Which market segmentation variables are most effective to determine new business potential?

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Abstract:
The purpose of this study was to discover which market segmentation variables are the most effective ones when segmenting customers based on the potentiality and attractiveness for short term sales success. The idea was to rank the current customers by giving scores to them on defined variables and based on the total scores that the customers get, categorize the customer base into three segments. The customer segments are green-, yellow- and red customers. The purpose of segmenting the customers in this way was to create an approach how to easily identify the most potential customers to whom focus the sales efforts on. Simultaneously such customers that falls in to the bottom segment would be in an easy way highlighted and get the required attention in an attempt to enhance the values for such variables where they are scoring low. The purpose of the study is answered through the following research questions: Which market segmentation variables are most suitable for segmenting based on current attractiveness and how to give values for customers on the chosen market segmentation variables? To answer these research questions a vast amount of literature is used. The outcome is a manual which describes in detail how to segment a market through this approach.

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1 INTRODUCTION

Professionals working in sales are under constant time constraint. They need daily to prioritize tasks and have a systematical approach to target their customers with the right amount of attention in order to achieve an optimal effectiveness. To be most effective with the prioritization customers need to be grouped or segmented. Segmentation can be done in different ways but from a sales perspective the most relevant way of making this segmentation is to have groups or segments based on how much new business it is possible to achieve with these customers in short-term. Certainly, there are other values that are as relevant but in the end of the day, the outcome of sales professionals is most commonly measured on their sales performance. Such customers that has a low probability to get new business from, shouldn't be served equal from a sales perspective compared with the ones where the probability is on a high level. This study focuses therefore on how to segment a customer base in order to have three categories of customers: a very potential group of customers which the probability of getting new business from is high, a middle group and a group where the probability is low. The other benefit with this segmentation approach is to highlight such areas that requires attention from both sales and internal support functions to be able to lift up these customers to the higher customer segments.

1.1 Research problem

Wolters Kluwer doesn't today have any centralized patterns of how to act towards the customers. The customers are not shared in other account segments than normal customers' segment and key accounts segment. Wolters Kluwer is active in more than 160 countries where in the health division which I represent, the Regional Sales Managers are responsible of forming their own account and marketing plans for the territories that they are responsible of. I am myself responsible for the Finnish and Norwegian territories and my team is located in our offices in Berlin and London. These offices are supported by the bigger support offices that exists in a few places around the world from where the other functions are managed centralized such as customer support, technical support, HR, sales support, higher level management etc. The head quarter of our division is located in New York and the head quarter of the entire corporation is located in Alphen den Rijn in the Netherlands. The company is in the Euronext Amsterdam stock exchange in the Nerherlands. In total Wolters Kluwer employs more than 19 000 employees. (Wolters Kluwer)

We feel we have a great potential to increase the revenues through a more strategic approach to planning the action patterns for the different customer segments. The ultimate target is tough to build up a generic model that could be implemented as well, regardless where in the world the territory would be situated. The variables would be changeable if there are other variables that would be more relevant in different parts of the world. The purpose of the segmentation is to focus the limited sales efforts on those customers where the attractiveness and potential to make new business is highest. The market segments where the probability for getting new products or services sold is smaller, would have different account plans. In those account plans the focus would be less on targeting new sales and more on the customer alchemy, where the aim is to enhance such market segmentation variables where the customer has scored weak. These are generally areas where the customer needs more care from the support and less from the sales function in order to enhance the scores of those variables. The outcome of this segmentation would be increased efficiency, increased sales and increased customer satisfaction.

1.2 Purpose of the study

The purpose of this study was to discover which market segmentation variables would be most effective, when Wolters Kluwer segments their customers in the EMEA sales territory that would determine new business potential.

The purpose of the study is going to be accomplished with the following research questions:

- Which market segmentation variables are most effective to use when segmenting customers based on attractiveness for short term sales success?
- How to categorize the customers based on the chosen variables?

1.3 Structure of the study

The literature review is going to explain backgrounds about market segmentation and compare different segmentation variables. In the following chapter, a survey is performed to gather information on which variables our sales managers think are the most relevant when measuring attractiveness and new business potential for customers. The group of respondents are the sales managers responsible for the EMEA sales territory at Wolters Kluwer Health Learning Research and Practise division. The empirical part is going to consist of building up a manual for performing a market segmentation through the approach described in chapter 4.

2 MARKET SEGMENTATION

Successful marketing in the modern industrialized world cannot be done without separation or segmentation of the current customers and potential customers. Companies needs to understand the customer, its heterogenic needs and desires for products and services. (Weinstein 2014b p.7)

Segmentation of the market of a company should not be seen as a marketing function, but it should be a determinant to every corporate function. (Malcolm and Dunbar 2012b p. 9)

Before the industrial revolution customers were receiving individual service where the supplier catered to the needs of each customer but especially in the early 1900's evolved a mass marketing approach where customers were offered to a large part homogenic products and services. It was thought that the products would fit the broad mass but the reality was that there typically existed sub segments even in those days. Later in the 1900's when the production methods and processes became more flexible, companies started to identify these sub segments on a broader scale and started to cater for the needs of these sub segments. The customers have also become increasingly demanding and are requiring that the products and services are tailored to their needs which has driven the companies to focus on these niche markets through their product offerings but also through their marketing communication strategies. Similar changes were seen in both the B2C market and the B2B market. (Baskin and Pickton, 2003b p. 417-418)

Market segmentation is the way that actors in the market share both their own customers and prospects into sub segments which are categorized by sharing such characteristics that are important for the actor. (Kotler & Armstrong 2010b p. 391)

The need for market segmentation has risen as a result of the development of markets and it is more vital depending on which markets they want to invest their efforts. The marketing sector has also changed dramatically during the past decades. The specialists in the marketing sector today have an increasingly difficult task to get a good response rate due to increased buzz and competition. The playing rule to stay in business in today's market is to move away from traditional marketing or mass markets to a more individual and targeted marketing. The concept of segmentation has become a vital part for survival in the modern competitive world and a fundamental part of how the corporates form their corporate strategies, stretching from products and packaging to strategic frameworks for management and marketing. In the future, segmentation will play an even more central role as the market continues to shatter in to smaller sub segments where the buyers will demand customization and as the costs of changing supplier decreases continuously, all the supply chain needs to adjust for this movement. (Peppers and Rogers 1997b p. 67ff).

The mass markets have mostly vanished, especially from the B2B sector. The buyers want tailored solutions that represent the same values as they have in form of features, eco-friendliness, design etc. Also, the trend aspect and reputation is more important for both the B2B and B2C users these days. The customers in today's market are far more demanding than ever before. They don't just want a bigger variety to choose between, they demand exactly what they want, how they want it and when they want it. The market is nowadays seldom local anymore. It is global and the customer's preferences are changing fast. It is more important than ever before to create one or several competitive advantages but in most businesses this is more challenging because of the global competition. This is the reason why segmentation isn't an option anymore. It's a must in order to survive. The technologic advance in the customer management in the recent decades has been fast and the systems in today's world has made it possible to make this customization at a low cost. In the future, the customization has to become even more personal (Datta 1996a p. 798ff).

2.1 Definition of market segmentation

The term market segmentation is defined as knowing that neither the market nor the customers are homogenous. The market is divided into several sub segments where market segmentation's role is to split the existing customer base and/ or potential customers into groups with similar attributes. The reason for doing this is that the customers or potential customers have different ways of perceiving the value of different kinds of products. By delivering the benefits to the customers in such way which appeals to them best, the better results the company can achieve. The aim of doing this is by serving these groups in a more individual manner and to tailor the offering to meet the needs of the customer. The customers choose between competitor's products and services in order to find the solution that is most suitable for the needs of them for the most convenient prize. This is of course not necessarily the cheapest product but the price which the customer sees as the most value bringing. (Malcolm & Dunbar 2012b p. 9f)

Customers have never been homogenous but a local market and the limitation of choice was before setting standards for marketing. The customers both in B2B and B2C were in many businesses handled very homogenously compared to today. Since the 80's the change to this has been huge. Access to cheap information technology has changed the marketing in successful firms from so called mass marketing to One-to-One where insight information about the customer is used to create tailored marketing communication and even tailored products and services to the individual customer's. The marketing has changed from product focused to customer focused where the customer's needs and desires are functioning as heart of the marketing planning. (Peppers & Rogers 1997b p. 92).

