The Key to Achieving Top Line Growth: Strategic Segment and Account Management

Vectia has longstanding experience in collaborating with a great number of resourceful companies from a broad range of industries. Through this experience, we have identified a number of urgent challenges, which executives in asset heavy production companies currently face. These challenges can be summarised under two main headings, 1) How to increase shareholder value in an asset heavy businesses and 2) How to break out from commodity product sales and services that are offered free of charge?

There is no easy solution to these challenges. All the traditional means of performance improvement have been tried out. Processes are already streamlined to cut costs, and the products sold are mainly seen as commodities. To facilitate the discovery of new paths to success and answer shareholders' demands, companies must find new growth elsewhere – through new revenue streams.

By means of recognizing and disputing common beliefs, this paper explains how executives can meet these business challenges. We argue that a new source of success lies in optimising the return on the company's revenue generating assets, i.e. the customers. This can be achieved through strategic segment and account management.

Increasing shareholder value through segment and account management

A recent study indicated that most executives recognise customers as the core of any organisation, and that customer-related performance is an extremely important driver for long-term success. While most companies acknowledge this, only few have been successful in truly analysing their customer base and making strategic and operational business decisions based on this analysis.

There is an increasing demand for companies to show organic, profitable growth. To successfully achieve this, it is essential to carry out an in-depth analysis of the different business drivers that affect the company's performance. Companies often make the analysis on an aggregated level, but we suggest that an economic profit analysis needs to be taken down to the customer level.

This can be achieved by gaining segment understanding on a business unit level and customer understanding on a segment level. Alongside analysing the customers' turnover and operating profit, companies should pay increasing attention to the capital employed and the cost of capital that the different customers demand. This approach enables focusing on the right customers: the ones showing most potential, who are operating in a profitable manner and creating true shareholder value to the company.

Improving economic profit through strategic segment and account management begins with a vital task: analysing the business units that the company consists of. All business units contribute differently to the economic profit of the company, based on their EBIT and asset structure.

Business units usually consist of several customer segments, and thus the next necessary phase is to analyse each business unit on a customer segment level – as the economic profit of the business unit is the sum of its customer segments' economic profit. Each customer segment, in turn, consists of several customers with different performances, which determine the economic profit of the segment.

It is crucial to understand the architecture of the segment in itself, as well as each customer relationship and how they contribute to the profitability of the whole company. It opens exciting new possibilities to manage for increased shareholder value. This can be achieved through a dual approach, which combines segment specific strategies and account business plans (Figure 1). The combination of segment specific strategies and account business plans enables the company to focus on the right customers, i.e. optimising the return on their revenue generating assets.

Segment specific strategies aim to differentiate the offering and marketing concept in a way that answers customer needs in specific segments. The strategies contain long-term development- and action plans on how the offering can be differentiated, which in turn enable the provider to focus its offering to the right customer types. Customer-specific account business plans define the way in which the company approaches customers, and how it brings the offering to them. These plans ensure that the company focuses resources in an optimal way to the right customers – the ones with potential to improve shareholder value!

