

Certainly, any effective sales strategy needs to be customer-focused. This chapter analyzes the pivotal questions that a sales strategy needs to address in terms of customers, such as:

- Q 1: Who are the company's customers?
- Q 2: What are the basic needs of these customers?
- Q 3: What basic customer benefits does the company provide?
- Q 4: To what extent does the company segment its customers (a market development perspective)?
- Q 5: What criteria is the market segmentation based on?
- Q 6: To what extent does the company prioritize its existing customers and potential new customers (an economic perspective)?
- Q 7: How is market development differentiated between the individual segments and priority groups?
- Q 8: To what extent is customer retention actively pursued?
- Q 9: Which customers are the focus of customer retention efforts?
- Q 10: What tools/resources are used for customer retention?

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## 2.1 Customer Definition and Customer Benefits: The Basis of Market Development

A sales strategy starts by defining the customer and answering the seemingly simple question (Q 1): *Who are the customers?* This question may seem trivial at first glance, however, it is the subject of long and controversial discussions in many companies. Essentially, four groups of potential customers can be identified for a company:

- *Users:* These are the end customers (corporate or private customers) that utilize a product or service to fulfill their own needs.

- *Processors*: They integrate the purchased products into their own products or services. Examples include original equipment manufacturers (OEMs).
- *Retailers*: They sell the products in an unaltered state, possibly enriched by services.
- *Advisors*: They advise users or processors on their choice of products. Examples include management consultants, planning consultants or engineering consultants.

Answering the question *Who are our customers?* can be extremely complex, particularly in the business-to-business sector. Our observations show that many companies answer this question too narrowly, for example by only regarding the next downstream sales level (e.g., retailers or processors) as customers. A company that does not include the customers of the immediate customers in its considerations is throwing away an opportunity to influence buying decisions in that area or to gather information.

Closely connected to identification of the customers is the question of: *What are the basic needs of the customers?* (Q 2). Although the needs of the customers may be very different in detail, common basic needs can always be identified. In principle, every customer need offers an opportunity for creating customer benefits – customer benefits results from the satisfaction of needs. The sales strategy must therefore formulate a clearly defined *benefit promise* (Q 3).

To influence the purchase decision in their favor, companies have two basic options: They can either focus on aggressive pricing or can emphasize the benefits of the product or service. Interestingly, empirical studies show that customer benefits have a much larger impact on preference formation than does the price. The frequently heard statement that “our customers buy purely based on price” is, in our experience, an indication that companies do not concentrate enough on highlighting customer benefits.

To better understand this issue, two dimensions need to be distinguished: core benefits and additional benefits. *Core benefits* refer to a customer’s minimum product or service requirements. The purchaser of an automobile assumes, for example, that the automobile that is about to be acquired is fully functional. The benefit elements that go beyond the core benefits are called *supplemental benefits*. In the case of purchasing an automobile, this includes things like high-quality advice, warranties extending beyond the statutory regulations, equipment features such as a navigation system and, of course, the “fun of driving” as well as the automobile image.

#### **“Dimensions of Excellence”: Creating Supplemental Benefits in the Scotch Whisky Industry**

The Scottish distillery business faces a unique challenge. Over the years, the industry carefully crafted a branding message for whisky that was, simply put, “older is better”. The outcome, often considered a victory for the industry, was that consumers were educated that any worthwhile scotch needed to spend a decade or two in oak barrels before it could possibly be  
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palatable to the discerning drinker. While high quality and “appropriately aged” single malt scotch is enjoying a resurgence in popularity today, the industry’s production pipeline is paying the price for a drastic downturn in demand (and production) in the 1980s and 1990s, when consumer tastes swung dramatically to beer, wine, and other spirits.

