

Environmental and Utilities – Research Insights

Segmenting your customer base to improve margins

Why do it?

Research by Leading Edge conducted with senior marketing executives in companies operating in the environmental and utility sectors reveals that almost half of companies consider 'managing the impact of more aggressive competition' and 'managing the impact of falling margins' to be near the top of their strategic agenda.

These issues normally exist in mature commodity markets, where price often dominates the buying decision. But for many in the environmental and utility sectors, especially in service industries such as waste or laboratories, these conditions are also an ever present feature. So how can companies maintain margins in this environment?

Key points to consider

The vast majority of companies know what their customers buy, but how many know why their customers actually choose to buy from them? It may be because they think they offer superior customer care or it might be the image of the product, but perhaps it is just because of a small detail they couldn't predict.

Some customers will only buy on price, but the important thing is to know which ones these are. Then you can look at cutting the costs of serving them by only providing the level of service that is appropriate to the amount they are willing to pay. This may mean a direct service with no support, either through a website or a call centre.

Others customers may, for example, want extra technical support and would be willing to pay more to get this. It's almost like making your one product or service into several, each with their own set of benefits and price strategy.

Developing more differentiated products or services adds value to the customer as their needs are more closely met. This can improve customer retention and may allow you to increase the average price received.

One way to improve your margin for a product or service and achieve a true competitive advantage is to innovate and develop a product or service that fulfils the customer's needs in a new and more effective way. The aim of the game is keep your costs low, yet please your customers by segmenting them and giving each group exactly what they need.

How to get started

This is all fine in theory, but identifying which group each customer fits into is usually the biggest challenge. A good place to start is to conduct market research into the main issues that motivate customers into purchasing your product or service.

Typically, a company could carry out telephone or face-to-face interviews with a robust sample from across their whole customer base. The questions should be phrased to cover all the different ways that customers interact with the organisation and so that the responses can be analysed on a scoring scale. Clustering software, such as SPSS, can then be used to analyse the data and group customers according to the way they buy.

The aim should be to identify 3 or 4 customer segments, as the cost of implementing and managing any more than this starts to become problematic. These defined segments of customers can then be targeted according to their specific service needs and pricing priority.

Focusing on customers' motives and behaviour is an important weapon for those companies supplying into a competitive market that want to resist price pressure from all customer segments.

If you have any questions please get in touch, we would be more than happy to help.

01252 279990

leadingedge@lead-edge.co.uk