Mercuri International

Customer segmentation
– the key to profitable growth

For account managers, customer segmentation can mean the difference between running fast but standing still, and growing profitability with the right customers.

This article covers:

- Why segmentation is crucial when competing with, for example, low-cost countries
- How to use models such as the ABC model and the Customer Portfolio Matrix
- Key figures for calculating revenue potential and Share of Wallet (SoW)

An industry example

An account manager in the manufacturing industry had more than 50 customers in his portfolio. He spent almost as much time on small customers as on his largest accounts, believing "all business is good business". The result was that he worked hard and maintained high activity, but saw no growth.

Together, we conducted a segmentation analysis, where he discovered that one of his customers, a medium-sized company, was buying four times more from competitors than from him.

His Share of Wallet (SoW) was 20, but he had the potential to reach at least 40%. With that customer alone, there was a potential of € 1M.

By:

- Setting aside time for the customer and investing it where it had the most impact
- Understanding their long-term needs and working with different horizons based on the customer's long-term development
- Presenting solutions where he could demonstrate clear business benefit

... he managed to grow his business within a year. At the same time, he was able to spend less time on customers who did not contribute to profitability.

Why customer segmentation is crucial

Without it, you risk:

- Spending too much time on customers with low potential
- Missing out on your most profitable customers
- Getting stuck in reactive sales work rather than proactive

A well-executed segmentation helps you:

- Prioritize the right customers – the ones with the greatest revenue potential and best strategic fit
- Create growth through targeted efforts toward the customers where is ample room to increase market share (SoW)
- Defend competitiveness by differentiating the offering and focusing on value rather than price

Practical models that help

1. ABC segmentation (The Pareto Principle)

A customers: the 20% who account for ~80% of the turnover

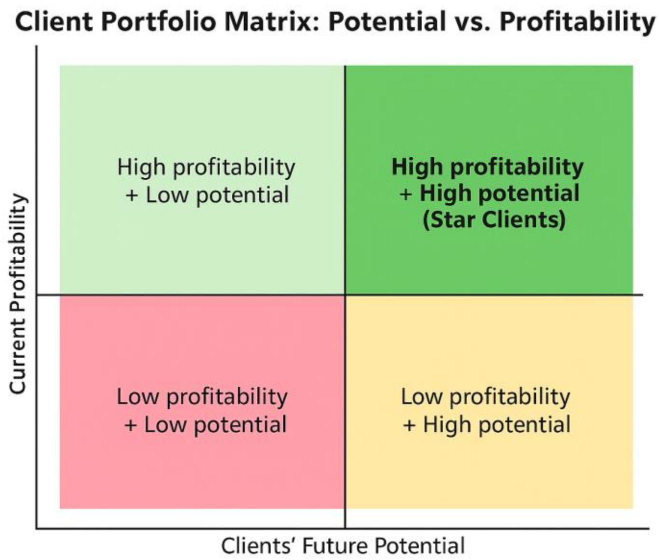
B customers: important, but with lower volume

C customers: numerous, but with low turnover

This model helps you identify which customer segments deserve the most investment of time and resources.

2. The Customer Portfolio Matrix (potential vs. profitability)

This matrix helps you analyze your customers based on both their current profitability and future potential.



High profitability + high potential = star customers (invest most time here)

High profitability + low potential = retain customers, but don't overinvest

Low profitability + high potential = development customers who can grow

Low profitability + low potential = minimize efforts

This is what is sometimes expressed in terms like **Keep the head, grow the body and cut the tail.**

Key figures for calculating customer potential

To assess a customer effectively, use the following key figures:

1. Share of Wallet (SoW): what proportion of the customer's total purchases you have today
   Formula: SoW = (your sales to the customer) / (the customer's total purchases in the category)
2. Customer growth rate: how is their market and industry developing?
3. Gross Margin Contribution: what profitability does the customer provide today?
4. Cross-/upselling potential: how much more can you sell through new product lines or services?
5. Strategic value: for example, if the customer is an important reference customer, innovation partner or can open new markets

Conclusion

Customer segmentation is not just a method for account managers. It is a strategy to create long-term growth and profitability in an industry where price pressure is fierce.

When you show your customers that you understand their needs and contribute to their success, you become more than a supplier. You become a strategic partner.

How are you approaching customer segmentation today?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