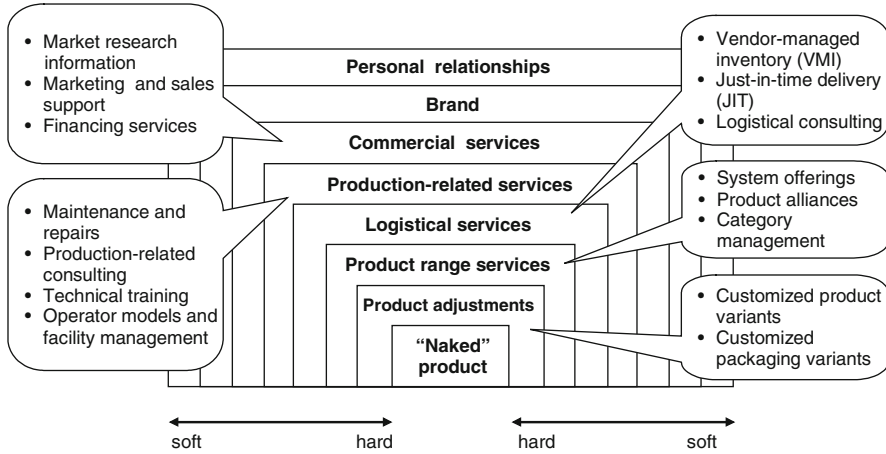
To manage this shortage of supply, clever competitors are nurturing several supplemental benefits for this long-standing product, allowing them to sell shorter-lived stock at comparable or even premium prices. Glenmorangie is suggesting flavor variations, offering whiskies “finished” for 2 years in Sherry and Madeira casks after a mere decade in American Oak, and fetching prices comparable to much older stock. Moët Hennessy has probably been the most creative by developing a “hipness” for less-ripened scotch. Faced with a large store of younger than ideal product, the company began labeling its 6 year-old vintage as “Very Young”, the 8-year as “Still Young”, and 9 year-old product as “Almost There”. These counterintuitive offerings became a cult hit, selling at \$350–\$400 per bottle, much more costly than the company’s 10 year-old vintage (see Kiley 2008).

More and more companies are attempting to use additional benefit as a differentiating factor. Here are a few examples: A truck manufacturer offers his customers an analysis of the logistical processes in order to reveal savings potential, even manages the customer’s entire fleet, if requested. A mechanical engineering company undertakes the marketing of used machines for his customers. A manufacturer of packaging materials also develops the packaging design for his customers. Numerous companies are now offering service packages under the concept of “facility management”.

The “onion chart” in Fig. 2.1 below provides an overview of the broad range of possibilities for generating benefit/value for the customer. The tools that can be used to enrich the benefit of the “naked product” range from “hard” value-added services (see also Sect. 19.3) to “soft” services, such as commercial services, brands and personal relationships.

In general, there are different approaches to creating additional benefit (see Homburg and Beutin 2000):

- *Economic benefits* arise, for example, if the customer is helped in saving money, time or effort. Saving effort results in convenience, an increasingly important issue for private customers. For corporate customers, economic benefits can also be created by enhancing the customer’s competitiveness (e.g., through shorter delivery times or higher product quality).
- *Security benefits* correspond to the basic need for hedging against unforeseen problems. Examples include availability guarantees for production equipment or even special equipment features in the automotive sector.
- *Social benefits* arise if the product contributes to improving the customer’s image or standing. Private customers, for example, associate a high level of



**Fig. 2.1** The “benefit onion chart” (see Homburg and Jensen 2004)

prestige with certain brands. However, these associations can also be important for corporate customers. For example, many manufacturers of wood- and metal-working machinery find it improves their image if their machines are powered by well-recognized Baldor motors.

- *Emotional benefits* arise if a product arouses pleasant feelings such as enjoyment when it is used. A customer’s awareness of making an environmentally-friendly purchase can also produce emotional benefits. Finally, emotional benefits can also result from the sheer variety of products offered. Even in a corporate setting, a seller must be aware of the emotional benefits that may result from product adoption and use.

In our research, we have noticed repeatedly that economic benefits are insufficiently communicated to the corporate customer. One way in which a company can highlight the economic benefits of its own products or services is to use *benefits analysis*, which presents the advantages of a company’s product relative to an alternative with factors (e.g., total cost, unit costs) that are relevant to a customer. We will discuss this approach in more detail in Chap. 17.

It is also crucially important that when dealing with customers, employees gear their line of argument to the customer benefits (benefit selling), instead of concentrating on performance features (character selling). This aspect will also be considered in Chap. 17.

