

3C, Internet Dynamics and Retail: Towards a new market segmentation?

By Peter van den Heuvel, e-business Research Fellow, and Frans van der Reep, Professor of e-business, INHOLLAND University

Introduction

The Internet introduces new business choices for customer interaction. In this article we introduce two claims. Firstly, we will show that the way companies shape their customer interaction, and not their sector or size, determine the market segmentation. Secondly, Internet dynamics and its effect on customer interaction re-balances the companies' marketing and sales function: the Internet shortens the time window for new market opportunities and makes everyone a salesman. Therefore, traditional marketing activities become more and more part of Sales. Corporate communication and branding become more vital.

We will introduce a new market segmentation, called 3C, based on data gathered from over 600 Dutch companies. The results indicate that top-down marketing is in the process of being replaced by bottom-up sales as an answer to volatile market conditions. We will finalise this article by giving you practical hints in what questions should be answered and in what order to be successful in the market.

Figure 1 introduces the theoretical framework for the market segmentation. Each segment is ruled by a characteristic business vision

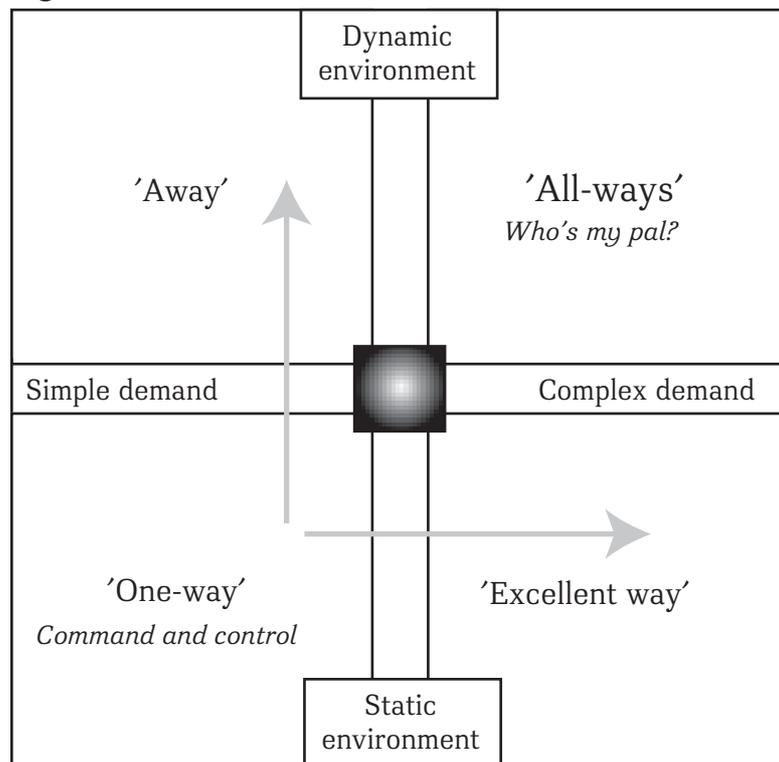
and a vision on how to improve the company. For example, 'One-way' companies define customers as workorders, improvement in business equals improvement in control. The rest of the model is explained later in this article.

The two lower boxes in the figure describe the schedule-push type of company: the two upper boxes represent reality-pull type companies (van der Reep, 2005). The lower two types in figure 1 perceive themselves as fit-for-purpose in a static world. Here, complexity and coordination are managed with the help of fixed routines

and structures, recorded in business plans, task and job descriptions. In this type of organisation, management and control play first fiddle and in the customer contact, 'schedule-push' is the default response: the customer should adapt to the structure and organisation of the company - inside-out.

The organisations in the upper half of the framework perceive the world as dynamic and organise themselves based on that perspective. The time horizon will be smaller and planning takes place bottom-up on the basis of demand-driven

Figure 1 | Theoretical framework



Source: Frans van der Reep

processes. The default customer interaction is reality pull - outside-in.

Description of 3C model

After having introduced the framework now we describe the 3C model on the basis of this framework.

C1: addressing the Customer reveals how organisations match customer demand with their supply and services. Does a company perceive the customer as a workorder ('schedule-push') or as an individual ('reality-pull'). Furthermore, does the company perceive the customer demand as simple or complex?

C2: The way organisations match internal resources to tasks and customer demand to

supplies and services specify C2 addressing the type of Coordination. Each segment is characterised by a specific type of coordination as shown in figure 2.