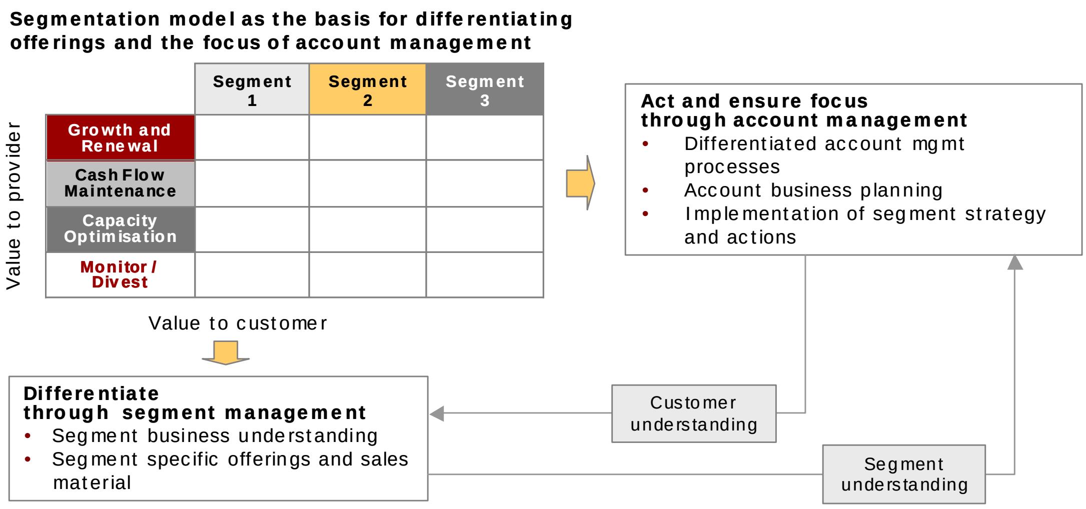

Figure 1. Segmentation model as a basis for differentiating offerings and focusing actions

It is critical to monitor both the execution of the business plans and the results, as most providers will find that the strategies also imply a new way to approach the customers. The traditional product sales approach needs to be developed into an application engineering type of selling, where traditional measures (tons, sales € etc.) alone are no longer considered valid indicators of the success of the relationship. New metrics are needed, such as the customers' and segments' economic profit, profitability and business forecasts. Continuous implementation and follow-up of the strategies ensure a true impact on the economic profit of the company.

Case: Leading paper manufacturer

A global leader in paper and packaging products made a strategic decision to target their customer actions, in order to increase profitability and gain a competitive advantage on the consolidating market. A segment and account management approach was developed to differentiate the offering to different customer segments and target actions to valuable customers. As a first step, different customer segments were identified based on fundamental customer types and their financial value to the provider. Secondly segment specific strategies were developed based on the customer understanding that was gained during the first step. Different customer care models were also defined in order to focus sales activities (growth strategy) to customers with high value to the provider.

With the new relationship model an efficient allocation of especially sales and supply chain resources could be achieved. The company managed to identify valuable customers and substantially increase their profitability by focusing their actions to these customers.

Source: Vectia project

Improving sales efficiency by finding and managing the right accounts

Customer relationships – like many other investments – differ from each other in terms of profit and risks associated with building profit. It is therefore advisable to build a balanced collection of customer portfolios that helps to ensure high profitability in the long run. These portfolios are integrated in the segmentation model to determine the customers' profitability, and help target actions to the right customers. Each of the portfolios can be linked to the strategic imperatives of the company in a way that optimises the return on the customers. This idea can be illustrated with the Customer Asset Management portfolio matrix with four different customer portfolios. (Figure 2)

In regard to customer relationships, the profit axis must naturally include the value creation that the customer relationships deliver. Most likely, the best indicator for this is the economic profit of the customer relationship, i.e. the ability of the customer relationship to bring profit to invested capital that exceeds the capital costs of the company. Duration can be categorised by the length of the relationship and the potential and strategic fit of the customer to the company.