## 2.2 Customer Prioritization and Segmentation: Farewell to the “Standard Customer”

Customers are different – no company can escape this realization. How a company deals with the diversity of its customers is another essential aspect of the sales strategy. Our observations reveal that many companies do not fully embrace this

heterogeneity. Vague understandings of customer segments, contradictory segmentation approaches in different company divisions, and unnecessarily high market development costs are frequently the consequences of this lack of understanding.

In principle, a systematic examination of customer differences can be undertaken from two perspectives:

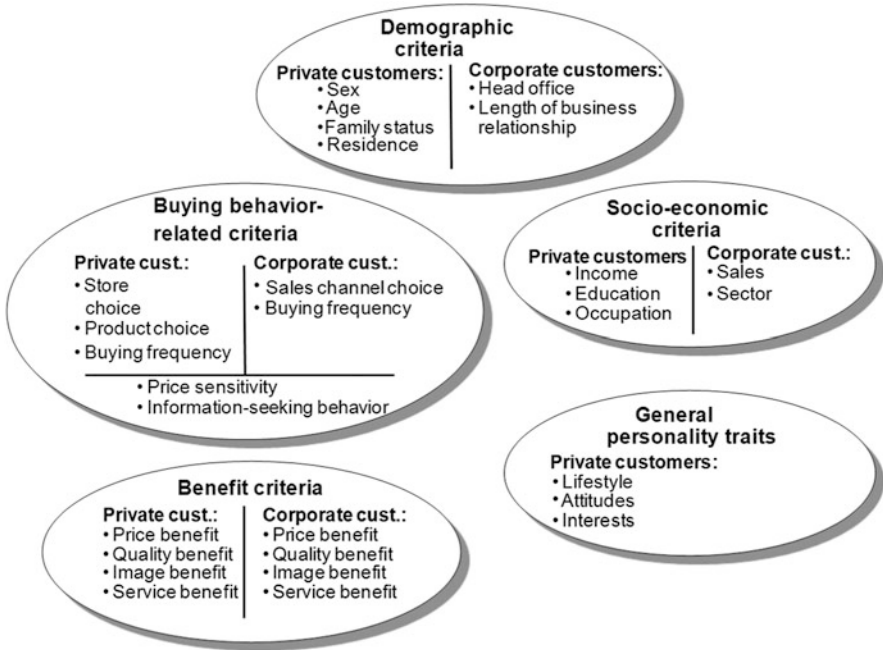
- From a *market development perspective*, the focus is on adapting the company's service offering as closely as possible to the different expectations, requests and preferences of different customers (or customer groups). In this context, *segmentation* serves to divide a heterogeneous overall market into homogeneous submarkets (segments) on the basis of customer attributes that are relevant for market development (see Freter 1983; Krafft and Albers 2000, 2003; Freter and Obermeier 2007).
- From an *economic perspective*, the company needs to define how much should be done for which customers (or customer groups) within the scope of market development. In this context, *prioritization* serves to divide customers into different groups according to their economic attractiveness.

The first perspective initially raises the question concerning *the extent to which the company systematically segments its customers* (Q 4). Whenever a segmentation decision is to be made in a company, there is always a wide range of potential segmentation approaches. The question, therefore, is what makes a “good segmentation”. A distinction is made here between the requirements placed on segmentation criteria and those placed on segments. *Segmentation criteria* must be relevant to behavior, i.e., the criterion must relate to aspects of buying behavior. In addition, a criterion must be measurable.

The requirements placed on *segments* include accessibility. A supplier must be able to address the segments directly to convey different messages to the segments, for example. Cost-effectiveness is a further requirement. Segmentation costs and benefits must be in reasonable proportion. This means in particular that the segments being analyzed must not be too small. The “segment-of-one marketing” approach proves to be economically nonviable in most cases. Finally, the segment structure should remain stable over a relatively long period.

In this context, the sales strategy must clearly express the *criteria on which the segmentation is based* (Q 5). Different segmentation criteria can be used, in part, for corporate and private customers (see Fig. 2.2).