C3: addressing company Choices is determined by their response

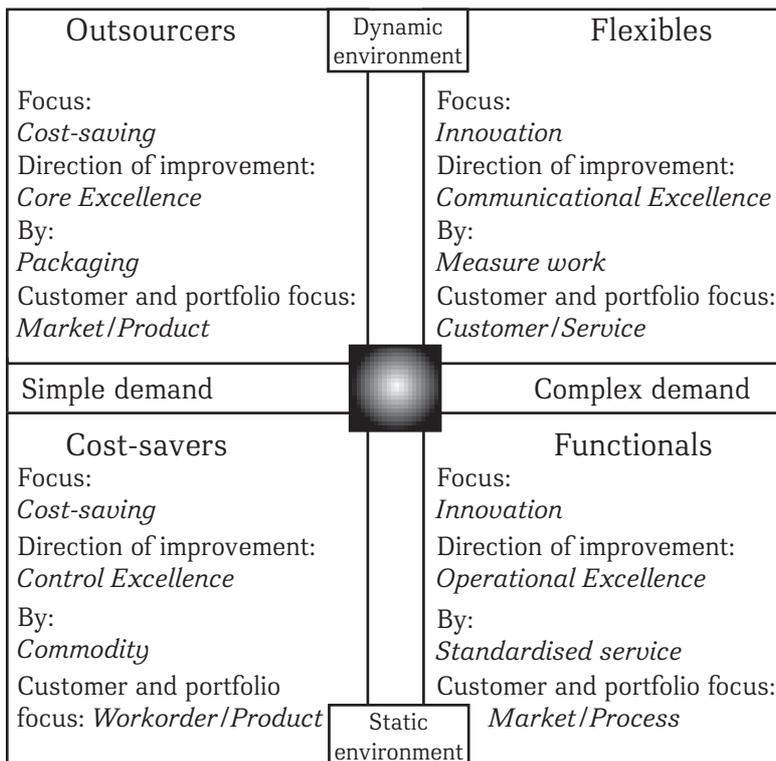
to our eleven key questions (see table below).

This model has proven to be a practical tool for entrepreneurs in various businesses. It simplifies the view on reality and addresses obvious key questions to set up an

Table 1 | Our 11 key questions

Do you choose for...		
Continuity	or	Flexibility
Performance optimisation	or	Speed and dynamics
Arrange innovation yourself	or	One party arranges innovation
Functionality	or	Simple maintenance
Cost-saving	or	Innovation
Standardisation	or	Individual need
Proven technologies	or	New technologies
Fixed costs	or	Variable costs and more risk
Better price/performance	or	Cost-saving
ICT in-house	or	Outsourcing of ICT activities
Make own set of requirements	or	Set of requirements by advisor

Figure 2 | The 3C model



organisation and customer interaction in a specific context. Companies do not react to reality, but to their perception of reality and therefore react differently to the degree of change in both environment and customer demand. This is where the quality of leadership enters the business arena.

Introduction to 3C Market Segmentation

In this section we introduce the four market segments in more detail.

It turns out that with 11 key questions concerning costs, functionality, manageability and continuity, the market is divided into four statistically significant

segments with a distinct focus on, respectively, outsourcing, flexibility, functionality and cost-saving, matching the four different visions within the framework. We asked questions such as whether the company strives after flexibility or continuity, speed and dynamics or performance optimisation, standardisation or based on individual needs and outsourcing or ICT in-house. This new 3C segmentation has proven to be independent of sector and size.

The 'static' segments

Segment 1: Cost-savers ('One-way')

A customer demand type defined as simple and never changing implies a different type of coordination and direction of improvement from a complex and ever-changing demand. It is obvious that cheap commodity products ask for a controlled business environment in which production procedures are standardised with a focus on cost-saving. Control Excellence is the obvious direction of improvement. Work can only be executed in 'One-way'.

Segment 2: Functionals ('Excellent way')

'One-way' companies often move to the 'Excellent way' approach when customer demand shifts from products to services, and managing the process rather than managing the costs become more important. Innovation, both in process and in products, and services are necessary to

manage the complex demand. These companies strive after Operational Excellence in delivering standardised services.

The 'dynamic' segments

Segment 3: Outsourcers ('Away')

When new product demand interferes with a 'One-way' optimised organisation or the extend of control drops due to, for example, ICT management or HRM issues, outsourcing these functions will increase the company dynamics. These companies shift focus to Core Excellence and give control of non-core functions 'Away', still with a cost-saving drive.