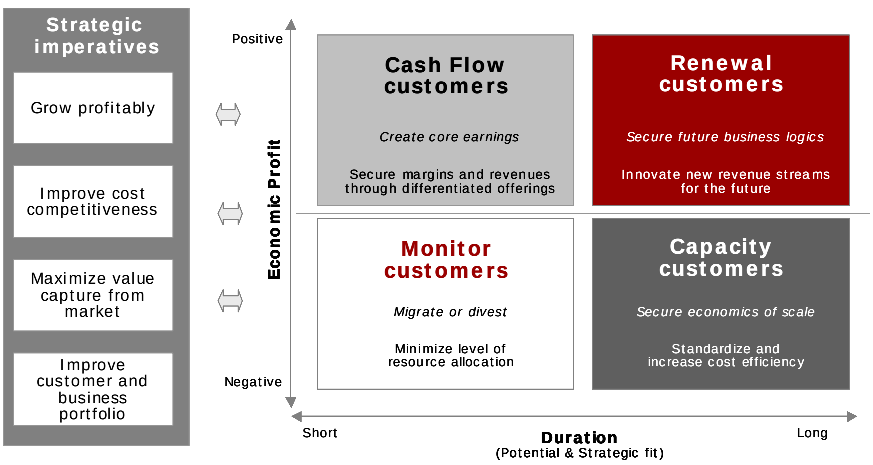

Figure 2. The Customer Asset Management portfolio mode

Cash flow customers. Cash flow customers are usually interested in the core products of the provider and create the core earnings that analysts are interested in. This is especially true if the customer portfolio includes customers with a strong impact on the provider's cash flow. The strategic goal with this customer portfolio is to create positive cash flows, which finances the company's profit and investments into the renewal portfolio. In a highly competitive environment the company's ability to keep up the profitability automatically creates intense competition for these customer relationships, and thus maintaining a good profitability will be challenging.

Monitor customers. Customers with the lowest (or negative) economic profit contribution and the shortest relationship duration belong to the monitor customer portfolio. These customers can mostly be described by transactional behaviour and should be treated with the lowest level of resources needed in order to optimise their returns, if any returns can be achieved at all. The main strategy for these customers is to migrate them to other portfolios or, if deemed necessary, divest the relationship.

Renewal customers. Customers in this portfolio are ready to create new solutions together with the provider, to ponder over new business models and take part in in-depth cooperation. Usually the customer relationships that come into question for this portfolio are those in which a co-dependence occurs with the provider. Both parties actively seek new ways to create value for themselves. The primary objective of the portfolio is to seek innovations that identify new streams of cash flows through future businesses that show a promise of high profitability. These innovations may change the whole value-network of the supplier and the customer.

Capacity customers. These are often large customers with great buying power, who are able to negotiate large discounts. The profitability of these customers usually varies greatly depending on their business cycles. Capacity customers should be treated with standardised and cost efficient processes, in order to optimise their profitability. It is arguable that the durations of customer relationships are long in this portfolio mainly because the customers use their purchasing power to their benefit. Consequently the prices are so low that the customers have no desire to switch providers.

The balance between the different portfolios is naturally the central strategic question when aspiring to balance risks in building profit. From a strategic point of view, managers should be able to estimate what the optimal balance would be between the customer portfolios. When analysing the portfolios, it becomes evident that decreases in the average costs attained in the capacity optimisation portfolio can be utilised in the cash flow maintenance portfolio in the form of better margins and larger cash flows. These cash flows in turn can be utilised when financing such investments that will ensure future cash flow from the renewal portfolio.

The segment-, customer- and customer asset management approach can help managers make strategic decisions regarding budgeting, product development and positioning. The account management models help to optimise the investments in different relationships and the allocation of sales resources. Segment understanding enables the company to differentiate and develop its offering in a way that supports the customers' businesses in the most efficient way.

Breaking out from the commodity market and free of charge services

The second challenge that companies in the process industry are faced with is how to break out from commodity product sales and services that are offered free of charge.

The competition in the consolidating market has lowered the price levels, which has led to differentiation attempts through service development. These technical services are in many ways similar to the core products, as they rarely differentiate one company from another – the services are mainly based on industry standards, are easily replicable, and hard to get paid for. In addition, it is seemingly difficult to identify new areas of cooperation, when relationships between the companies have been limited to the purchasing level of the customer. We will now discuss the core issues related to these challenges.

Price. The market predetermines the market price and it can be exceedingly difficult for companies to differentiate with pricing logics, unless the price carrier can be changed. This can prove highly challenging because price is still the main decisive factor in business. If the price level cannot be controlled by e.g. varying production, other ways to differentiate must be found.

Developing services. Traditionally, the first step that the provider had to take to differentiate on the market was to develop services that revolved around the products. It was, however, quite demanding to get paid for these services, when the price carrier typically still was the volume or the bulk of products sold.