Many companies are currently still using segmentation approaches that are essentially based on demographic or socioeconomic criteria. While these criteria have the advantage that they are usually relatively easy to measure, it is often the case that they do not correlate very strongly with the actual buying behavior of the customers. For example, income was long used as a segmentation criterion in the retail trade. This segmentation criterion had a strong correlation with store choice: Customers with high incomes shopped in stores with high price levels, while customers with low incomes frequented discount stores. Today, this classical segmentation variable no longer applies: The term “hybrid customer” has been coined to refer to those customers who, for example, spend large sums of money in expensive restaurants, only to buy champagne from a warehouse club. The observation that classical segmentation variables are increasingly losing their

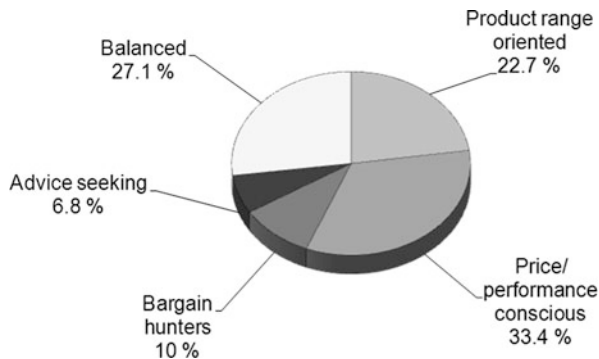


**Fig. 2.2** Overview of customer segmentation criteria

behavioral relevance can be made in many sectors (see Walsh and Hennig-Thurau 2001). Segmentation that is not relevant to actual behaviors has very little value in the long term.

#### **“Dimensions of Excellence”: The Whole Foods Segmentation Approach**

Upscale food retailer Whole Foods has a sophisticated understanding of their sophisticated and complex customers. Whole Foods’ primary customer segment has demographic characteristics (relatively high income and education), behavioral characteristics (enjoying the discovery of new items while food shopping), and very specific benefits sought (healthier food options, environmental responsibility). The company uses in-store signage as an essential tool for solidifying their brand in the minds of these multi-faceted and demanding consumers. On a recent trip, consumers examining the rainbow chard were met with a large sign posing (and answering) the question: “Why Buy Organic?”. Next to a bin of expensive and unusual Russian banana fingerling potatoes is a sign that simply reads: “How cute are these?”. At the meat counter, where customers often have a significant wait for their order to be prepared, is a blackboard with a hand-written essay on the virtues of dry-aged beef. One of the keys to Whole Foods’ success has been their ability to understand and satisfy, through the product itself and the in-store experience, a complex and unique customer group (see Berfield 2009).



**Fig. 2.3** Benefit segments using the example of a clothing store

*Benefits segmentation*, is now being used successfully in both the private and corporate customer sectors (see Mühlbacher and Botschen 1990). This approach groups together customers who are similar in terms of the benefits they are seeking through a purchase.

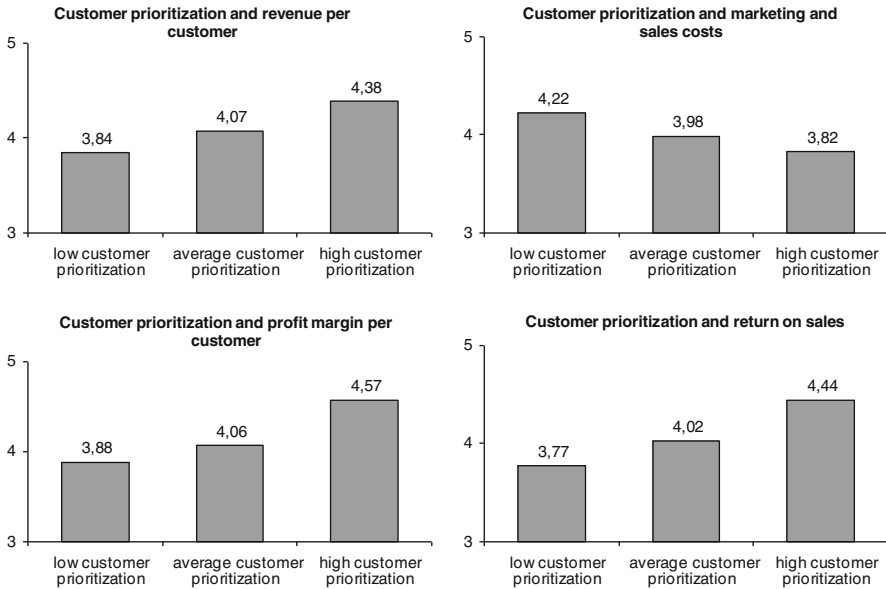
Let us illustrate this approach by means of an example: Through a survey, a clothing store initially identified five benefits customers might seek: product range, service, ambience, guidance from staff and price (see König 2001). It analyzed the importance that individual customers attached to these different determining factors. The results then provided the basis for identifying the five customer segments shown in Fig. 2.3.