Segment 4: Flexibles ('All-ways')

The opposite of 'One-way' in this model is 'All-ways', matching the measure work type of demand. The organisational timetable, processes, staff and so on of these 'Flexibles' are shaped to meet the changing and complex customer demand. Here it is all about Pooling, Allying and Linking (who's my PAL?).

To understand your customer, Communicational Excellence is the obvious direction of improvement for the business. From this 'All-ways' perspective with outside-in information retrieved from customers and accumulated customer data, with either growing volumes, changing competence needs or standardisation opportunities, companies can decide to move to one of the 'other ways'.

Reality-pull is necessary to match the internal perceived reality and the real customer demand, and also to decide in which way to move.

We do not place any value judgment on the various segments. Everyone can be good 'in his own way'. However, we believe that more and more companies will use the Internet for commercial or communicational purposes fostering market dynamics. Therefore, acting from a static business organisation in an increasingly dynamic world will be more and more difficult. We feel this type of misalignment will be shortly outlived.

Additional Results

In our research, 11 options were put to over 600 Dutch companies with more than 20 employees in all types of business on the basis of a representative random check. The response we received came from both ICT and business representatives.

We summarise our statistical significant conclusions based on two-step cluster analysis.

- Approx 40% of the companies organise themselves on the dynamic environment and approx 60% organise themselves on stability.

- ICT outsourcing is more often the choice for the upper segments than the lower.

- Organisations have a focus on either innovation or cost-saving

in an almost 50/50 ratio. The 'Outsourcers' and 'Cost-savers' tend to cost reduction strategies. 'Flexibles' and 'Functionals' focus on innovation.

- 'Flexibles' have a focus on flexibility. They show innovation, tailor-made customer solutions, based on the individual customer set of requirements. However, a majority selects fixed costs solutions.

- 'Cost-savers' tend to opt for standardised solutions and their own maintenance departments.

- Business representatives in the 'Flexible' segment go for speed and dynamics. Not for price. They are not really interested in performance optimisation.

- ICT managers tend to organise them selves even more to the static environment than business management¹.

- The majority of the 'Functionals' indicate that the Internet speeds up their innovation process.

- 'Functionals' invest more in new ICT technology and cooperation tools than the other segments.

- Among the group of companies using a contact centre, most frequent are 'Flexibles' least frequent are 'Outsourcers'. Our conclusion with respect to Outsourcers' is that they sell according to our 3C model

something simple. This makes the solution of a standardised, but still reality-pull, customer contact possible within a contact centre.

Now we turn to the second claim of this article.

Sales drives out Marketing

Our first claim in this article is the shift in relevant market segmentation. The second claim, and the subject of this section, is about bottom-up Sales driving out top-down Marketing.

Marketing is often related to annual marketing plans ruling the various Sales activities. We feel that as the Internet makes the market more dynamic, annual market plans as a concept to manage commercial operations will be increasingly seen as not the most successful coping strategy for companies to deal with dynamics. Those plans simply take too much time to put yourself in the position to respond to market dynamics. So we started research on this topic, to find statistical evidence for our claim.

Our data from the survey indicate that the company's functions 'product development', 'distribution policy' and 'portfolio management' are part of Sales in the dynamic segments and are part of Marketing in the static ones. We feel that this picture preludes a restructuring from Marketing towards Sales: the Internet makes everyone a salesperson.

Moreover, our quantitative results show a strong appreciation for human cooperation competences in the dynamic upper segments as compared to the static ones. If the Internet changes the perception of the company towards the market dynamics, it also intensifies the appreciation for cooperation skills. Topics like entrepreneurship, creativity, the vision-thing and human cooperation enter the business agenda once more.

Our conclusion based on our survey is that HR cooperation competences gain importance. The reason for this tendency is obvious. This HR competence enables the company to function as a flexible network organisation. The game is no longer about survival of the fittest, but about survival of the most cooperative.

Practical Use: Some clues

We conclude with some practical hints for the use of 3C. The practical use is in the very beginning and at the end of the sales cycle.

To be successful, companies have to decide in which segment they want to operate. It does not make sense, for example, to pretend to be flexible but act as a Functional. It is extremely important to customers that they get what they see. If not, you lose them.

1. This behavioural difference between ICT and business representatives is the subject of further research in our institute.

So in terms of the 3C model, alignment of externals, Customer (C1) and internals Coordination (C2) is necessary with specific Choices (C3) going along with that.

