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# Small Customer Today, Revenue Giant Tomorrow

A new segmentation strategy can help sales teams identify their growth hot spots.

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by **Namit Kapoor and Lavanya Manohar**

**M**ost large companies rely on bread-and-butter customers, those whose repeat sales have long provided a steady stream of revenue. But with each new digital innovation, this model loses some of its luster. Telecom companies feeling price pressure from over-the-top mobile players, health insurance payors coping with the spread of private health exchanges and increased consumerization, and financial-services firms facing the rise of fintechs are all re-examining their business models and offerings.

The market is also changing for tech firms. Cloud startups with their growing customer base are rapidly becoming a legitimate source of competition. Incumbents are trying to solve the problem by investing in their own cloud offerings. But in many cases such moves have not been accompanied by a shift in the sales strategy. Incumbents are still segmenting almost exclusively by value, which leads sales teams to stack-rank customers on the basis of revenues and operating margins. Because the revenue model for software-as-a-service (SaaS) trades up-front license fees for a subscription model whose fees are spread over several years, SaaS customers aren't

identified as strategic priorities. Yet many of these companies, although small today, will likely become key customers in the near future. By placing them in the bottom tiers, companies may be leaving millions on the table.

With a new approach to segmentation, incumbents can find their “growth hot spots,” those high-potential customers obscured by more traditional methods. Sales leaders need to consider two critical but often overlooked factors when assessing their current and future customers: need and behavior. When combined with value, these indicators will reveal the customers whose strategic direction and operating model come together in a way that could make them huge sources of revenue. Sales teams should then tailor their deployment strategies toward these customers.

Although growth hot spots might seem elusive, they are within reach. After all, companies have access to unprecedented troves of rich customer data. But in large firms, this data is often spread among various business units — sales, analytics, marketing, and customer support — operating in silos. The units aren't sharing their information in a meaningful, integrated way. That's a problem for incumbent tech firms as well as for companies in other industries facing an influx of online competi-

tors. The online players, which are often more nimble and flush with digital natives, are already embracing these new segmentation strategies.

## Smarter Segmentation

Small fixes won't be enough to help incumbents identify the customers they are missing. They need to re-think their approach to segmentation, moving beyond present-day revenues and margins as the primary driver of their sales efforts.

The exhibit (next page) shows how measuring customer need, value, and behavior reveals growth hot spots. For each factor, companies need to ask themselves a series of qualitative and quantitative questions. Here, coordination among functions is critical. By deploying a standard technology platform across all sales-related functions, businesses can easily move data across different organizational units. This provides the backbone that sales leaders need to collect, combine, and analyze a wider variety of data in real time.

To determine customer need, a company would consider questions such as these: What percentage of the customer's portfolio is covered by our offerings? To what extent is the customer's buying portfolio aligned with our future growth



plans, particularly in newer areas such as SaaS offerings? To what degree does the customer require a high-touch model in terms of services from sales reps?

To determine value, companies would ask some of the more traditional revenue-based questions: How much business do we currently do with this customer? What is the

and making bets on products and services? How regular and streamlined are account-level processes such as payments and notifications?

Once companies have answered these questions, they can calculate a score for each customer using appropriate weighting for each dimension depending on a product's life-cycle stage. Those customers that

identify growth trends and key market indicators that would encourage them to shift to your higher-growth product offerings, or they are not influential enough to sign off on working with you.

In other words, the Tier 1b customer clearly needs your services or your products, and the products themselves are at a high value. But because of various ingrained processes or mind-sets, key stakeholders don't realize this value or aren't empowered to act on it. You may have to invest significant time up front in changing that behavior, helping them see things from your perspective, before you make your sales pitch. But odds are, that investment will pay off.

### Targeting Your Top Tier

After identifying your hot spots, you will need to create sales-force deployment strategies specific to these customers.

**1. Engage through a tailored, high-touch model.** All Tier 1 customers are best served by sales reps with whom they have a strong personal relationship. The sales reps should make a point of meeting face-to-face at regular intervals and providing tailored service. A strategic account management team or senior leader should oversee the sales force, setting the direction for the account managers who serve the top tier. The role of strategic account management is to take a longer-term view of the customers' needs and help provide them with customized support designed to boost recurring revenues — and to pinpoint opportunities to sell these customers new or higher-end products.