This type of customer benefit-based segmentation approach is initially more laborious than classical segmentation methods. A detailed customer survey and analysis is usually required. The major advantage of this procedure, however, is that the segments that are formed in this way differ greatly in terms of actual behavior, making them very receptive to targeted marketing offerings.

To be able to address the segments more effectively, once such a benefit segmentation has been completed, an attempt is usually made to use demographic and socio-economic criteria to describe the segments in more detail. The segmentation shown in Fig. 2.3 revealed, for example, that customers from the product range oriented segment were most often executives or self-employed, also shop in boutiques and tend to have higher household incomes. In contrast, members of the price-conscious segment tended to hold blue collar positions, had lower incomes and rarely shopped in upscale boutiques.

The previous discussion should have made it clear that segmentation is primarily about laying the foundations for an effective market development. The aim is to align market development as accurately as possible with the buying behavior of different customer segments.

*Customer prioritization* (Q 6), on the other hand, is more closely bound to the guiding principle of efficiency. It allows statements to be made about which customers (or customer groups) should be given preferential treatment according



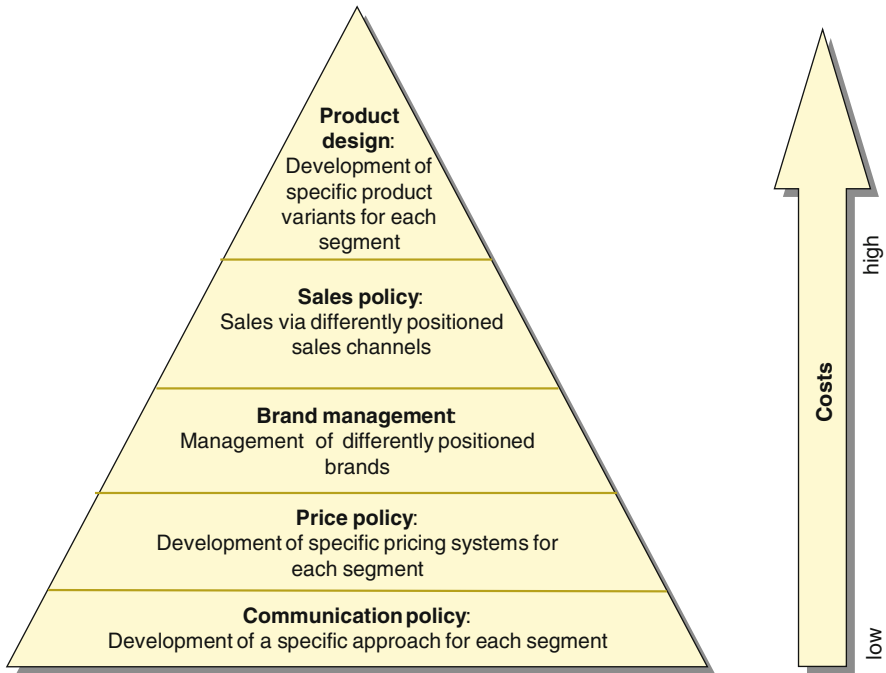
**Fig. 2.4** Performance implications of customer prioritization (see Homburg and Droll 2008)

to their economic attractiveness. The aim is to focus scarce resources on those customers who are worth this investment – thus avoiding customer equality as a principle of market development (see Sect. 1.2). When considering the high costs of new customer acquisition this is of great importance, as new customers have an above-average churn rate and since the investments made in them often cannot be amortized (see Homburg and Fargel 2006a).

