (Tzempelikos & Gounaris, 2015). In case a firm is able to break down its customer base into different groups with different needs and expectations the better they can be served (Day, 2003). A well-prepared customer-segmentation analysis improves the odds to manage customer relationships effectively (Rigby, Reichheld, & Schefter, 2002). A traditional approach to implementing the segmentation is to apply similar customer needs as segmentation criteria (Blocker & Flint, 2007).

Theoretical aspects of segmentation on business-to-business markets has received less attention than segmentation of consumer markets (Goller, Hogg, & Kalafatis, 2002). One explanation for this smaller amount of attention could be some questions about the relevance of business-to-business segmentation (Dibb, 2001). One alternative approach while segmenting customers is to apply customer lifetime-value (CLV) as a segmentation criterion. However, there are lots of assumptions while estimating the net present value of a particular customer. This may lead to difficulties in predicting the actual customer lifetime-value (Malthouse & Blattberg, 2005). Such customer management strategies that increase or even maximize individual customer profitability or customer lifetime value (CLV) are about to lead to a higher level of financial performance of a firm (Rust & Verhoef, 2005).

On the other hand increasing interest on smaller portion of customer base applying among others customer lifetime value (CLV) models based on both quantitative and qualitative perspectives (Zikmund, McLeod, & Gilbert, 2003). Also, data-driven marketing strategies are supporting the increasing focus on segmenting also business-to-business markets (Kumar & Petersen, 2005). One alternative is that the customer segmentation process takes place in two stages. In the first stage customers are ranked by their value and in the second stage they are differentiated and grouped by their specific needs. On the other hand, the segmentation is not necessarily stable. It is possible that between the segments there is a dynamic transition (Blocker & Flint, 2007). One explanation to this is that a certain customer changes its buying patterns or grows and thus becomes a bigger customer.

When customer profitability is been used as a segmentation criterion a firm can develop different value propositions for different segments (van Raaij, 2005). In case a firm is able to retain its most valuable customers it will increase the firm's profitability (Lindgreen & Crawford, 1999). The senior management of a firm should be involved with interaction with firm's most valuable customers (Workman et al., 2003). If a firm is willing to emphasize customer profitability while managing customer relationships it requires that customer profitability can be calculated and the most profitable customers are identified (Kenyon & Vakola, 2001). In practice, the allocation of firm's fixed costs to various customers may prove to be quite challenging. However, at least some level of ability to estimate customer's profitability is important. While segmentation usually focuses on the broader markets on individual customer level some customers may be prioritized based on perspectives like strategic and business value, future potential and operational risks (Storbacka, Polsa, & Sääksjärvi, 2011).

Prioritization intends to focus a firm's efforts on its most important customers which are about to improve profitability (Wetzel, Hammerschmidt, & Zablah, 2014). The resources allocated to taking care of customers should be based on priorities that are linked to customer strategy and related objectives (Zeithaml, Rust, & Lemon, 2001). Prioritizing customers means in practice that a firm is highly customer focused towards its most important customers while less attention is paid to less important, low volume customers (Homburg, Droll, & Totzek, 2008). The firm's performance is somewhat improved through customer prioritization (Reinartz, Krafft, & Hoyer, 2004).

A firm's prioritization strategy can be defined as the level to which customers are aimed to be treated differently and how resources are allocated according to customers importance (Homburg et al., 2008). The actual idea of prioritizing customers means that chosen customers receive different and preferential treatment (Bolton, Lemon, & Verhoef, 2004). In case some customers are prioritized so that they receive clearly preferential and different treatment when it comes to other customers these customers can be considered as Key Accounts (Homburg et al., 2008). However, this alone is not necessarily enough to fulfill firm's criteria for its Key Accounts. However, it is easier to differentiate customers between each other and prioritize them than to actually implement such a strategy properly (Peppers, Rogers, & Dorf, 1999). One explanation for this may be for example that organization's culture, processes or organizational structure do not support differentiated treatment of customers (Shah et al., 2006).

Customer prioritization is about to lead to higher average customer profitability and higher profit margins on sales. This is due to the fact that it affects relationships with top-tier customers in a positive way. On the other hand, it does not necessarily affect relationships with bottom-tier customers adversely. Higher profit margins are due to the reduced sales and marketing costs. When an efficient use of marketing and customer care resources are considered prioritizing customers rather than treating all customers in firm's customer base equally is about to improve the results (Homburg et al., 2008). Currently, most major firms apply some sort of CRM related IT systems. However, these are not a necessity when it comes to prioritizing customers. It can be done also without relying on high-end software solutions (Jayachandran, Sharma, Kaufman, & Pushkala, 2005). This is due to the fact that some major business-to-business customers are so big and generate a large portion of firm's revenue that they are easily identified even without searching a database consisting of customer information.