We have identified four evolution steps (Figure 3) to tackle the typical challenges faced in the process industry and break out from the commodity business and its diminishing returns and free of charge services. The application engineering approach requires providers to develop their products in a way that enables their customers to better utilise them in their processes, or improve the quality of their final product. A usual prerequisite for this approach is that sales representatives gain new capabilities in customer understanding, as well as an ability to see new forms of cooperation that would be beneficial for both parties.

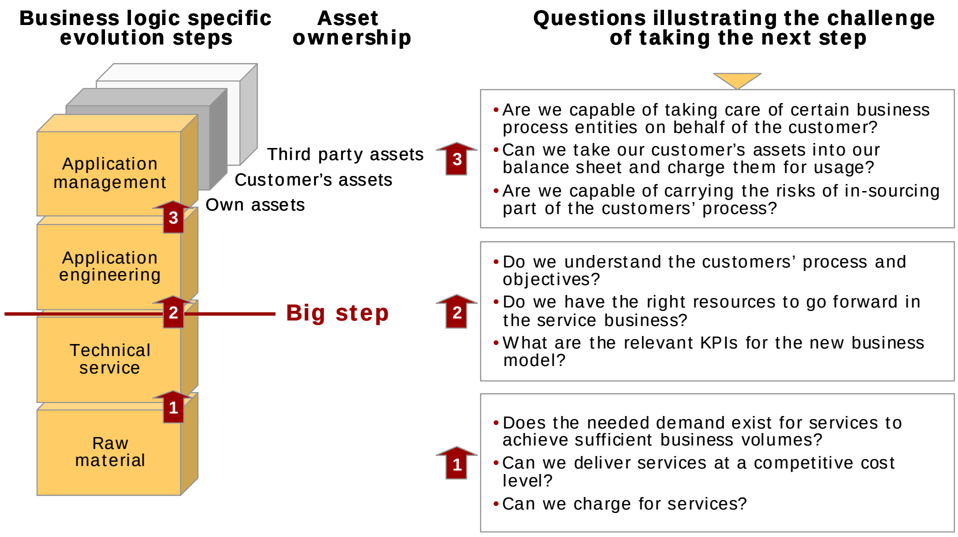

Figure 4. Evolution steps in the "Input to process industry"

The following step is application management, where the supplier may take responsibility for operating some of the customer's processes more sufficiently than the customer itself. Application engineering and management also enable new forms of pricing, as the total solution is unique on the market and fits specific customer needs, but requires customer understanding and a completely new sales approach. These developments help avoid revenue fluctuations related to industry cycles, increase the strength and also balance the customer earnings throughout the whole customer relationship.

Developing relationships. The application engineering or management sales approach requires new capabilities and processes that increase the value creation potential of the organisation. Traditionally entrepreneurial sales development efforts have depended on the capabilities of a few innovative sales people, who were able to differentiate the offering of the provider and improve the customer's business. An application management oriented sales force needs to focus not only on improving the customer's business, but also the customer's customers' business processes and business results. This requires both a move from product sales to value sales and stronger relationships with the customer on a higher organisational level. We argue that this can be achieved by providing spearhead solutions that transfer the discussion from volumes and prices to business benefits.

Case: Major steel manufacturer

The provider has created a process for application engineering and management process that combines sales marketing and production resources. The process enables the customer account teams to create solutions together with the customer to improve the customer's business. The most successful solutions are made into products that can be used in other cases and industries.

It was noted that the complexity and need for different resources increased in this transition, where the company moved from providing technical service with added value to application engineering and management with different value creation and capture opportunities. The provider can often get acceptance from the customer for a cost cutting program, which enables increased revenues, instead of only discussing price. The provider gains on the cost cutting program and shares the savings 50/50 with the customer.

In comparison to commodity sales, the application engineering and management type of selling clearly shows higher returns and predictability over the business cycle.

