Value Based Segmentation

A value based selling method is supported by and even occasionally requires a value-based segmentation. By segmenting based on the values that the selling company's offering brings to different groups of customers, the company can adapt both its offering and its selling method.

Segmentation is the process of dividing an overall market into groups based on their similarities. Segmentation is performed so that a company can use its limited available resources to achieve maximum effect from its various efforts and activities. Rather than spreading out the resources between all potential customers, essentially casting the net widely and hoping to catch something, the company can instead make strategic choices to assure the best possible outcome.

> "Segments must be Measurable, Substantial, Accessible, Differentiable, and Actionable."
>
> Philip Kotler

This is not a new idea. What is new is the fact that a value based approach to sales often requires the target market to be segmented based on value.

Traditionally, segmentation is part of a larger process comprised of three parts. The company initiates the process by identifying the customer segments that have the best potential for success. These target customers tend to have the same preferences, traits and behaviour patterns. The next step is to assess each segment's attractiveness, and to choose the segments which the company has the best potential to reach and appeal to (Targeting).

Once the company knows which customers would gain the greatest benefit from its solutions, the next step is to adapt the offering so that it adds value to these target customers, and ensure that the offering is distinguished from those of the competition (Positioning).

Segmentation is generally used in connection with business strategy to identify where the greatest potential on a given market lies, but it is also the foundation for success in marketing, innovation and communication. For the sales organization, segmentation is fundamental to efficient sales work in the market.

The segmentation bases in B2B are often founded on criteria such as:

- geography (e.g. continent, country, region, city region, rural area)
- sales volume (e.g. small, mid-size, large companies)
- purchasing and user behavior (e.g. heavy users, basic users, non-users)
- customer type (e.g. purchasing customer, repeat customer, non-purchasing customer)

Most of the customers we meet feel that they have a well-considered segmentation system that is well implemented in their organization. The reality, however, often contradicts this:

Segmentation does not steer the sales force's focus to a sufficient extent, i.e. they don't devote the right amount of time and energy to the right segments.

The sales reps do not sell the specially adapted offering to the right segment. Instead they sell what they know and feel comfortable with.

The segmentation is not designed for value based selling with the customer in focus; instead it is based on internal factors such as the company's own organization, market presence and products.

More and more, B2B companies clearly need more effective segmentation, and we see an increasing number of companies now using more innovative ways of segmenting the market so as to enable a value based selling approach.

Example 1: engineering company

An engineering company selling to the construction sector previously had a segmentation model based on customers' net sales and role in the value chain, i.e. installers, consultants, project managers, or investors. These various segments were addressed with different offerings and different strategies.

Following an in-depth quantitative and qualitative analysis of the customers, a new model was introduced identifying behavior types based on risk aversion, i.e. how willing the customers were to challenge their own customers' demand specifications, so that they could deliver more value.

This means that the company now creates offerings of products and services that add value based on its customers' willingness to take risks, but it has also enabled the company to customize its contact strategy. Some segments need personal sales, while others are easier to keep satisfied via purely digital channels.

Example 2: software company

A company that develops and sells its own software established a new segmentation model based on two axes. One axis was based on different sectors and the needs of customers in those sectors, and the other was a value based segmentation founded on how far customers had come on their digitalization journey, and the quantitative value that such customers could realize were they to fully deploy the company's offering.

This enabled the company to establish a sales strategy and resource plan. The customers and customer segments shown by analysis to have the best potential to gain value (and thereby to increase income for the software company) are actively sold to, while the segments with lower potential are offered a digital solution for procurement.

The key to success is to start from the customer's situation and challenges, thereby building an understanding of how the selling company can provide value.

Based on content from the book "Managing B2B Sales 2025 – Value Based Selling and how to implement it"

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