2.2 The market segmentation process

The process of segmenting an existing customer base or to segment potential customers consists of three phases described and illustrated below. The development phase is supposed to take in concern all the markets that the company is capable to operate, not only the tiny part that it is successful in. Therefore, it should contain the current customers or alternatively the current customers and the potential customers which in many cases are customers of your competitors. (Malcolm and Dunbar 2010b p. 64ff)

2.2.1 First phase

The first part of the process starts with defining the scope of the segmentation project by setting up the geographical area which will be covered in the project and by gaining a thorough understanding from the customer's point of view to what purpose the buying institution uses your product. By doing this you also gain an understanding which competitors might have an edge over you and why in order to communicate about this internally in order to effectively refine your marketing strategy that you potentially will build up in a later stage.

2.2.2 Second phase

The second step in the project is to create a market map which ideally should be a flow chart which shows how your product moves through possible suppliers to the end users in the institution. The suppliers can as well be the purchase department or for instance the library which purchase the product but which will not use the product themselves. In the flow chart, it should as well be marked who are the decision maker(s) and the influencers and possible purchase routines on institutional or market level.

2.2.3 Third phase

When the market mapping is ready you should then determine where at the map such decisions are made of which suppliers to use. This is a very important part of the step as it is there where the segmentation should take place.

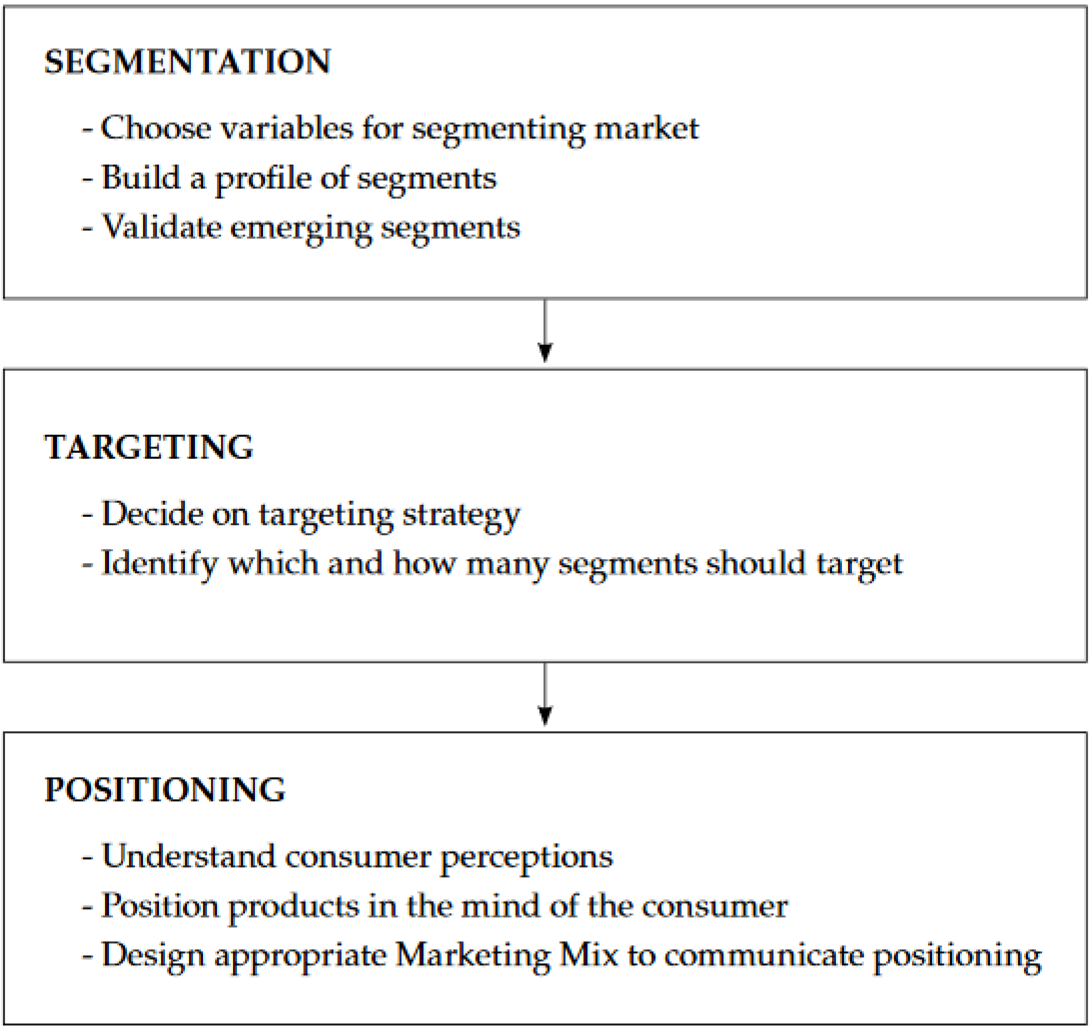

Fig 1. The market segmentation process (Dibb 1998a p. 398)

There exists two main ways how to categorize or segment institutions. One of them is priori and the other way is posteriori. In priori segmentation, the entity performing the segmentation determines in advance which characteristics defines each segment or how to group the prospects or customers in these segments. The most typical way of doing this type of segmentation is to choose one variable which determines the characteristic of each segment, for example country of origin or institution type. This type of segmentation is therefore a very simple way of performing segmentation but the outcome is questionable. In posteriori or data-driven segmentation a set of variables is chosen as segmentation base. After that a mathematical algorithm is used to determine which groups in the segmentation analysis have similar characteristics based on the chosen variables. (Dolnicar 2003a p. 3-4)

In B2B context priori segmentation variables might be for example turnover, duration of the customer relationships, location etc. In posteriori, the segmentation criteria is not known in advance. For segmentation in posteriori, many different variables are used in order to determine groupings. These variables are typically analyzed through quantitative information that makes it possible to find common patterns in the data. Even though the defining criteria for the priori segment would be comparable, for example that the target audience in a segment is from the same location, it doesn’t mean that they are responding in the same way to the Marketing Mix. (Hoek & Gendall & Esslemont 1996a p.26)

Regarding the posteriori segmentation or data-driven segmentation, it should al-so be taken in to count that there might happen human caused errors. There are sometimes so much elements where decisions are needed from the researcher that might be misunderstood. Alternatively, an element which in the end has a big impact has been left out which the researcher assumed is of small relevance. (Dolnicar & Grun 2008a p. 7)

The process itself is not very complicated especially with the cluster analysis tools, which are used to perform these kinds of analysis. To these analysis tools the data is fed and the tools perform the analysis based on a pre-defined algorithm. It is important though, to have a solid understanding of the composition of the algorithm and of the elements in the clustering method in order to pre-define the market segmentation variables right and collect the data in the proper way. There are also many decisions that are supposed to be made by the analyst throughout the clustering process and if the method is not understood correctly and the implication of each decision, the outcome might be of questionable relevance. The analyst should as well be aware of how many variables can be used which relates to the sample size. (Punj & Stewart 1983a p. 134f)

According to a market segmentation study, the optimal number of market segments is equal to three (Braouezec 2012a p. 606). Sometimes researchers use even bigger samples than 9 variables. Because of the high number of variables, they often need to perform a factor cluster analysis to determine the results which should be avoided. (Dolnicar & Grun 2011a p. 1f)

3 VARIABLES IN MARKET SEGMENTATION

Probably the most important part of the segmentation process is to choose the right variables which determines each research target in the segmentation analysis. For segmentation variables to be successful, they need to be accessible, actionable, differentiable, measurable and substantial. A segmentation criteria is measurable if it contains information that somehow can be measured or categorized, for example size. Substantial in segmentation context means that there are enough members of the segment and that the profit that this segment generates is enough in order to serve it. With accessible it is meant that the segments can be reached well and it is possible to serve them well. With differentiable segments, it’s meant that it is easy to separate them from each other and to categorize them. The different segments should react in diverse ways to the Marketing Mix aspects which though is sometimes arguable in B2B context. For a segment to be actionable, it should be possible to create both marketing and customer care programs to them. (Kotler & Kel-ler 2012b p. 214ff)

The viability of the segments should be evaluated on the following criteria: the personification segments; how homogeny the members of each segment are; how useful the segment is; and how well it can strategically be used in account planning. When personifying or characterizing segments, the difference between them should be distinctive and individual. (Raaij & Verhallen 1994a p. 51)

The differences between prospects and existing customers are of interest to the marketing and sales function. Through this knowledge, different strategies can be developed for different groups to better serve their needs. For this type of segmentation, the most usable variables define customer needs and experience. Another type of segmentation occurs when the entity performing the segmentation doesn't because of time constraints, have time to serve all customers or prospects equally. In this case it's needed to share them into groups based on importance. The variables in this case might differ. (Hoek et all. p. 26-27)

Kotler & Keller (2009b p. 214) argues that when segmenting, variables from the following segmentation categories should be used: geographic-, demographic-, behavioral-, and psychographic segmentation. These segmentation variables can be used as separately or they can be combined.

