Competing on Behavioral Based Service Models

How segmented service models designed around distinct buying behaviors can create competitive advantage for B2B suppliers.

January 2022
Does this sound familiar?

You are a large **industrial manufacturing** company organized and managed around assets, products, and functions, but not by customers.

Your **historical growth is diminishing, margins are eroding**, and differentiation of products has become more and more difficult.

Despite a diverse customer base, you **lack focus on key customer segments** and treat everyone equally.

Your **market offering differentiation is limited** stopping at product and price - and generally not enforced.

**Commercial offerings are shaped by the product driven dimensions**, rather than what customers value in total.

A **rudimentary segmentation exists** based on geography, size, and industry.

**Customer profitability varies greatly**, even for very similar customers, and even within divisions of a given customer.

You have been characterized as **difficult to do business** with by customers.
Why is Differentiating on Behavior so Important?

Winning suppliers will distinguish themselves in the marketplace by incorporating behavioral and needs-based attributes into their segmentation schema.

Let’s face it, customers are inherently complex — and even more so in a B2B environment. They come in many shapes and sizes. Because of this, designing and fulfilling commercial offerings can be very complicated. And yet, despite this persistent and wide variability of customer characteristics, suppliers have been challenged to break free of their rigid operating and engagement models to manage different customer needs in the marketplace.

This situation is compounded by the backdrop of heightened customer experience expectations as the personal preferences of buyers transcend into the B2B landscape. And while buyer expectations are evolving, dated segmentation approaches on firmographics alone are largely persisting — and often fail to balance offer structure and cost to serve. These dated approaches leave many companies incapable of differentiating their commercial offerings in a way that better resonates with customer needs to win in the marketplace.

Further, they fail to provide guidance on how to win with customers, leaving responsibility on the front line to navigate each customer’s needs independently.

And yet, despite these challenges, B2B organizations across all sectors continue to embrace dated segmentation approaches, leaving many customer experience efforts ineffective at driving business outcomes.

Winning suppliers will distinguish themselves in the marketplace by incorporating behavioral and needs-based attributes into their segmentation logic. They will shift from a focus on products and price alone to offering differentiated experiences that are shaped in a way that resonates with customers in each segment. Shaping offers relative to customer needs and behaviors along with delivering experiences that align with a segment’s preferences will serve as a force multiplier to drive customer satisfaction and improved business outcomes.

CUSTOMER SATISFACTION

The customer satisfaction equation is a function of experience, brand promise, and actual needs:

$$ Customer \ Satisfaction = f(Experience, \ Brand \ Promise, \ Needs, \ Behaviors) $$
The Disconnect in Today’s Reality

While B2B experience expectations are evolving, dated segmentation approaches on demographics alone are largely persisting.

Firmographic methods alone can be inherently flawed.

Firmographic segmentation methods often group customers based on a superficial set of attributes, such as size, geography, and industry, without considering customer needs, behaviors, purchasing norms, or how they want to be served. While these traditional attributes are foundational to strategic business planning, they mask the fact that although some customers may appear similar on the surface, they actually prioritize differently and behave in remarkably different ways. Even within a given customer, there can be a significant variation in behaviors across business segments or specific “buyers” that would not be uncovered through this traditional approach. You will also find that when using this approach to segmentation, you will see a wide distribution of offers and varying profitability across customers within a particular segment, or even within a customer. This implies there is a likely disconnect between the commercial offering and how it is being valued by customers. When considered alone, firmographic segmentation cannot meaningfully inform engagement strategy or offer development, which leads to suboptimal experiential and business outcomes.

PROFITABILITY DISPERSION ILLUSTRATION BY CUSTOMER SEGMENT

1 Minimal contribution margin variation between segments suggests limited ability to separate customers with different needs

2 Significant dispersion within segments signals homogenous treatment of customers with varying needs — and signals potential misallocation of resources.
Rethinking Segmentation through Behavioral Lenses

Behavioral-based segmentation models can simultaneously drive top-line growth while unlocking operating efficiency gains.

PROXIES THAT INFORM BEHAVIOR

Company
What are the customer’s strategic imperatives and business priorities? (Service vs Low Price)

Management
How are decisions made and what incentives are in place? (Cost vs Value)

Product
What is the nature of the customer’s final product or service? (Specialty vs Commodity)

Past Behavior
What pattern of behavior has the customer historically exhibited? (RFQ vs Long-Term Commitments)

Relationship
What is the customer’s view on supplier partnerships? (Transactional vs Strategic)

Based on Deloitte’s experience, a number of key customer characteristics and actions can serve as relevant proxies that expose behavior and inform segmentation strategies.

Rethinking how customers are served by behavior

Behavioral segmentation is all about developing distinct, dynamic segments based on how customers buy and behave throughout the customer journey: exploration, engagement, decision making, procurement, use, support, advocacy (i.e., the whole experience).