When an efficient use of marketing and customer care resources are considered prioritizing customers rather than treating all customers in firm's customer base equally is about to improve the results (Homburg et al., 2008). The following abilities are relevant to the implementation of customer strategy emphasizing prioritization between the customers: being able to assess and even calculate individual customer's profitability and future potential, ability to collect, refine and analyze customer information, ability to align the organization to better support customer interaction, senior management's interest and ability to support prioritized customer relationships through allocating time and attention towards them, ability to modify planning and control activities so that certain customers are taken into account, measuring and compensating activities and results due to prioritized actions, ability to support shared culture and supporting beliefs among different members of the organization (Slater & Olson, 2000).

## The Conceptual Model

The objective of this paper is to investigate the relationship between clear customer strategy and how B2B customers are taken care of. To this end, the following hypothesis is developed.

$H_1$: clear customer strategy affects positively B2B customers are segmented and taken care of differently

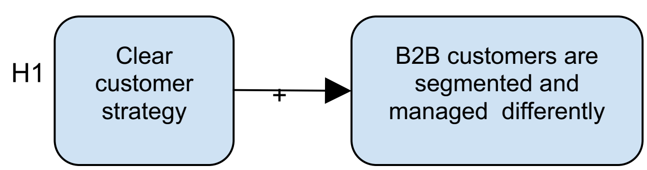


**Figure 1.** Hypothesis related to this study

## Data Collection

The population of this research consists of large and medium-sized Finnish private and public sector organizations. The data was collected with an Internet survey. The survey was replied by participants of a two-day training program concentrating on Key Account Management. The data collection was done before implementing the training program on multiple occasions during 2014-2016. The survey consisted of various areas related to customer relationship management within organizations. Altogether total amount of respondents was 118. The respondents represented Key Account Management and sales management professionals. Even though there was no sampling method used while collecting the data, it is expected that due to the relatively large amount of respondents the data represent the population quite well. The respondents were asked at what stage they saw their organizations were on improving various themes related to market orientation within the organization.

## Results

The regression analysis test was applied on the data to check the percentage of the relationship between variables. Linear Regression estimates the coefficients of the linear equation, involving one or more independent variables that best predict the value of the dependent variable. The value of R Square indicated that there was the 35.9% relationship between clear customer strategy and customers are segmented and managed differently. The regression model as a whole significantly predicts the response (offering meeting the customer needs) ($F_{1,115}$ =63.815, p<0001).

**Table 1.** Model Summary

| R | R Square | Adjusted R Square | St.Error of the Estimate |
|---|---|---|---|
| .5990 | .3588 | .3532 | .8806 |

**Table 2.** Coefficients

| | Standardized coefficients | | T ratio | p |
|---|---|---|---|---|
| | B | St.Error | | |
| (Constant) | 0.972 | .227 | 4.28 | .0001 *** |
| Customers segmented and managed differently | .569 | .071 | 7.99 | .0001 *** |

Notes: *p<0.05, **p<0.01, ***p<0.001

The results indicate that understanding customer needs has a statistically significant association with offering meeting the customer needs; hence, the proposed hypothesis $H_1$ of the study is supported.

## Conclusions and Managerial Implications

This study attempts to build a model as well as test the relationship between whether clear customer strategy affects positively B2B customers are segmented and taken care of differently. Customer prioritization can be defined as the degree to which customers are treated in a different way according to customer's importance to the firm (Homburg et al., 2008). Prioritizing customers is a rather typical practice on firms operating in B2B markets (Reinartz et al., 2004). One reason why the prioritizing of major customers pays off is that small-volume customers cause at least proportionally higher sales and marketing costs than higher-volume customers (Rakesh Niraj, Mahendra Gupta, & Narasimhan, 2001). A special attention ought to be placed on planning and control on most valuable customers and an overall assessment of customer profitability. As an example for this a special Key Account organization in which Key Account Managers play an important role taking care of the most valuable customers.

The hypothesis concerning the relationships of clear customer strategy and whether B2B customer are segmented and taken care of differently was posited and tested. The findings of the hypothesis test support the hypothesis. In general, the present study concludes that clear customer strategy affects positively that customers are segmented, prioritized and taken care of differently.

When it comes to the managerial implications of the findings of this paper, one implication is that it is not self-evident that a firm has a clear customer strategy. Therefore in those organizations lacking the clear customer strategy additional effort should be put to clarify, communicate and implement the customer strategy. It is the nature of Key Account Management that those key accounts represent firm's major accounts. These accounts should be prioritized and taken care of differently than the customers with lesser meaning to the organization's economic success.

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