Bock and Uncles (2002a p. 218) propose that the segmentation should be built up based on variables around the following base values when segmenting customers: preferences in product feature, effects from consumer interaction, choice barriers, bargaining power, and profitability.

There are countless more options for segmentation variables. In studies of industrial marketing, many kind of segmentation variables have been created; including variables based on location, firmographics, behavior, decision-making processes, purchasing approaches, situation factors, and so on. For companies, it represents a huge possibility to take advantage of these kinds of groupings in the customer base and among the prospects. By treating them in a more individual manner, they can more easily differentiate from the competition. (Kotler & Keller 2012b p. 392ff).

But to find the right way to perform market segmentation is difficult Aaker reminds (1995a p. 78). He explains that there exists million ways to do divide your market. A challenge is also how in an easy way to keep the customer segments up to date as the customer changes and the market space as well. The market space in this sense is two dimensional as the market space continues to evolve for the customer but also for the service provider. This means that a customer that is currently in one customer segment, might in some point face internal or external changes which impacts which segment they are in. So, the challenge is also which variables should be used in order to make the market segmentation as flexible as possible and to avoid creating a static segmentation.

In many cases companies are segmenting using the product or service offering as the only segmentation criteria but this is insufficient for the simple reason that many different types of customers which have different types of needs are buying the products and therefore use the product in different ways. So, using the product as the only segmentation variable is insufficient and will not for example reveal why customer has chosen one product over another or which features are appealing. The consequence is that the customer will not be served or supported in a way that could deepen the customer relation. (Malcolm & Dunbar 2012b p. 451)

Segmentation variables have before been focusing on customer characteristics, but in recent years variables have been focusing on benefits and values for the customer. In other words, variables have been created which focuses on what benefits the customer gets from our service or product our what they value in our product. There are not enough studies done which would focus on the superiority of one segmentation variable in relation to another one. (Aaker 1995a p. 52)

Market segmentation strategies are nowadays increasingly customer focused. Traditional segmentation strategies were more company focused with pre-determined segments where customers were placed. The literature claims that the old segmentation strategies are rarely successful as the segmentation strategies should be based on the buyer's needs, not the supplier's. The segmentation should focus on the customer's needs, how they use the product and why they choose this product over the competition. By segmenting customers in a way which makes it easier to satisfy the customer's needs in each segment, the company creates a sustainable competitive advantage. All the current and potential customers in those markets where the company is capable of acting should be shared into segments. This is a different view from many of the traditional ways of segmentation as it’s not only done to the current customers of the business but entailing the whole market which also in some cases includes completely new areas of the market where the company hasn’t been previously active. After this the company should choose which segments are the most attractive ones which the company should consider operating in. (Malcolm & Dunbar 2012b p. 47)

3.1 Types of variables

3.1.1 Demographic variables

Demographic variables used in business-to-business are typically of such nature that they classify the business based on one of the following business classification categories:

1. Standard Industrial Classification (SIC)
   A typical way of segmenting companies and public entities are through Standard Industrial Classification (SIC) which are codes that classifies each industry into categories based on which industry they are in. This segmentation method offers the company an opportunity to group such customers with similar attributes and needs into groups. (Malcolm & Dunbar 2012b p. 294)

2. Size
   The size of the entity is in many cases determined through how big the turnover the customer represents or how big the staff is. This segmentation method is one of the most commonly used as especially the turnover in many cases has direct relation with how profitable the customer relation is. (Malcolm & Dunbar 2012b s. 270)

3.1.2 Geographic

Another very common way to segment a market is by using geographic determinants as it is the easiest way to share market into segments. Another reason for sharing the market by using geographic factors is because there are regional differences between the target market in different countries. It is also relevant to consider the product assortment and market strategy are competitive in the global market space or if only on local level. Some companies use a very broad way of categorizing their market. For example, Bayer categorize international market opportunities as Rest of The World when again some other companies are sharing the US into 9 parts and building up tailored marketing strategies for each of these different US geographic districts. There is no right way of sharing the markets into groups but there are two main groups where the different factors can be shared. One is market scope factor and the other one is geographic market measures. The market scope factors consist of factors related to your market strategy such as if your marketing strategy is aimed for the global market or if you try to tailor your messaging in order to be more local. Geographic market measures are for example standardized market area measures, population density determinants and climate-related factors. To segment the market by geographic is a very traditional way and low-cost way to segment customers but is not used to the same extent as before as many services especially for the B2B sector has become electronic and the internet has diminished the meaning of localness in many business areas. (Weinstein 2008b p. 62-65)

Segmenting through simple geographic segmentation could provoke that the differences between same size customers are ignored. For example, the same product might be used in diverse ways by various kinds of customers. (Malcolm & Dunbar 2012b p. 11)

3.1.3 Firmographics

The firmographic part stands for measurable values that might be used in segmentation context. Firmographic variables in the B2B area are number of workers, turnover or for example sales potential (if known) which can be used as values in order to separate customers in to groups. (Weinstein 2008b p. 62)

Though firmographics can’t be used alone, they play a significant role in most of the segmentation processes. These quantitative values can easily be used for profiling characteristics of different customer segments to tailor the offering or the marketing communication message. (Malcolm & Dunbar 2012b p. 11)

3.1.4 Psychographic characteristics

Psychographic segmentation has more widely been used in the consumer marketing but as individuals make decisions as well in the business-to-business space, business marketers have as well implemented this approach into the industrial market space. The emphasize to this segmentation variable has been growing since it is important to understand how the individuals in charge of making decisions are valuing your offering. (Weinstein 2008b p. 121)

The following variables are typical variables used from the psychographic category:

1. Personality
   To segment using personality characteristics is since a while ago already widely used in the B2C space but more uncommon in the B2B. Parameters such the stage in its business life cycle, the style the staff has and for instance style of decision making are variables that are very potential as well in the B2B space. The decision makers are in the end normal persons that makes rational decisions based on the information they have obtained. Therefore, if you can group customers based on how they make decisions can be a very potential way of segmenting markets in the B2B area. (Weinstein 2008b p. 140)

2. Attitude
   Like the other psychographic variables attitude is widely used as a variable in B2C segmentation. In the B2C space it's common to segment the customers by determining if the customer is a risk taker or risk avoider, by determining how orientated the customer is towards the customer relationship or for instance if they are technology driven and eager to try new technology. Other important attitude variables can be how open they are to share information. In the B2B space the attitude wouldn't necessary be down to the individual decision makers but to the attitude that the organization has. Some institutions for example are very eager to always

ask for offers from other institutions, are secretive with how much information they are sharing, have guidelines about requirements for references etc. (Malcolm & Dunbar 2012b p. 207)

4 SEGMENTING USING VARIABLES FOCUSING ON THE EFFECTIVENESS TO DETERMINE NEW BUSINESS POTENTIAL

This section is a detailed description of a new approach of segmenting a customer base. In this method variables are proposed by sales managers which outlines characteristics of customers that determines new business potential. The underlying idea is to focus on the healthiness of the customer relationship and the attractiveness for doing new business with the customer. The values for each chosen parameter are determined by surveying the regional sales managers in the EMEA territory.

People working in sales are under constant need to structure their daily work and prioritize one task over another. Because of the pressure that the sales representatives are constantly under to perform and to close new business, it's easy to get tempted to go after bad business that might have very low margins, will be a customer relationship that requires too much unpaid work or in some other way business that we should stay away from.

Miller & Heiman (2005b p. 315ff) claims that good customer relationships are supposed to continuously create new Win-Win situations and sales managers should not try to make one time sales to gain short term financial profits. These Win-win situations are not always counted in financial outcomes but also in softer values. The benefits of targeting the customers based on their attractiveness are:

- Shorter sales cycles
- Easy to handle relationships
- Customer relationships that can work as references for other customers

- Customers that might be eager to be front runners for trying new products
- Possible to gain strategical partnership
- Higher margins
- Loyalty

The consequences of targeting the less attractive customers or the lower segments in this segmentation study based on ideal customer criteria would cause:

- Longer sales cycles
- Harder to manage relationship
- Low margin business
- No reference-ability
- No referrals
- A source of frustration
- No repeat business

By segmenting the customers based on attractiveness directs the prioritization of the sales and internal support functions. Small customers or customers that might not currently have big turnover, would otherwise in many cases fall to the bottom segments as most segmentations are valuing highly the current spend or size of the account. Those institutions that get highest scores on the attractiveness scoreboard are the ones that should be targeted primarily and which are the most potential ones to create new business with.