Behavioral-based service models can unlock growth through offers and interactions that better resonate with customers. Additionally, they can improve margins through efficiencies gained from configuring service offerings around the segment. If customer segments do not incorporate customer behavior, the integrity of offers can break down quickly during execution, requiring the organization to support all commercial commitments that may have been made — without exception.

Further, a behavioral-based approach can help prevent value erosion by reinforcing the value of its services that might have been otherwise taken advantage of by “service-draining” customers. That is, differentiating service models and commercial offerings can positively influence customer behavior.

Relevant proxies that shape behavior

While there is value in a systematic approach, suppliers do not need to immediately canvas their sales teams and customers to understand how customers behave. In fact, suppliers can gain meaningful insights into customer behavior information that is already readily available.

For example, transaction-level data can be extremely insightful in helping to observe customer behavior. Suppliers can analyze this data to systematically understand how customers adhere to business rules, such as payment terms, historical ordering patterns, expedited order shipments, change orders, and lead times. Suppliers may consider differentiating their commercial offerings for customers who consistently abide by agreed to terms over those who tend to ignore them.

Non-transactional data can also be assessed for behavioral insights. These insights can be derived from well-established CRM platforms – including sales, opportunity, and service management systems. Suppliers can analyze this data to better understand the relationship customers have with the supplier, how they buy, and what services or support they value, such as in-person sales interactions and technical consultations.

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The reality for most: a failure to launch

Many B2B companies may already espouse these principles and have an unwavering ambition to deliver differentiated experiences based on varying needs and behaviors of customer segments. They aspire to make profitable, data-driven choices that are driven by in-depth customer insights and enabled by digital capabilities that are holistically integrated across the enterprise. In many cases, we observe these ambitions being reinforced through formal processes and individuals that are responsible for researching, defining, and implementing differentiated service offerings.

Yet, despite these ambitions, we often observe a disconnect between customer segmentation and how the business is managed. The ambition takes flight and strategies are set, but the choices made in strategy development don’t reflect the choices made day to day in running the ongoing commercial operations of the business - a failure to launch.

Operationalizing behavioral segmentation

Operationalizing customer experience ambitions in large, complex B2B organizations is a tall task. Strategy choices need to systematically inform choices in daily operations. Strategy execution can’t be a paper exercise, particularly in agile markets riddled with uncertainty. To remain agile and to quickly adapt and learn, commercial capabilities, and data, need to be better integrated.

Doing so requires reshaping lean (i.e., rigid) operating cultures that are enabled by sophisticated ERP systems, and in many cases, addressing system and data gaps across commercial systems.

Clearly, such a change must be reinforced through a steadfast focus on change management, with particular attention to both employee and customer impact. It is also important to consider how segment-based performance incentives will be embedded across the enterprise.

While the task can seem monumental, taking an agile “crawl, walk, run” approach (Figure 1 - next page) enables the organization to not only test the new segmentation strategy, but also sustainably refine the operating model without major disruptions to the business. Companies don’t have to “boil the ocean.” In fact, doing so might inevitably lead to “failure to launch.”

At first, keep it simple

When considering an approach, be mindful of the number of behavioral-based dimensions early on in order to maximize probability of long-term success while minimizing offering complexity. The sidebar to the right details a few considerations:

Number of Segments

Consider a simple approach where customers are placed in one of three service segments such as: High-touch, Medium-touch, and Low-touch. These segments tend to behave differently and have different ways of defining ‘value’ from their suppliers. Explore how your commercial operations could be structured differently to support these unique segments. What would your market offers look like to each segment?

Geographic Consideration

Many large organizations have compounded operating complexities across regions. Consider launching a differentiated service offering in one — and scaling to others.

Product Line or Line of Business

If the company’s operating model is heavily indexed here, it may be worth considering a launch by product line or line of business, in order to provide clarity on the value to customers and to your business.

At first, keep it simple

Maximize the probability of success by limiting the complexity of initial offering configurations. Here are a few considerations:

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Connecting CX Strategy Ambitions to Operations

To deliver differentiated experiences, operating systems must be digitally configured to align with strategy choices.

**Behavioral-based segmentation models can enable asset-intensive companies to thrive in market complexity — instead of drowning in it.**

While asset-intensive companies will always require management to optimize return on capital, they will have to recalibrate that focus as the basis of competition moves beyond products and into experiences. The reality is, without this approach, companies will continue to overserve some customers and underserve others and, in doing so, miss opportunities to optimize the experience for customers and deliver improved growth and profit. Offering better execution and sophisticated approaches doesn't mean more people and higher costs to serve. Behavioral-based service models can enable efficient organizations to thrive in market complexity — instead of drowning in it.
Thank you.
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