An empirical study of Homburg and Droll (2008) shows that customer prioritization is a key lever for improving a company's profitability. Accordingly, companies with a strong customer prioritization achieve higher revenue and earnings increases and reduce abandoned investments in sales (see Fig. 2.4). Although most companies are well aware of the need to prioritize customers, they often fail in implementing it into their sales activities. Thus, 86% of the companies state to pursue a strategy of customer prioritization, whereas only 38% of these companies actually implement appropriate measures. This suggests that most of the companies lack the knowledge of the various tools available (e.g. customer portfolio or customer-based profitability analysis). We will discuss the most important instruments in the Sects. 12.2 and 12.3.

Customer segmentation and customer prioritization do not always reach different conclusions. If, for example, a company opts for a segmentation approach based on socioeconomic criteria such as household income (private customers) or sales (corporate customers), the result of the segmentation can be very similar to that of the prioritization. In many cases, however, prioritization can be combined with segmentation for an even more precise targeting strategy and to reveal significant differences in the economic attractiveness of customers within the same segment. For example, customers within the same benefits-sought segment may utilize





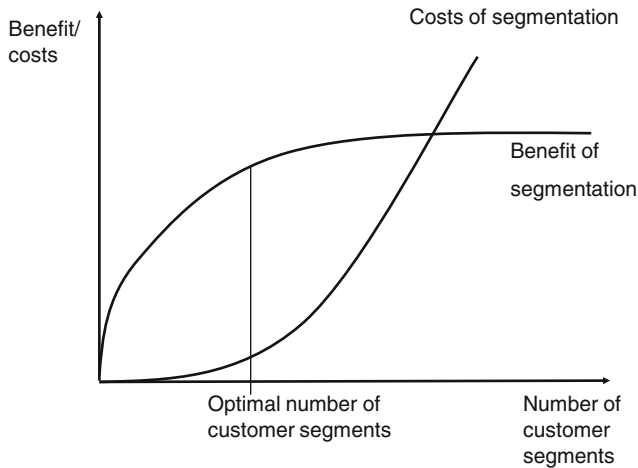
**Fig. 2.5** Approaches to differentiating market development

different sales channels (e.g., call centers vs. personal customer care), giving rise to varying customer care and support costs. We propose combining segmentation with a regular process of customer prioritization because, due to its strategic implications for market development, it often has a longer ranging value. To summarize, the following conditions make customer prioritization particularly attractive:

- Market development resources (including staff capacities) are limited. Not all customers can receive excellent care.
- Customers differ in their expectations regarding the quality of customer care, and those customers with high expectations are also prepared to reward more superior care accordingly.
- Customer groups with different priorities can be distinguished from one another. The different groups can therefore be addressed in a differentiated manner.

This raises the question of *how market development is differentiated between the individual segments and priority groups* (Q 7).

Market development is a multi-faceted effort, going well beyond construction of the core product or service to include a range of ancillary but critical factors (see Fig. 2.5). The extent to which market development parameters are tailored to individual segments can be complicated, requiring a deep understanding of the consistency of customer requirements across these market development factors. Moreover, efficiency criteria are of pivotal importance in making these decisions:



**Fig. 2.6** The optimal number of customer segments

For example, segment-specific communication activities are still relatively cost-efficient, while segment-specific product variants are usually much more cost-intensive (see Fig. 2.5).

These views pose the question of how companies can use segmentation approaches in cases where individual customers cannot be systematically assigned to identified segments. This is the case, for example, with the segmentation shown in Fig. 2.3: After all, not every customer can be questioned upon entering the shop and assigned to a segment. In this situation, the suppliers must enable the customers to assign themselves, i.e., they must provide segment-specific service offers and inform their customers about themselves. The clothing store could, for example, set up special areas in the store (communicating this through effective advertising) in which bargain hunters and value shoppers can find limited but heavily discounted items – however, without being offered intensive advice while shopping. Product range-oriented and advice-intensive customers would be able to find a good selection of high-quality brand-name apparel in other areas of the store, with specially qualified staff assisting them in looking for clothing and trying it on.