4.1 Survey to determine the variables

To define the variables on which the customers sales potential and attractiveness are measured on, a survey was made to the regional sales managers in the EMEA area. The limitation to this respondent group was made to give a good sample size and a group of respondents that are homogenous in a way that the customer organizations functions mostly in a similar way. The survey was performed by asking the respondents to list the 5 most important attributes that defines a customer that is ideal to negotiate new business with. In other words, which attributes they value most when they think about an ideal customer. The instructions were explained to the sales managers in the EMEA sales conference in Athens in July 2017 and the respondents uploaded their own five variables gradually by uploaded them on the company's OneDrive file. The survey was meant to uncover which variables the respondents think that are the five most important that each customer can be measured on to determine how potential the customer is to pursue in order to get new orders. The purpose was to be able to give scores for each of these variables to easier prioritize customers that scores high in this market segmentation approach. The expectation was that the variables would differ from the traditional market segmentation variables but though be a scalable approach to implement in all the EMEA territory.

The variables in the survey were not predefined. Each respondent could therefore define five variables of their own choice, which they think are the most important criteria's to be used when measuring the attractiveness of a customer.

4.2 Goal with the segmentation

The goal with the study is to limit out the key accounts from this study and from the rest of the customers create three different customer segments. Key accounts are managed through individual account plans so the segmentation is limited to all the other current customers that doesn't fall in to the key account segment.

These segments could be called for example A, B and C segments but the traffic light approach familiar from the Balance Scorecard was used where the following colours are used to better visualize the outcome: green, yellow and red. The reason for this is to make it easy and quick for the sales managers to interpret the attractiveness of the customer. For the sales managers, these values would ultimately be visible in Salesforce which is used by the company as CRM system, under the account details. The strategy is that each regional sales manager responsible for a sales territory would give scores for five pre-chosen variables for each of its current customer that qualify for this segmentation (all except key accounts). The variables get a scale of 1-4 points where the different scores are described well to make it easy for the respondent to choose right score level for each customer. All the scores are multiplied by five to make the maximum amount of points that a customer can receive as 100 points. The minimum amount of points is 25 points. Such customers whose total score exceeds a level where they get categorized as green customers which is the highest level, represents the most potential group to create new business with. This segment should therefore be prioritized both from the sales managers perspective and from marketing and support functions perspective in order to take full advantage from this potential. The less attractive customer segment which is the red segment represents customers whose total score is below a certain level. The middle segment is coloured yellow which represents customers that are in between the most and least attractive ones.

This segmentation analysis should increase the effectiveness of the sales work and direct which accounts the sales managers primarily focuses on. The prioritization is put into practice by creating account plans for each customer segment. The variables should also highlight what areas the sales and support functions should focus on to develop the potentiality of the customer. The least potential customer segment would be highlighted so both the sales and support functions could mutually agree about actions that would contribute in an effort to increase the scores of the weak variables.

In the beginning of each year the scores for each customer are updated by having the regional sales managers to revise the scores for each customer and around midyear the scores should be revised. The reason for this is to have up to date information of the attractiveness for each customer as some of the variables might change during the year.

4.3 Complications and limitations

Because the values in this segmentation method are given by perception of individuals, the trustworthiness of the values given for each customer on the different parameters are discussable. Different sales managers can interpret the customer relationship in diverse ways but the risk is minimized by describing well the score levels of each variable. Another limitation is the number of customers that can be taken in to such a segmentation. If the number of customers is big, it will make it more difficult to keep the values for each customer on the different parameters up to date as it requires some work from the sales managers to perform the segmentation.

The target audience for this survey were the regional sales managers in the EMEA area at Wolters Kluwer's Health Learning, Research and Practice division. The role of this target audience is to manage the accounts in their defined market areas and to be responsible to achieve a certain sales target for these territories. In total, there are more than 100 in this position globally in this division with the EMEA area counting of around 20.

4.4 Group of respondents

The number of respondents was 19 regional sales managers across the EMEA region at Wolters Kluwer whose identities will remain anonym in this thesis due to integrity protection.

4.5 Results of survey

The following variables were in the answers. After the attribute listed, there is a number which defines how many times the attribute appeared in the answers:

- Partnership, 12
- Honest, 11
- Customer's available budget, 11
- Reliable, 11
- Active/ responsive, 9
- Available/ accessible/ easy to work with, 7
- Innovative, 7
- Open to new Product, 6
- Competent, 4
- Transparent, 3
- Value vs price based, 2
- Agile, 2
- Authorative, 2
- Easy Tender/purchase Process I

- Culture of respect
- Free will
- Fast decision making
- Service required

The following five variables got most scores in the survey:

- Partnership occurred 12 times
- Budget occurred 11 times
- Honest occurred 11 times
- Reliable occurred 9 times
- Active and responsive appeared 9 times

The survey shows that the sales managers sees as the most important variable the level of partnership, budget, honesty, reliability and active & responsive. These five variables are therefore chosen as the segmentation variables for this segmentation. All the five variables have been given a 1/5 weight of the maximum scores. As following these different variables are described in detail.

4.6 Partnership

The level of partnership used as a segmentation variable appeared in most sales manager's answers. This shows the sales managers appreciates long customer relationships that are based on mutual trust.

4.6.1 Definition

Definition in Your Dictionary:
"A relationship between individuals or groups that is characterized by mutual cooperation and responsibility, as for the achievement of a specified goal"

4.6.2 Scientific discussion

Relationships in a supply chain can be classified as: short-term contracts, long-term contracts, joint ventures and equity interests. In short term contracts, the customer relationship is typically a not repeated purchase where the margins are small. To this category can in some cases also be counted public tenders as the purchase is typically with small margins especially for standardized products. The equity relationships relate to mutual interest to integrate each other's functions in order to cooperate on many levels. (Ellram 1991b p. 17)

The involvement level deals with the strategic partnership between the buyers and suppliers in the supply chain. They relate this to the supply chain management theory and means that in customer communication and account planning this parameter is vital to focus on, to be able to get a well-functioning customer relationship. They also mean that the partnership level can vary between a supply chain partnership which is only on a transactional level where the customer usually buys one time or strategic partnership where the systems of the two actors can be aligned. They describe the transactional partnership as such that there is no kind of joint commitment even if there can be various purchases during a long period of time. The other extreme is the customer is a tailored customer relationship which yields significant benefits for both parties involved. The partnership in this case is more integrated with higher costs of change from the buyer's perspective. (Lambert, Emmelhainz & Gardner 1996a p. 2f)

Talluri & Narasimhan (2004a p. 236f) means that partnership or relationship-related criteria are about the mutual willingness from both sides to both start and maintain a customer relationship. This level can deepen depending on human or/ and transactional factors. If the two parts are willing to work closely together they have a certain closeness in their relationship. If they have difficult to work together or the other part doesn't want to get too involved in the relationship they talk about distance in the relationship. The closeness usually involves in certain point a consideration from the buyer of the supplier capabilities. When a buyer wants to enter in a deeper partnership relation in the customer relationship, the buyer in this case usually measures the supplier's capabilities to fulfill the needs of the buyer and perceives how willing the buyer is to commit to maintain a good service quality throughout the customer relationship.

Rezaei & Ortt (2012a p. 4597-4598) argues that there are two dimensions to a supplier-buyer partnership which are capability and willingness. The willingness stands for both the buyer's and the supplier's willingness on a close level to mutually achieve benefits for both parties. Rezaei & Ortt describes willingness as following: "Willingness stands for confidence, commitment and motivation to engage in a (long-term) relationship".

4.6.3 Partnership scale

Below is described the four different partnership level categories and the scores that the customer gets measured on for each category.

On the partnership scale, score 1 represents the lowest value and score 4 represents the highest value. The given value is multiplied with 5 so that the maximum value is 20 points. The maximum amount of points per variable represents therefore one fifth (1/5) of the maximum 100 points that a customer can get of the total amount of the ideal customer criteria scores.

1. Transactional customer, 1 point
   A customer who only make occasional single purchases with no reliable pattern either straight or through a distributor. This partnership has a focus on short term without a significant attempt to form a long-term customer relationship.

2. Repeated purchase customer, 2 points
   A category used to describe a customer relationship that from a supplier's perspective involves focusing on sustainable sales with attempts to form a long-term customer relationship. The customer isn't brand loyal and tries to seek the cheapest price.

3. Brand loyal, 3 points
   Customers that sees the supplier's brand and services as superior. They are ready to favor the supplier in front of the competition if the price is on the same level as the competitions'. Personal ties between the buyer and sales manager is strong and the partnership has a long-term orientation.

