Segment by **how** customers buy, not **how much** they buy

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"We know which customers matter most. We just don't win them the way we should."

A few months ago we wrote about customer segmentation as the key to profitable growth. The message was simple: *all customers are important, but not all are equally important*.

Use ABC analysis, plot your customers in the Customer Portfolio Matrix, calculate your Share of Wallet, and put your time where the potential is.

The response surprised us. Many got in touch, and the majority agreed. But one comment kept coming back, in different words:

"We know which customers matter most. We just don't win them the way we should."

That comment sums it up well. Potential tells you where the money is. It doesn't tell you how to win it. For that, you need to understand how the customer really buys. At Mercuri, we call this the customer's buying logic.

Buyers have moved. Has your sales model?

Most sales organizations we met were built on a recipe that worked well for decades.

Hire people with a winning mindset, give them a standardized sales process, train them in USPs and closing techniques, and measure and reward results every month. Customers were divided into large, medium and small, and the biggest ones got the most attention. We described this approach in our previous article.

The problem is that customers no longer buy the way that recipe assumes. If we look at some external data in this field, 74% of B2B buyers do more than half of their research online before they speak to a salesperson (Forrester). More than 90% of senior executives say they never respond to cold calls (Harvard Business Review). Gartner finds that buyers spend only 17% of their buying time meeting potential suppliers, and that time is shared among all suppliers they are considering.

84% of all B2B purchases start with a recommendation from someone in the buyer's own network (Harvard Business Review)

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None of this means the salesperson is obsolete. It means that the role of the salesperson now depends heavily on what kind of purchase we are talking about.

It starts with buying complexity

In our research, we define buying complexity as the customer's experience of risk and value in the purchase. Not ours. Theirs. In practice, it comes down to three questions the customer asks, consciously or not:

- How much risk are we taking? What time, money and resources could we lose if this isn’t delivered?
- How much do we need to change? To what extent does this affect our business, our processes and our people?
- How much advice do we need? Do we need qualified help just to understand what it takes to get the value out of the solution?

Ordering office supplies scores close to zero on all three. Replacing a business system or outsourcing part of your production scores high on all of them. Most purchases sit somewhere in between, and that is where it gets interesting. It is also why complexity cannot be ignored.



77% of B2B buyers describe their latest purchase as very complex or difficult (Gartner)

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Four buying logics

Based on buying complexity, we see four fundamental buying logics in B2B today:

- **Transactional.** Routine, low-risk purchases the customer handles alone. Standardized offerings, quick decisions, usually by one person. Price, performance, simplicity and speed decide.
- **Traditional.** Still routine and low-risk, but the customer wants some advice. Packaged offerings, decisions within days, with one to three people involved. Price, performance, simplicity and speed still matter.
- **Complex.** Higher-risk purchases where the customer needs substantial advice. Customized solutions, with decisions taking days to months and involving several stakeholders. Trust, expertise, risk management and business impact become key.
- **Distributed.** Strategically important purchases requiring several experts and often involving transformation. Tailored solutions, long decision cycles and multiple stakeholders. Vision, values, brand and ability to deliver carry the weight.

Each buying logic calls for its own sales logic, meaning a different way of organizing, leading, measuring and developing the people who sell.

What our research shows

This is not just a nice model. Our Sales Efficiency Study looked at what actually drives sales success at different levels of complexity, and the answer changes as you move along the scale.

At the low end, automated self-service matters most. In traditional sales, drive and activity make the difference: many simple deals with as little time as possible spent on each. Move into complex sales, and customer value orientation takes over, which means identifying the values the customer is willing to pay for. At the top end, in distributed business, it is all about organizing roles and responsibilities and building trust over time, at every level.

The implication is uncomfortable for many sales leaders. What makes you great in one buying logic can make you mediocre in another. A team rewarded for activity and units sold will struggle with a customer who needs six months of joint problem-solving. And a consultative key account manager is an expensive way to sell something the customer would rather order online.

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We are not alone in seeing this. Neil Rackham, the researcher behind SPIN Selling, and John DeVincentis made a similar case in Rethinking the Sales Force. They described three selling modes (transactional, consultative and enterprise) and warned that bringing a consultative or enterprise approach to a transactional sale is a costly mistake. The labels differ, but the principle is the same: the way the customer buys should determine the way you sell.

The hidden cost of the semi-complex deal

When the sales logic doesn't match the buying logic, you end up with what we call semi-complex deals. Typically, these are customers with modest potential who still wants everything adapted to their needs, or business that we handle half one way and half another. We spend complex-sale resources on business that will never pay for them. Harvard Business Review made the same point as far back as 1987: high sales volume does not necessarily mean high profit, because some customers simply cost more to serve (Shapiro, Rangan, Moriarty and Ross, "Manage Customers for Profits (Not Just Sales)").

In our follow-up study (Sales Efficiency Study III, ProSales Institute, 2013), the effect on profitability was clear.

Reducing the share of semi-complex deals from 40% to 20% increased operating margin by at least three percentage points. Not through price increases or cost cutting, but by matching how we sell with how customers buy.

For most companies we know, three percentage points of margin is the difference between a good year and a great one.

Putting it together: potential and buying logic

This is where our two articles meet. The ABC model and the Customer Portfolio Matrix give you one dimension: what a customer is worth, today and in the future. Buying logic gives you the other: is the customer looking for standardization or customization?

Put the two together, and the picture changes. Instead of a pyramid of large, medium and small accounts, you get a map:

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Figure: Segmentation based on potential and buying logic. Source: Mercuri International.