A general problem risk in customer segmentation is the risk of “oversegmentation”, or the pursuit of customer segments that are so fine-grained as to be economically non-viable. Thus, identifying the optimal number of segments for effective and profitable market management is a fundamental business challenge. The more valid segments that are identified and pursued, the greater the potential overall customer satisfaction with the firm’s offerings. On the other hand, increasingly fragmented segmentation also involves costs. First, there are the costs for segment-specific customer care concepts, product variants, etc. Secondly, there is an increase in the company’s internal coordination costs (for example, managing segment-specific prices). Precisely these internal costs of segmentation are frequently overlooked. The theoretically optimal number of customer segments is where the difference between benefits and costs of the segmentation is greatest (see Fig. 2.6).

Naturally, it is not possible to exactly calculate the optimal number of segments in a specific case. What is important, however, is that segmentation decisions should take benefit aspects as well as cost aspects into account.

## 2.3 Customer Retention: Key to Enduring Success

It is now generally acknowledged that customer retention has a significant impact on a company's success. The savvy company recognizes that there are two aspects to this success:

- *Relationship success*: Committed customers trust the supplier and are loyal to that company. Errors are tolerated to a certain extent. Moreover, committed customers communicate more openly with the supplier, thus becoming an important source of information to enhance future competitiveness.
- *Economic success*: Customer retention most directly influences sales volume. However, retention also has other potential economic benefits such as more intensive product use, a reduction in alternative procurement sources, cross-buying (see Schäfer 2002), as well as positive word of mouth or the creation of so-called “honey bee” customers (see Pepper and Rogers 2008). Committed customers also have a greater willingness to pay and lower price sensitivity (see Homburg et al. 2001). In the course of a stable business relationship, cost reductions also arise due to the reduced time and effort involved in handling longstanding customers (see Homburg and Daum 1997).

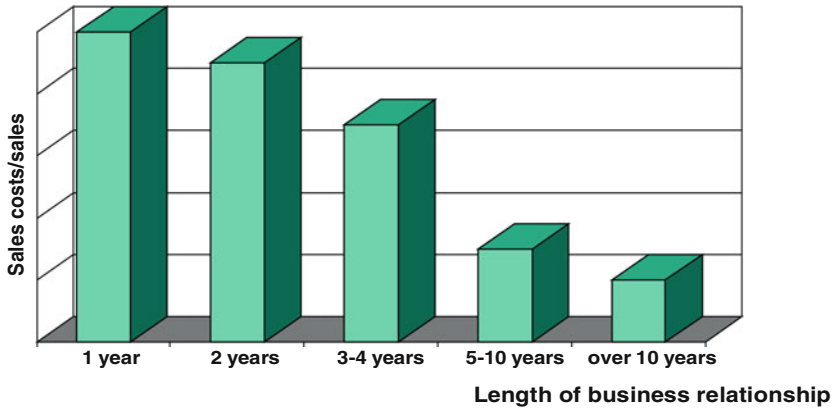
The example shown in Fig. 2.7 is designed to illustrate the effects of customer retention on economic success: We have captured the customer-related sales costs of a financial service provider and mapped them in relation to sales with the customers. If this value is viewed against the length of the business relationship, an interesting trend is revealed: In this case, business relations had developed so well after 4 years that the relative customer-related sales costs dropped considerably. This effect, which we have been able to observe in numerous studies in a wide variety of sectors, usually results from a combination of the phenomena described above – increase in sales, on one hand, and reduction of time and effort, on the other (see Reinartz and Kumar 2000; Reinartz and Krafft 2001).

Customer retention is a topic of strategic importance which must not be left to chance. In the context of the sales strategy, the question of the *extent to which customer retention is actively pursued* (Q 8) must be addressed.