4. Extremely brand loyal, 4 points
   Extremely faithful customers to the supplier's brand, expressed through their acts, favorability and repeat purchases, despite of the marketing pressure created by the competition. Sees the supplier's products and services as superior compared to the competition. Ready to pay more for the services than what they would pay for the competitors' products. Personal ties between the supplier and customer is very strong and on many levels.

4.7 Budget

4.7.1 Definition

Definition in Business Dictionary:
"An estimate of costs, revenues, and resources over a specified period, reflecting a reading of future financial conditions and goals."

4.7.2 Scientific discussion

The total budget can be used as a segmentation variable along with other variables to optimize the communication strategy and the products being offered to the customers. If the customer's purchase budget is weak, the second-best product or service option should be considered. Segmentation based on wealth can be very useful from a strategic, planning, evaluation and marketing perspective. Wealthy customers are more attractive from marketing investment perspective as wealthier customers can create higher return on investment. (Bailey et al. 2009a p. 10)

Customers with weak budget typically has a more extensive sales process. There exists a need of grouping customers based on their budgets. Customers can differ in their ability to spend money on purchases. The reasons for this vary but one dominating reason is the imperfect capital market. The author recommends the use of a nonlinear price model for that customer segment with budget-constraints and monopoly pricing for that customer segment that doesn't face constraints in their budget. (Che & Gale 2000a p. 198f)

There hasn't been enough attention in the scientific literature about segmenting based on the purchasing power and limitation in liquidity.

4.7.3 Budget level scale

On the budget scale, the sales manager responsible for the customer, estimates which category represents best the customers current budget situation.

On the budget scale, score 1 represents the lowest value and score 4 represents the highest value. The given value is multiplied with 5 so that the maximum value is 20 points. The maximum amount of points per variable represents therefore one fifth (1/5) of the maximum 100 points that a customer can get of the total amount of the ideal customer criteria scores.

1. Very weak budget, 1 point
   The lowest level on the scale represents such customers that have indicated that they have severe cuts in their budget and will therefore not have possibility to purchase anything new or renew any current agreements. Also, the macro economy for the territory looks weak with bad currency rate against major currencies, austerity actions for public institutions, instability in the country's macroeconomic data or public information about budget cuts and layoffs.

2. Weak budget situation, 2 points

   The customer has indicated that they will be able to renew current agreements but not have the financial situation to start agreements for any new products or services. Macroeconomic data in the country is weak with weak development of currency level against major currencies.

3. Stable economic situation, 3 points

   The customer has indicated that their budget for the incoming year will be on a stable level where they can renew current agreements. Additionally, they have indicated there might be possibilities for them to start agreements during the current calendar year for new products or services.

4. Strong economic situation, 4 points

   The highest level on the scale represents such customers where the customer indicates that their budget for the current calendar year is going to be strong. The macroeconomic data for these customers also shows good development. Also, public information and/ or third-party sources such as analytical companies, other customers etc. indicates that this customer will have a strong budget during the current calendar year.

4.8 Reliability

4.8.1 Definition

Definition for Reliability in Business Dictionary:
“The ability of an individual, apparatus or system to consistently perform its intended or required function or mission, on demand and without degradation or failure.”

4.8.2 Scientific discussion

Honesty and reliability are the most important building stone for a building trust. Trust creates a strong and well working partnership in a supply chain. The level of trust determines the closeness in a buyer-supplier relation and can also can protect in challenging situations in the customer relationship like for example abuse of power, conflicts and low profitability. They mean also that trust can reduce risk of sudden changes in the relation and can contribute to maintain a certain level of long term stability in the customer relationship. (De Leeuw & Fransoo 2009a p. 731f)

When developing well-functioning customer relationships, it is important to work on the reliability and the integrity factors which develops trust in the relationship. When a buyer wants to enter in a deeper partnership relation in the customer relationship, the buyer in this case usually measures the supplier's capabilities to fulfill the needs of the buyer and perceives how willing the buyer is to commit to maintain a good service quality throughout the customer relationship. (Morgan & Hunt 1994a p. 22)

Reliability is strengthened when a supplier acknowledges a buyer's individual needs and understands the meaning of them for the buyer. One factor that also increases the reliability from the customer perspective is when a suppler has been managing conflicts well and in a respectable manner. These conflicts can both have been straight with the customer or been conflicts with other stakeholders not directly related to this customer relationship. A buyer also respects when the supplier affirms that it has learned from these conflicts or mistakes and try to establish interim trust. This also shows the buyer that the supplier has been in similar situations before. (Handfield & Bechtel 2001a p. 371-377)

4.8.3 Reliability scale

On the reliability scale, score 1 represents the lowest value and score 4 represents the highest value. The given value is multiplied with 5 so that the maximum value is 20 points. The maximum amount of points per variable represents therefore one fifth (1/5) of the maximum 100 points that a customer can get of the total amount of the ideal customer criteria scores.

1. Very unreliable, 1 point
   The lowest level on the scale represents such customers who are not at all able to be trusted or believed. They share information that you can't rely and will not do what you ask them to do, or will not do it well.

2. Unreliable, 2 points

   The unreliable category of customers represents those who often doesn't meet expectations through their acts and information they are sharing. They often have difficulties to fulfill their promises.

3. Reliable, 3 points

   The reliable category of customers represents such customers that are reliable but not fully transparent. They might tell you they will do something you have asked them to in a certain time frame which sometimes is left undone. The communication and information they are sharing is not always meeting expectations but in general they are trustable.

4. Very reliable, 4 points

   The highest level on the scale represents such customers that you can have full confidence for their reliability and integrity. The information they are sharing is always trustable and meeting expectations.

4.9 Honesty

4.9.1 Definition

Definition for honesty in Merriam-Webster Dictionary:
"Fairness and straightforwardness of conduct, adherence to the facts"

4.9.2 Scientific discussion

It's vital to foster a culture of openness and honesty both from an internal and external point of view (Spekman & Kamauff & Myhr 1998a p. 79). From the sup-plier's perspective, if the supplier knows that there will be problems with the delivery of a product this should be communicated with the customer in early stage and not when the problems has already occurred. From a customer's perspective, if there will problems with the payment of the bill by the expiry date. Or if the decision has to be taken by someone else in the organization, this should be told in an early stage in order to involve this person in the discussion enough early in order to not stumble with the decision making in the end of the process. This kind of openness and honesty develops trust and respect from both parties. This leads in many cases to developed trust, respect and commitment which is a product of improved reliability. (Whipple & Frankel 2000a p. 25-26)

Spekman (1988, p. 79) means that honesty is the cornerstone of a strategic relationship and that if there is not honesty and openness from both parts in a customer relationship, this breeds mistrust which again reduces the commitment level for both actors in the relationship. If the commitment level decreases it has severe impact on the partnership level discussed in the earlier ideal customer parameter and shifts the customer relationship towards a transactional relationship where the relationship level is low.

Morgan and Hunt (1994, p. 23) means that honesty and openness are the main building blocks for trust in a customer relation. Trust is the biggest determinant of commitment in the supply chain between a supplier and a buyer. They mean that it is difficult to imagine a well working customer relationship without mutual trust. According to them there is appositive relationship between level of trust and commitment in a customer relationship.

4.9.3 Honesty scale

On the honesty scale, score 1 represents the lowest value and score 4 represents the highest value. The given value is multiplied with 5 so that the maximum value is 20 points. The maximum amount of points per variable represents therefore one fifth (1/5) of the maximum 100 points that a customer can get of the total amount of the ideal customer criteria scores.

1. Very dishonest, 1 point
   The lowest level on the honesty scale represents such customers who are dis-honest, deceptive or fraudulent. These customers also have a track record where they have been disposed to cheat or fraud.

2. Dishonest, 2 points

   Customers in this group are not transparent when discussing about important topics. They might tell you things that proves to be wrong, confuse and create disillusions.

3. Honest, 3 points

   The customers in this category are in general honest and truthful but they lack transparency when discussing about delicate matters, such as budgets, needs and decisions making processes.

4. Very honest, 4 points

   The highest level on the scale represents such customers where the customer through their acts and words indicates that they are truthful and sincere no matter what. These customers also have a strong reputation in the branch of being transparent and truthful.

4.10 Active and responsive

4.10.1 Definition

Definition of active in Business Dictionary:
"In marketing, a customer is considered active if he or she makes a purchase within a specified period of time. For example, an active customer for a grocery store could be someone who has purchased food in the last week."

Definition of responsive Cambridge Dictionary:
"Making a positive and quick reaction to something or someone."