**2. Focus on selling solutions, rather than individual products and services.** Selling a solution is a big

## Incumbents need to rethink segmentation, moving beyond present-day revenues and margins as the driver of sales efforts.

total opportunity from this customer? How important is this customer to our share of wallet? Does the customer usually buy higher-value/higher-margin goods and services?

And to measure behavior, companies should ask: How empowered are the buyers (procurement reps, product leads, etc.) to make forward-looking product decisions? How progressive is the customer leadership in identifying market trends

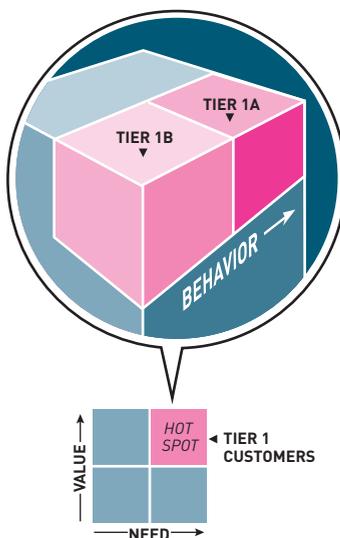
rank high on both value and need (typically about 10 percent of the total customer base) make up the growth hot spot; these should be Tier 1 customers. Behavior then distinguishes two types of customers within this tier.

The first group (Tier 1a) will be easy to work with, because their way of thinking and operating is already aligned with your way of doing business. For example, you may have a customer whose growth strategy is closely aligned to the products and services you sell. This same customer may be highly evolved in terms of its ability to identify market trends. And it may be organized such that purchasing decisions are streamlined — the procurement team and product groups work together to buy as one unit.

Customers in the second group (Tier 1b) are high in value and need, but you will likely have to work with them to modify some of their practices. Their procurement department may use external vendors that have their own set of metrics, which may or may not be aligned with those of the business leaders using your products. Or perhaps the business leaders themselves are unable to

### Exhibit: Growth Hot Spots

Sales teams should consider need, value, and behavior when segmenting customers.



Source: Strategy&

ask for technology firms, in which products typically exist in silos, each with its own sales reps. Further complicating matters, these reps are essentially competing for the same share of wallet. For example, one sales rep may be offering a customer traditional on-premises software, whereas another sales rep from the same parent company is offering that customer a SaaS product. To avoid these issues, focus on selling solutions. The idea is to tailor your sales strategy to the customer's specific needs, and include a bundle of products and services that are most critical for that customer.

**3. Take a “consultative selling” approach.** Consultative selling is particularly important for the customers in Tier 1b, who need your products but may not yet have realized it or may not have the ability to act on that need. Account managers should embed themselves in growth discussions with these customers. They need to see themselves as consultants, and not just as sales reps, so

to Tier 1 accounts. Ways of rolling out incentives include variable pay with additional compensation for sales of products that are aligned with the company's growth plan; pay linked to margin, rather than to volume (to mitigate the impact of volume discounting on the sales rep's compensation); and quotas based on product families, rather than volume.

**5. Simplify the sales process through data and technology.** Back-end processes such as quoting, pricing, proposal writing, and so on should be frictionless, low-touch, and easy for the customer. This will free up the sales team to focus more on the customer relationship. In studying sales practices at approximately 45 companies, we determined that roughly 40 percent of a salesperson's time is spent on non-client-facing work that ideally should be automated. Automation also provides the best medium through which to integrate data across different channels, whether

tion, one that hinges on embracing change throughout a company and on engaging the sales leadership, sales representatives, and back-office employees at all levels. It won't be easy for large incumbents, but those that wait may see startups claim an ever-larger share of their market. +

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## Account managers need to see themselves as consultants, not just as sales reps.

that they can help their customer look at the market differently, identify growth trends, and select the products that are best for their future. However, the shift in mind-set needed to go from being an order taker to being a consultant is not easy, and will require significant training and incentives.

**4. Have a robust compensation plan.** Staff incentives can be used strategically to encourage sales reps to focus on high-margin growth products, to retain top-performing reps, and to reward the behaviors that improve the key metrics critical

involving social media, CRM, support, or marketing campaigns. This may sound obvious, but it's difficult in practice. In many companies, the social media channel is divorced from customer support, which is usually embedded within operations, which is distinct from CRM.

Better segmentation, effective use of big data, more targeted strategies — it all adds up to a sales approach that will enable companies to capture their best potential for growth.

Implementing the new model will require a systematic transforma-

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