This consistency, 'what you see is what you get', needs to be maintained. This puts restrictions to short-term transformation possibilities. Being loyal to the brand becomes more vital.

Here is our recipe:

Step 1

Determine your present situation in respect to your business, processes, ICT and human resources. What is your core business and how do you make money? You probably know the answers.

Step 2

How does that fit into the 3C segment?
 - To what extent does the customer control your business operations? Answer question C2 and specify the coordination instruments you employ. What activities are 'schedule-push' in character and what activities are 'reality-pulled' (see figure 2). We did extensive testing of the model in the agricultural sector.
 - Do you perceive customer demand as simple or complex? We have asked growers of tomatoes whether they have a simple or complex product and customer demand. One group has answered simple because a tomato is just a tomato, the

other has answered complex because of taste, size, package, service etc. changes day by day and the organisation and its products adapt to that demand.
 - Ask yourself whether your customer demand and your environment is static or dynamic. Then determine your future business vision with a clear position of the customer and interaction model in it (see figure 2). Determine whether top-down marketing or bottom-up sales should be the ruling concept.

So a firm's perspective on business determines the segment they are in and therefore the direction of improvement they are likely to choose and the customer interaction they will select.

Our practical experience from the agricultural sector confirms that segments have nothing to do with sectors. One lesson we have learned from real cases is that two companies in the same type of business, that seem the same, may be in different 3C segments.

Step 3

We have used the 11 questions as a consistency check. We feel, although we did not do research on this, that, for example, Harrods in London, Zara (see footnote 3) and McDonald's have done their homework well on this point.

The result from step one to three is that it is clear where you are

and where your customer is. It helps you to put your claim forward to the market. This brings us to step 4.

Step 4

Determine solution scenario's and plan change. From our experience we have learned that the first step companies usually take is in the domain of communication and branding. The next thing we have seen is that companies foster customer intimacy strategy just to get a lot of information from the market about how customers perceive them and where the money is.

The final result from implementing 3C is an aligned corporate business and business process strategy, customer interaction strategy, HRM strategy and ICT strategy, with a for the segment consistent direction of improvement.

All these conclusions and results may lead to a new business balanced scorecard.

At the end of the sales cycle, 3C will help to improve understanding of customer satisfaction data. Cost-savers want to be approached with cost-cutting programmes, not with innovation plans. If you do so, it will not make this customer happy. For example, there are hotels both in the domain of 'Cost-savers' and 'Flexibles'. Your sales success and customer satisfaction will mainly depend whether you

approach them inline with their segment. If you re-do your customer survey by re-segmenting your customer database, you will find out that a much clearer picture appears about what makes your customer happy. Royal KPN, the Dutch incumbent telecom operator has adopted the 3C model and is in the process of re-evaluating customer satisfaction data on this basis. In business-to-consumer relationships, the same reasoning applies: you have to know in which 3C segment your customer is, to make him or her happier.

Final Remarks

The Internet compels us more and more to connect with the customer, personally and/or through the Internet. Inside is outside. And if not, then the difference in perception between you and your customer may well be disadvantageous to you.

References

van der Reep, F. (2005) From Schedule Push to Reality Pull: Reality pull prefers retail European Retail Digest 48 (Winter 2005/06) pp. 33-37

The perception of speed of change of the environment has proven to be 'the' factor for the set-up of an organisation.

Besides, there is little time to make the message clear in the market. Consequently, 70% of the companies agree that as a result of the Internet, the role of Marketing is more and more geared towards communication and branding. If you are not seen, you are gone.

Connecting also means that 'One-way' becomes 'All-ways'. Reality-pull and the (inter)networked organisation replaces more and more the tightly organised hierarchy. The Internet is a link between everyone, inside and outside the company, B2C and B2B, in virtual communities. Who you are now and who you want to be on the Internet in this fast-changing environment forces most companies to re-establish

their identity and change and communicate their brand. This has impact on the entire organisation.

The traditional market segmentation in sectors and size may still be relevant in terms of expertise and human network. But according to our research, the 3C segment choice and acting accordingly is much more vital for business success and earning power.

3C gives you an insight into the choices of your environment and your own organisation and may offer new perspectives. Whether you are an entrepreneur, an employee or a buyer, "what you see is what you get". The Internet gives you the next move. The choice is yours to follow-on. Whatever happens, we will be able to watch along with you and follow you, personally and on the Internet.