4.10.2 Scientific discussion

In order to maintain a buyer's interest and keep them responsive, suppliers should invest in human assets. To judiciously get the buyers through contracts a certain level of dependence in the customer relationship in order to maintain a certain level of control of the buyer. Responsiveness is heavily linked with the buyer-supplier dependence, supplier human asset investments, and trust between the two parties in the supply chain. The quicker the supplier are to respond to the buyer's requests, the more active the buyer is to supply information and prioritize the communication between the two parties. (Handfield & Bechtel 2002a p. 368-377)

Buyers are striving to limit the number of entities they do business with. This in order to focus on their best partnerships where the buyer commits to maintain a high activity level and where the supplier has a solid understanding of the buyer's needs. In a well-functioning buyer-supplier relation the buyer is not only purchasing an X number of products or a service. In these kinds of relationships, they also value the sometimes-invisible part of the transaction process which are the suppliers' systems and capabilities. In order to keep these working it requires a lot of coordination from the supplier. The buyers are through the level of activity, creating a stability for the supplier as they additionally to financial income also provides the supplier with indications of future volumes and which price levels they are able to accept. This might get the supplier to be able to optimize its cost level and increase creativity. (Smith & Barclay 1997a p. 10f)

4.10.3 Responsiveness and activity scale

On the responsiveness and activity scale, score 1 represents the lowest value and score 4 represents the highest value. The given value is multiplied with 5 so that the maximum value is 20 points. The maximum amount of points per variable represents therefore one fifth (1/5) of the maximum 100 points that a customer can get of the total amount of the ideal customer criteria scores.

1. Very unresponsive and inactive, 1 point
   The lowest level on the scale represents such customers who never answer contact attempts through e-mails, telephone or other media's. Never receives you when you are visiting other customers in the area. These customers you neither find in the branch meetings or conferences.

2. Unresponsive and inactive, 2 points
   Customers that falls into this category are such customers that are neither active towards the suppliers nor in their professional forums. They are in general unresponsive but eventually answers to e-mails and you might be able to meet them sometimes in branch meetings or conferences.

3. Responsive and active, 3 points
   Customers that falls into this category are in general active and responsive but lacks the pro-activity in their communication with suppliers. It's fairly easy to set up meetings with them when you have an interesting topic and they generally receive you when you are visiting other customers or prospects in the area. They are also actively participating in industry conferences and trade shows.

4. Very responsive and active, 4 points
   The highest level on the scale represents such customers that are pro-actively in contact with many stakeholders on the supplier's side and engages as well actively in professional forums. The customers that falls in to this category also receives you every time you are visiting other customers in the area and even pro-actively try set up face-to-face meetings.

4.11 Categorizing customers

In this section, it will be explained how the outcome for the different variables will be visualized through the colours of the traffic lights. This method is familiar from the reporting of Balance Scorecard theory. The theory of segmenting weighting the values appears in the literature of Customer Pyramid.

The Customer Pyramid is a widely used robust framework used by many industries and can be used both in B2C and B2B market segmentation. The approach can be used for many different purposes when categorizing customers when segmenting customers based on attributes like profitability, usage, need or benefit. There can also be more than three segments, depending on how big the customer base is. (Zeithaml & Rust & Lemon 2001a p. 124)

The Customer Pyramid should be used always in such cases where there are different customer attractiveness levels. Such customers that has a low probability shouldn't be served equal sales perspective compared with the top tier ones where the probability is on a very good level. Like this the supplier is under-servicing it's most attractive segments by investing sales efforts on the wrong customers. From a support function perspective, those customers that are in the red or yellow segments should be highlighted in order to enhance the levels for the variables to move them up from "red customers" to "yellow customers" or from "yellow customers" to "green customers".

The benefit of using this approach is even bigger in such organizations where the resources such as size of designated sales territory is too big to handle all the customer relations equally. The undesirable situation is when customers that has the biggest potential of bringing in more revenues doesn't receive required service level because the various internal stakeholders are investing too much of their available work time to serve such customers that have the least potential of bringing in more revenues. Zeithaml & Rust & Lemon (2001a p. 129) tells as example that "a restaurant would not want to fill up all its tables with students purchasing coffee with endless refills when customers who purchase soup-to-dessert dinners are kept waiting". The idea is therefore to invest the limited amount of resources in to get as high return on investment as possible.

When the Balance Scorecard was invented together with the traffic lights to visualize the outcome, it was seen like an airplane's dashboard for the management. Through this dashboard they could easily through the colours of the traffic lights monitor the performance of the business and take necessary steps in order to correct the course in time if some performance area was starting to shift from its target. Nowadays the reporting for BSC' are far more extensive as they also include mechanisms to alter the course of action. (Malmi 2001a p. 208)

For illustrative purpose, it’s commonly used in performance measurement reporting the colours of the traffic lights for making the outcome easy to interpret. The red colour indicates that the target area needs attention, yellow or orange indicates a target area that is close to reach the set target and the green indicates that the performance is achieving the set target. (Bitici & Turner & Begemann 2000a p. 697)

The reports in most balance scorecards are nowadays displayed in red, yellow/ amber or green to give a snapshot of the current performance level on given indicators. Green is given for performance which meets the target, yellow or amber indicates concern and red for severe performance issues. The positive issue with this performance measurement reporting is that it is very visual way to re-port. The negative with this colouring is that this doesn’t show what is the trend in the performance. Is it going up or down in order to be able to take necessary actions based on what directions it is going to. This kind of presentation of the performance measures neither highlights the interdependencies between the various variables. They also argue that the colours might lead to wrong actions as red automatically gets highlighted as need of urgent action and the green colour is seen as a safe colour when the green has a tendency of getting a declining trend which is difficult to see before it’s too late. The traffic lights are meant to display in an easy to interpret way how the business is performing on different areas with perspective on short term and long term internal and external goals. (Burne & Franco-Santos & Kennerley & Martinez 2004a p. 39f)

4.12 Application

The traffic light approach is going to implemented both on a variable level and on the total scores for each customer. The reason for this is to both give a quick snapshot of the total attractiveness of the customer but also direct the actions designed for each customer with a long-term focus on enhancing the levels of those variables that has lower values.

4.12.1 Green customers

The green tier represents the most attractive customers to do business with. It’s customers that have a good budget, are honest, reliable, active &responsive and which we have a good partnership level with. The top tier consists of the customers that most likely are the most attractive to get new business from or in other words are the ones that will give the company the biggest return on the sales investment. The relationship in general with these customers are on a very good level, their budgets are strong and they are honest and reliable to do business with. An important issue with these customers is also that these customers are willing to in-vest their own time on the relationship and see the customer.

Green colour on a variable represents an optimal situation where the customer is scoring the highest possible amount and that the customer is aligned with the expectations for that focus area. For the total scores on the scale 25-100, a customer would get green colour if the total score would be between 90-100 points. The 90 points is the minimum amount because that represents a scenario where there are three green variables (majority) and two yellow ones. 100 points, which is the maximum score for a "green customer", represents a scenario where all variables have been given 4 points and therefore are on green.

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	4	20/20
Budget:	4	20/20
Honesty:	4	20/20
Reliability:	4	20/20
Active and responsive:	4	20/20

TOTAL after normalizing	**100/100**

4.12.2 Yellow customers

The yellow customers differ from the green tier customers in that these customers don't score high enough on the chosen variables and are therefore not categorized in the most attractive customer tier. Customers that are categorized as yellow customers are typically receiving lower scores on several variables which in the end gives them a total score that puts them in the middle tier. So, these are customers that are typically getting a combination of middle tier scores. The middle tier customers are more inaccessible and don't respond as well to sales efforts as the top tier. The customers in this group can partly be handled through marketing efforts such as phone and e-mailing as these communication methods are more cost effective than sales efforts.

As yellow colour indicates slight concern but that the customer is close to achieve the performance target for that variable, this colour represents the 3 points on my scale. The variables for those customers are on a safe level but there is still space for improvement. For the total scores on the scale 25-100, a customer would get yellow colour if the total score would be between 65-85 points. The 65 points on the scale is the minimum amount because that represents a scenario where there are three yellow variables (majority) and two red. The 85 points on the scale, which is the maximum score for a yellow customer, represents a scenario where there are a majority of yellow variables and two green, like in the following example. The same total amount of points could as well come from other kinds of combinations.