Source: Vectia Project

Spearhead solutions are usually built on particular provider capabilities, which are necessary for carrying out the core business, but can also be offered to the customers to improve their business. A good example of this is the competence of hedging electricity, which energy providers need in order to stabilise the price of the electricity in the cyclical market. This competence has been offered to large industry customers, enabling them to save great costs in their energy usage. Solutions like this interest the higher levels in customer organisations, and alter the focus from an operating expenditure to a capital expenditure discussion with top- and bottom-line business impacts. By developing spearhead solutions, companies can gain a competitive advantage, increase customer commitment and secure the traditional business. In order to make the transition from an OPEX focus to CAPEX focus with spearhead solutions, application engineering and management, it is necessary to attain or identify competences, which can quantify the value of the solutions to the customer.

The target audience of CFO's and CEO's requires a new way of selling. The provider needs to build a core account team with a strong cross-functional focus (internal networking, impact without authority) and controller skills, supported by the management. The team has to understand the customer's business and be able to communicate the financial benefits of the provider's total solution to the customer on a P&L and balance sheet level. It can be very difficult to find these competences in the current sales force, and thus the company must either strive to develop their sales skills or recruit new professionals, who can understand the customers' value creation process, and are able to make and drive process innovations.

Conclusions

The objective of this paper was to discuss how executives could meet business challenges in order to increase shareholder value in a typical process industry environment. We have presented ideas on how to optimise the return on the company's revenue generating assets, i.e. the customers, by focusing on customer driven segment and account management. Additionally, we have discussed how to break out from the commodity market by applying application engineering through spearhead solutions.

Executives recognise customers as the core of any organisation, and that customer-related performance is an extremely important driver for long-term success. Most all companies have an intention of focusing on the customers in some way, but regrettably, the actions taken do not always support this. The competition for increased volumes and market share for the core products is still the main driver of many providers. Business is supported by a traditional sales approach, with account plans stating volume and margin targets for the upcoming year.

We believe that the basic foundation for building a successful customer driven business is creating a "smart" segmentation. This segmentation should be superior to the competitor's segmentation, but still remain simple enough to be implemented. At the stage when the segmentation is defined, both the "value to the company" as well as the "value to the customer" perspective needs to be taken into account. By combining these perspectives, it is possible to deal with both shareholder perspective as well as differences in the customers' behaviour.

The "value to the provider" enables the company to optimise different operating models for different customer groups. The provider can define different models for co-operation that supports strategy, by clearly understanding the balance between different customer portfolios. The "value to the customer" perspective helps the company to develop new and/or different offerings for different customers or segments based on the customer's processes. This enables the provider to identify completely new business opportunities that can be targeted for specific customers through spearhead solutions, instead of developing products that cannot be differentiated on the consolidating markets.

In order to accomplish this in an efficient manner, a strategic segment and account business planning approach is needed. The segment business plans ensure that the corporate strategic imperatives are brought to the customer level through relevant offerings and business models, which are based on customer processes and needs in the different segments. The account business plans translate the strategy to an account level with necessary short- and long-term actions to improve the relationship.

Please contact us with your questions and suggestions at helsinki@vectia.com or muenchen@vectia.com

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About us

Vectia is an international management consulting company focused on leveraging customer assets. Focusing exclusively on creating customer oriented business models and managing customer relationships makes Vectia a leading provider of advice for clients wanting to fully utilize the value potentials in their customer bases.

Our work is driven by the notion that the future of any company is defined by the quality of its customer base. Securing long-term success and defendable competitive advantage requires that companies develop a deeper understanding of their customer relationships. Hence, all our work is based on a deep understanding of our clients' customers, the value network they operate in and their value creation.

Vectia provides solutions in areas of Strategy, Business Models, Segmentation & Segment Management and Sales & Account Management. These solutions help our clients to identify means of increased sales and marketing efficiency, cross- and up-sell, pricing and other ways of improving business performance. We share the journey with our clients from idea to implementation.

Our offices are located in Amsterdam, Helsinki, Munich and Singapore. In addition, we have affiliates in Finland, Sweden, the UK and the USA.

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