Notice that company size doesn't decide anything on its own. A large account can buy in a completely transactional way, while a medium-sized company can turn out to be your most important strategic partner.

Think back to the account manager in our first article. His breakthrough with the medium-sized customer, where his Share of Wallet was 20% against a potential of at least 40%, didn't come from more activity. He was already working hard. It came from understanding the customer's long-term needs and demonstrating clear business benefit. In other words, he stopped selling in a traditional way to a customer who was buying in a complex way.

Where to start

We usually suggest a simple sequence:

- Go through your existing customer list, and the potential customers in your addressable market.
- For each customer, ask two questions. Is the customer looking for customization? Is there real potential?
- If the answer to both is yes, ask whether this is a strategic partnership that requires a distributed approach with a business team. If not, it is a complex customer, and the next question is whether you are looking at several deals over time (account management) or individual opportunities (opportunity management).
- If either answer is no, ask whether the buying process can be automated so that the customer does the work. If it can, it belongs in e-commerce. If not, it is traditional, and the remaining question is whether physical meetings are needed (field sales) or whether inside sales does the job better.

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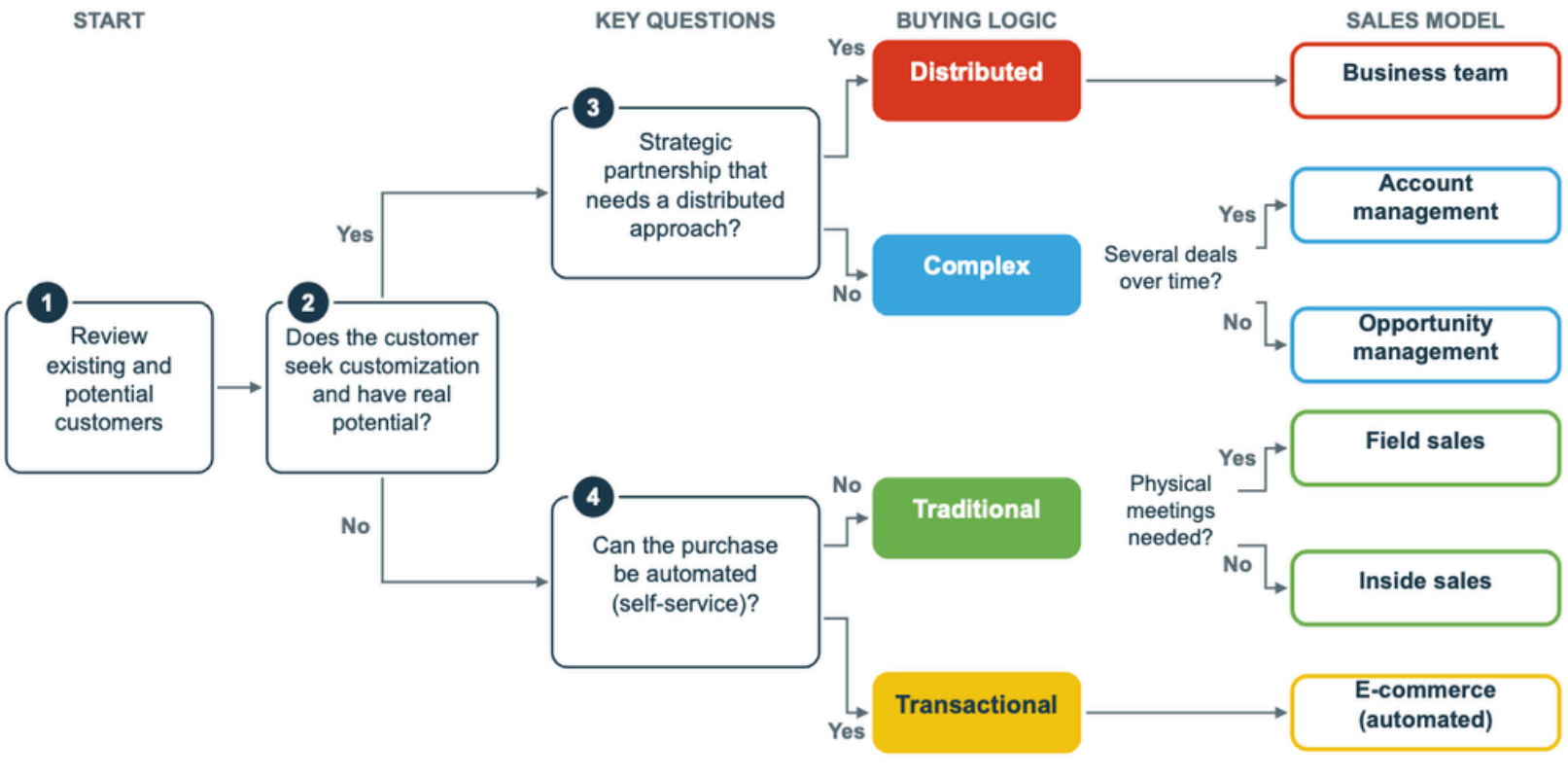


Figure: The segmentation process – matching each customer's buying logic with the right sales logic. Source: Mercuri International.

Our advice, from watching many companies go through this: start small. It is far more important to get the segmentation work going than to find the perfect model. The first version will be wrong in places, and that's fine. What matters is that the conversation about how each customer buys starts happening in your sales meetings.

A question to consider

Customer segmentation is still the key to profitable growth. But the real step change comes when you segment not only by what customers are worth, but by how they want to buy. That is when sales, marketing and service start pulling in the same direction.

So here is our question: *if you review your 20 most important customers today, how many of them are you selling to in the way they actually buy?*

What's your answer?



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