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	4	20/30
Budget:	4	20/20
Honesty:	3	15/20
Reliability:	3	15/20
Active and responsive:	3	15/20

TOTAL after normalizing	**85/100**

4.12.3 Red customers

As the scientific literature suggest that such variables that gets a red colour represents severe performance issues, the application for the red colours in my segmentation project is for the variables where the customer score is either one or two points. This is aimed to highlight all those variables for each customer that needs immediate attention from either the sales department or the support. Red customers are such which scores the lowest possible scores on several of the chosen variables. The benefit of identifying these red customers is to highlight that these are customers that needs special attention from internal support functions in such areas that are possible to work on in order to enhance the score levels in variables. The lowest tier customers should entirely be handled through strategic marketing efforts as they are not responding to sales efforts. The customers that falls into this group should also be flagged as customers that needs more attention from internal support functions in order to assess and work on the weak areas to lift these levels up to yellow and green if possible in the longer run.

For the total scores on the scale 25-100, a customer would get red colour if the total score would be between 25-60 points. The 25 points on the scale is the minimum amount and 60 points is the total score amount if a customer would score red on the majority of the variables and have maximum two yellow ones, like in the following example. The same total amount of points could as well come from many other kinds of combinations.

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	2	10/30
Budget:	2	10/20
Honesty:	2	10/20
Reliability:	3	15/20
Active and responsive:	3	15/20
TOTAL after normalizing		**60/100**

Sales directors should review the classifications of the customers on an annual basis in order for the business to assure that the sales managers have been precise with their assessment of the categorizations for the customer on the different variables in the segmentation study.

4.12.4 Customer Alchemy

Customer alchemy refers to the process of moving customers up through the tiers in the Customer Pyramid. For example, other is the art of turning less profitable customers into more profitable customers. It can take place at any tier along the Customer Pyramid, but is more difficult at some levels than at others. For example, it is very difficult to move red customers up to green customers immediately. Sometimes it is even worth thinking if it's better to get rid of the red customers than to move them up, especially if it is customers that requires a lot of support and work that the customer isn't ready to pay for. If the strategic decision is to keep these customers, the account plans are usually very different for those customers than for other tiers. (Zeithaml & Rust & Lemon 2001a p. 132)

In order to be able to turn the yellow customers into green customers and red customers into yellow customers, it is vital to understand these customers' needs and preferences. In B2B business this understanding is gathered through the dedicated sales person whose task is to know the business good enough in order for the business to profile the customer on a sufficiently good level. When the understanding of the customer is on a sufficiently good level it's possible to also understand their needs, and anticipate them. As the variables in this segmentation analysis are mostly of such nature where changes happen slowly during a longer time-period, the intimacy level with the customer needs to be a strategic priority. There are other benefits that might rise additionally than to be able to move customers up to a higher tier. These are that the supplier might find ways to serve the customers even more better and to understand when at what time a certain type of communication should occur in order to gain the best outcome.

It's useful to build profiles of the customers where all information about the customer is gathered. As the ultimate target is to be able to serve the customer with all the services it can offer. The information needed in the profile part which can be used to gather such understanding of the customer needs to be consolidated with other sorts of information such as usage, client history and customer satisfaction analysis. When there is a systematic collection of information and information management process with aim to create a deeper understanding of the customer relationship, only then strategies can be implemented how to lift customers from the yellow segment to the green segment. (Zeithaml & Rust & Lemon 2001a p. 133-135)

5 MANUAL FOR PERFORMING THE MARKET SEGMENTATION FOR DETERMINING NEW BUSINESS POTENTIAL

5.1 The purpose

People working in sales are under constant need to structure their daily work and prioritize one task over another. Such customers that has a low probability to get new business from, shouldn't be served equal from a sales perspective compared with the ones where the probability is on a high level. The purpose of this plan is therefore to create a framework where the most attractive customers for creating new business with is getting the most focus from the sales people and the ones where the probability is lower are receiving less attention.

The goal with the study is to limit out the key accounts from this study and from the rest of the customers create the following three different customer segments: green, yellow and red customers, inspired from the traffic lights. The reason for these colours is to make it easy and quick for the sales managers to interpret the attractiveness of the customer. For the sales managers, these values would be visible for the account managers in Salesforce under the account details.

Key accounts are managed through individual account plans so the segmentation is limited to all the other current customers that doesn't fall in to the key account segment.

5.2 The scale

On each variable, score 1 represents the lowest value and score 4 represents the highest value. The given value is multiplied with 5 so that the maximum value is 20 points. The maximum amount of points per variable represents therefore one fifth (1/5) of the maximum 100 points that a customer can get of the total amount of the ideal customer criteria scores.

5.3 The variables

5.3.1 Partnership

1. Transactional customer, 1 point

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	1	5/20

A customer who only make occasional single purchases with no reliable pattern either straight or through a distributor. A category used to describe a customer relationship that from a supplier's perspective involves focusing on achieving quick sales without a significant attempt to form a long-term customer relationship.

2. Repeated purchase customer, 2 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	2	10/20

A category used to describe a customer relationship that from a supplier's perspective involves focusing on sustainable sales with attempts to form a long-term customer relationship. The customer isn't brand loyal and tries to seek the cheapest price.

3. Brand loyal, 3 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	3	15/20

Customers that sees our brand and services as superior that they are ready to favor in front of the competition if the price is on the same level as the competition. Personal ties between the buyer and sales manager is strong.

4. Extremely brand loyal, 4 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	4	20/20

Extremely faithful customers to the supplier's brand, expressed through their acts, favorability and repeat purchases, despite of the marketing pressure created by the competition. Sees the supplier's products and services as superior compared to the competition. Ready to pay more for the services than what they would pay for the competitors' products. Personal ties between the supplier and customer is very strong and on many levels.

5.3.2 Budget

1. Very weak budget, 1 point

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Budget:	1	5/20

The lowest level on the scale represents such customers that have indicated that they have severe cuts in their budget and will therefore not have possibility to purchase anything new or renew any current agreements. Also, the macro economy for the territory are weak with bad currency rate against the main currencies, austerity actions for public institutions, instability in the country's macroeconomic data or public information about budget cuts and layoffs.

2. Weak budget situation, 2 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Budget:	2	10/20

The customer has indicated that they will be able to renew current agreements but not have the financial situation to start agreements for any new products or services. Macroeconomic data in the country is weak with weak development of currency level against the main currencies.

3. Stable budget, 3 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Budget:	3	15/20

The customer has indicated that their budget for the incoming year will be on a stable level where they can renew current agreements. Additionally, they have indicated there might be possibilities for them to start agreements during the current calendar year for new products or services.

5. Strong budget, 4 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Budget:	4	20/20

The highest level on the scale represents such customers where the customer indicates that their budget for the current calendar year is going to be strong. The macroeconomic data for these customers also shows good development. Also, public information and/ or third-party sources such as analytical companies, other customers etc. indicates that this customer will have a strong budget during the current calendar year.

5.3.3 Reliability

1. Very unreliable, 1 point

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Reliability:	1	5/20

The lowest level on the scale represents such customers who are not at all able to be trusted or believed. They share information that you can’t rely and will not do what you ask them to do, or will not do it well.

2. Unreliable, 2 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Reliability:	2	10/20

The unreliable category of customers represents those who often doesn't meet expectations through their acts and information they are sharing. They often have difficulties to fulfill their promises.

3. Reliable, 3 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Reliability:	3	15/20

The reliable category of customers represents such customers that are reliable but not fully transparent. They might tell you they will do something you have asked them to in a certain time frame which sometimes is left undone. The communication and information they are sharing is not always meeting expectations but in general they are trustable.

4. Very reliable, 4 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Reliability:	4	20/20

The highest level on the scale represents such customers that you can have full confidence for their reliability and integrity. The information they are sharing is always trustable and meeting expectations.

5.3.4 Honesty

1. Very dishonest, 1 point

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Honesty:	1	5/20

The lowest level on the honesty scale represents such customers who are dis-honest, deceptive or fraudulent. These customers also have a track record where they have been disposed to cheat or defraud.

2. Dishonest, 2 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Honesty:	2	10/20

Customers in this group are not transparent when discussing about important topics. They might tell you things that proves to be wrong, confuse and create disillusions.

3. Honest, 3 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Honesty:	3	15/20

The customers in this category are in general honest and truthful but they lack transparency when discussing about delicate matters, such as budgets, needs and decisions making processes.

4. Very honest. 4 points

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Honesty:	4	20/20

The highest level on the scale represents such customers where the customer through their acts and words indicates that they are truthful and sincere no matter what. These customers also have a strong reputation in the branch of being transparent and truthful.

5.3.5 Active and responsible

1. Very unresponsive and inactive

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Active and responsive:	1	5/20

The lowest level on the scale represents such customers who never answer contact attempts through e-mails, telephone or other media's. Never receives you when you are visiting other customers in the area. These customers you neither find in the branch meetings or conferences.