### **“Turning Points”: The Challenges of Maintaining Customer Service in a Down Economy**

The economic downturn in 2009 had negatively affected almost every significant company around the globe. In these situations, companies often turn to cost-cutting measures such as customer service staff layoffs, reduced operating hours, and staff training reductions that can negatively impact the

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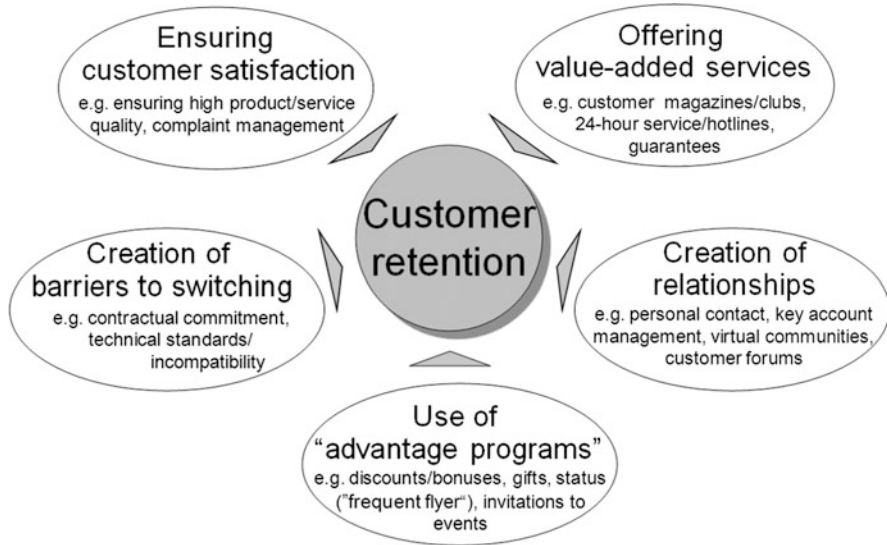
**Fig. 2.7** Relative sales costs depending on the length of the business relationship, using the example of a financial service provider

customer experience at a time when the customer should be valued and courted more than ever. For example:

- Hertz has reduced “instant return” hours at some airports, angering many of their most profitable business customers, and
- Talbots has tightened its rules on merchandise returns.

However, some savvy companies like USAA Insurance and Marriott hotels turned staff reductions into a positive factor, by cross-training remaining employees to cover multiple positions, creating a more flexible and knowledgeable work force. Other companies focused on concepts like “tiering”, routing elite customers to better and faster service experiences. For example, Zappos, the online shoe retailer, created a new VIP service for its most loyal customers which provides free overnight shipping and earlier access to sales and new merchandise. This came at the expense of service reductions to non-VIP patrons (see McGregor et al. 2009). These challenges pose some interesting questions for the company trying to excel in challenging times, such as:

- How can concepts like segmentation and prioritization be applied to this dilemma?
- While “VIP” programs may help the retention of elite customers, can the “class system” they create cause other problems for the company, such as the alienation of non-VIPs?
- At what point is pampering a valuable customer just not economically viable?
- Can cuts that must be made be limited to “back office” functions, maintaining the quality of the customer interface?



**Fig. 2.8** Main approaches to creating customer retention

A focus on retention is not only about ensuring high customer satisfaction. While customer satisfaction is a necessary prerequisite for customer retention, it is not a guarantee. On the contrary: In many sectors, it is the case that even satisfied customers show little loyalty to a supplier (see Homburg and Giering 2001). Against this background, active customer retention management needs to go beyond merely ensuring customer satisfaction (see Homburg and Bruhn 2008).

Customer retention, however, is not free. It frequently requires massive investments which cannot pay off for all customers. This poses the question *which customers* the customer retention management system should target (Q 9). Customer retention measures need to be focused (see Chap. 19). Their use, therefore, depends on the results of the customer prioritization process.

Finally, the sales strategy must also provide information about *the resources and tools* that should be deployed towards customer retention (Q 10). Customer retention tools can generally be subdivided into:

- Tools for creating or safeguarding customer satisfaction,
- Value-added service tools,
- Tools for establishing, reinforcing or consolidating (personal) relationships,
- Tools for creating economic or social advantages for loyal customers, and
- Tools for creating barriers to switching.

Figure 2.8 shows a selection of customer retention tools. Chapter 19 explores these issues in more depth.



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