2. Unresponsive and inactive

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Active and responsive:	2	10/20

Customers that falls into this category are such customers that are neither active towards the suppliers nor in their professional forums. They are in general unresponsive but eventually answers to e-mails and you might be able to meet them sometimes in branch meetings or conferences.

3. Responsive and active

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Active and responsive:	3	15/20

Customers that falls into this category are in general active and responsive but lacks the pro-activity in their communication with suppliers. It's fairly easy to set up meetings with them when you have an interesting topic and they generally receive you when you are visiting other customers or prospects in the area. They are also actively participating in industry conferences and trade shows.

4. Very responsive and active

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Active and responsive:	4	20/20

The highest level on the scale represents such customers that are pro-actively in contact with many stakeholders on the supplier's side and engages as well actively in professional forums. The customers that falls in to this category also receives you every time you are visiting other customers in the area and even pro-actively try set up face-to-face meetings.

5.4 Adding values for the variables

The regional sales managers responsible for their sales territories would give scores for five pre-chosen variables for each of its account that qualify for this segmentation. These criteria would have a scale of 1-4 points. The variables would get different weight how much each variable is contributing to the total score, depending on how many votes they have got when counting the total amount of points that each customer can get. The maximum amount of points that a customer can get is 100 points and the minimum amount of points is 20. Such customers whose total score exceeds a certain level rep-resents the most potential group to create new business with. This segment should therefore be prioritized both from the sales managers perspective and from marketing and support functions perspective in order to take advantage from this potential. The less attractive customer segment which is the one with such customers that scores less, is coloured red. The middle segment is coloured yellow and the most attractive segment is coloured green.

This segmentation analysis should direct to which accounts the sales man-agers are focusing their energy on by creating a tailored account plan for each customer segment. The variables should also highlight what areas the sales managers should focus on to develop in the customer relation. The least potential customer segment would be highlighted in order for the sup-port functions to also contribute in an effort to increase the scores for the weak variables. This in order to collectively enhance these values.

In the beginning of each year the scores for each customer should be updated and around mid-year they should be revised. The reason for this is to have updated information for each customer.

5.5 Scale for the variables

1-2 points: Red colour
3 points: Yellow colour
4 points: Green colour

5.5.1 Red colour

Such variables that gets a red colour represents severe performance issues, the application for the red colours in my segmentation project is for the variables where the customer score is either one or two points. This is aimed to high-light all those variables for each customer that needs immediate attention from either the sales department or the support.

5.5.2 Yellow colour

As yellow colour indicates slight concern but that the customer is close to achieve the performance target for that variable, this colour represents the 3 points on the scale. The variables for those customers are on a safe level but there is still space for improvement.

5.5.3 Green colour

Green colour on a variable represents an optimal situation where the customer is scoring the highest possible amount and that the customer is aligned with the expectations for that focus area.

5.6 Scale for total scores

25-60 points: Red customers

65-85 points: Yellow customers

90-100 points: Green customers

5.6.1 Red customers

Red customers are such which scores the lowest possible scores on several of the chosen variables. The benefit of identifying these red customers is to highlight that these are customers that needs special attention from internal support functions in such areas that are possible to work on in order to enhance the score levels in variables. The lowest tier customers should entirely be handled through strategic marketing efforts as they are not responding to sales efforts. The customers that falls into this group should also be flagged as customers that needs more attention from internal support functions in order to assess and work on the weak areas to lift these levels up to yellow and green if possible in the longer run.

5.6.2 Yellow customers

The yellow customers differ from the green tier customers in that these customers don't score enough high on the chosen variables and are therefore not categorized in the most attractive customer tier. Customers that are categorized as yellow customers are typically receiving lower scores on several variables which in the end gives them a total score that puts them in the middle tier. So, these are customers that are typically getting a combination of middle tier scores. The middle tier customers are more inaccessible and don't respond as well to sales efforts as the top tier. The customers in this group can partly be handled through marketing efforts such as phone and e-mailing as these communication methods are more cost effective than sales efforts.

5.6.3 Green customers

The green tier represents the most attractive customers to do business with. It's customers that have a good budget, are honest, reliable and which we have a good partnership level with. The top tier consists of the customers that most likely are the most attractive to get new business from or in other words are the ones that will give the company the biggest return on the sales investment. The relationship in general with these customers are on a very good level, their budgets are strong and they are honest and reliable to do business with. An important issue with these customers is also that these customers are willing to invest their own time on the relationship and see the customer.

5.7 Examples

5.7.1 Example A

Below the customer X has received 4 points which translates into green colour for these variables, on the following variables: Partnership, Honesty and Reliability. The contribution for these factors are 20 points as the values get multi-plied with five. The customer additionally got three points on two variables which are translated into yellow colour. These variables were: Honesty and Active & Responsive. The contribution from these variables to the total score is therefore 15 points each after being multiplied by 5. Totally this customer receives therefore 90 points which makes it a green customer.

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	4	20/20
Budget:	3	15/20
Honesty:	4	20/20
Reliability:	4	20/20
Active and responsive:	3	15/20

TOTAL after normalizing	**90/100**

5.7.2 Example B

In the example below the customer has received 3 points which translates into yellow colour for the following variables: Budget, Honesty and Reliability. The contribution for these factors are 15 points each as the values get multiplied with five. Additionally, the customer has received 4 points for Partnership which translates into green colour and 2 points for Active and Responsive which translates this variable into red colour. The total amount of scores for this customer is 75 points which makes it a yellow customer.

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	4	20/20
Budget:	3	15/20
Honesty:	3	15/20
Reliability:	3	15/20
Active and responsive:	2	10/20

TOTAL after normalizing	**75/100**

5.7.3 Example C

In the example below the customer has received 3 points which translates into yellow colour for the following variables: Partnership and Honesty. The contribution for these factors are 15 points each as the values get multiplied with five. Additionally, the customer has received 4 points for Reliability which translates into green colour and 1 point for Budget and Active and Responsive which translates these variables into red colour. The total amount of scores for this customer is 60 points which makes it a red customer.

FACTOR	RATING	CONTRIBUTION TO FINAL SCORE
Partnership:	3	15/20
Budget:	1	5/20
Honesty:	3	15/20
Reliability:	4	20/20
Active and responsive:	1	5/20

TOTAL after normalizing	**60/100**

5.8 Managerial recommendations

By performing market segmentation is acting in a way knowing that neither the market nor the customers are homogenous and therefore especially the existing customers should be shared into groups.

Segmentation isn’t an option anymore. It’s a must in order to survive. The customers don’t just want a bigger variety to choose between, they demand exactly what they want, how they want it and when they want it. Companies needs to understand the customer, its heterogenic needs and desires for products and services. In the future, segmentation will play an even more central role as the market continues to shatter in to smaller sub segments where the buyers will demand customization and as the costs of changing supplier decreases continuously, all the supply chain needs to adjust for this movement.

6 CONCLUSION

Professionals working in sales are under constant time constraint and need to prioritize which customers to focus on. Therefore, the customers' needs to be segmented. In this thesis, a practical and easy to use segmentation model was created where the variables and the weight for each variable are interchangeable depending on the purpose of the market segmentation. The end result is a categorization of green, yellow and red customers depending on how potential they are for new business.

The purpose of this study was to discover which market segmentation variables would be most suitable, when we segment our customers in the EMEA sales territory that would determine how potential and attractive the customer is for getting new business with.

The literature review is explaining backgrounds about market segmentation and comparing different segmentation variables. In the following theory chapter, a survey is performed to gather information on which variables our sales managers think are the most relevant when measuring attractiveness and new business potential for customers. The group of respondents are the sales managers responsible for the EMEA sales territory at Wolters Kluwer Health Learning Research and Practice division. The empiric part is a manual that explains the steps how to perform a market segmentation through the approach described in the previous chapter.

The following variables were chosen as the ones that would best determine the new business potential at the customers: partnership, budget, honesty, reliable and active & responsive. Each customer is categorized on a scale from 1-4 for each of these variables above to determine the new business potential.

The study around the variables in market segmentation, provided in this thesis is of benefit mainly for the practitioners. Through the segmentation model created, companies can easily define their own segments. Though market segmentation is a central subject in marketing, there is little discussion about variables that determines the new business potential of the customer. Most of the literature around segmentation concentrates on traditional variables which only shares customers in groups with similar attributes. From sales perspective, this is not as beneficial as to know whether the customer is beneficial to spend resources on, to achieve sales success with. I tried therefore to define a framework for this.

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