



Chapter 2: Understanding Your Customer

It is important to understand yourself and your product or service in relation to the general *value proposition* you bring to customers. To do this we need to better understand customers.

Who are your customers? What is an ideal customer? Do you have an ideal customer?

We are going to divide customers into something called *customer segments* based on behaviors and interest in your product or service. Following that, we are going to discuss your customers and the way you would want to shape the value proposition of your product for each of those customer categories or segments.

The overarching goal is to better understand how you can recognize and learn more about your customers and how what you're providing as a product or service should be communicated with those customers.

There are two aspects to your business that are intertwined and almost inseparable:

1. your understanding of your customer and the various customer segments
2. your value proposition, which is the value that you bring to your customers

Value Proposition

Any discussion about value proposition needs to start with a clear understanding of your own product or service.

- What is it you are providing?
- Why did you start making this product or delivering this service?
- What motivated you to do it?
- What value did you see for yourself in what you were doing?
- Is that why you started offering it as a business?

Quite often, we started offering something that we saw as valuable and we were certain others would see value as well. Of course, the way they see value and the way we see value are going to be different. Once you understand your potential customers, you can listen to what they value in your product—and that is the message you use to reach them.

This is the critical point. We need to work to identify the different types of customers that we serve, and which products or services they're buying. Understanding which ones they're using leads you to the next question: *Why is this customer category using this product or service category?*

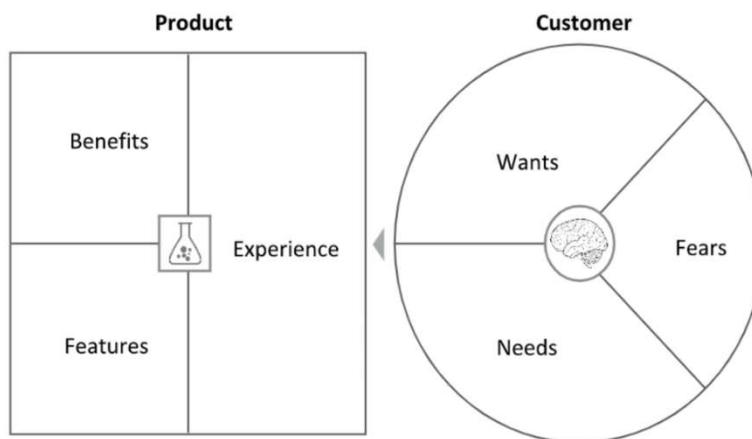
NOTE: one product/service can satisfy several customer segments. But—and this is important—you need to learn how to talk with those customer segments. For some, the product may meet a need, while for others it may address a fear.

The Value Proposition Canvas directly addresses this. Your product provides some benefit to your customer that meets their specific needs. How you present those benefits, features, and the experience that your product provides will make or break whether your potential customer sees that value. So, your message needs to be shaped to address their specific wants, needs, or fears.



Often the value proposition for a customer is situational. That is, the value proposition that resonates with them changes depending on the situation they are in at that moment. For instance, when you go to a convenience store after pumping gas, maybe you may want to run inside to grab a quick drink and a candy bar. You're going to pay more for that bottle of water or that candy bar than you would pay if you were to go to a grocery store and buy it as a six pack or 12 pack. Why are you willing to pay more? What is the value the convenience store provides that you don't get by then saying, "well, I'll just go to a grocery store"?

The value is embedded in its category name, a *convenience store* - they are providing the convenience of a bottle of water that is cold. You go in, you know it's in the cooler, you know it's going to be cold and you willing to pay \$1.85 for a liter of water. In fact, you are willing to pay four or five or even six times as much for that bottle of water than you just paid for the gasoline you pumped! They understand the value of convenience—and they market that value to you. That's often why you'll see the bottled water sitting in an iced cooler as you walk in the door.



Now that same water company may have a \$1.50 bottle of water. And then they may also sell a premium bottle of water. If you have ever asked yourself what the difference is between the \$4 bottle of water and the \$1.50 bottle of water the answer is often labeling, marketing, and price.

The manufacturer knows that different customers have different “value propositions” that resonate. For the cost-conscious individual the value that one bottle provides is that it's very cheap. That person defines value as lowest price. For the health-conscious customer one they may be swayed by the water being sourced from a cool refreshing local stream in the hills of Pennsylvania. The environmentally aware consumer may be willing to pay a premium to support water that is naturally sourced and locally provided reducing carbon emissions—and for that you're willing to pay more money. Let's ignore for a moment, that it is probably the exact same water that is in that other bottle.

So hopefully you're better understanding the conversation we're having about value proposition - the value that your product brings to a customer. And what I'm highlighting here is the value as expressed in your marketing conversations.

Let's take another industry. What's the value of artisanal coffee?

For some, it is about the taste and experience. They appreciate the fact it's fresh roasted and therefore provides more body and a better taste. For the socially conscious they may support having free trade beans sourced from the farms of Nicaragua so the farmer is getting paid directly, and thus they are willing to pay a little more for the social good being provided.

In each of these instances, we've talked about the value proposition specific to a customer segment. Now let's spend some time discussing the customers.



Understanding your Customer

When I have conversations with business owners, one of the first questions I ask is “Who is your customer?” And then I tell them if they answer by saying “anyone who walks through the door” that I am going to hit them on the back of their head, like Jethro Gibbs does on NCIS. Now why would I do that? I’m not saying that you shouldn’t sell to anyone that comes through your door. In fact, if someone walks through the door and wants to buy something, whatever you do, don’t turn them away. Take their money¹. What I am saying is if you understand who your customers really are, what they “look like,” and what their motivations are for buying your products, you can then reach out to more customers like those and grow your business.

This means you must take the time to understand the motivations, backgrounds, desires, and needs of your customers. And then you need to tie those with the value proposition for your product that you’ve identified previously.

We recommend using a matrix. I love two dimensional matrices, so what I suggest is that you write your product categories across the top, and then down on the left-hand column you’re going to put the different types of customers that you have. Magic—you have a matrix! From here, we start discussions about matching up your customer categories with the product that they bought.

		PRODUCT CATEGORIES				
		Cat 1	Cat 2	Cat 3	Cat 4	Cat 5
CUSTOMER SEGMENTS	Customer 1					
	Customer 2					
	Customer 3					
	Customer 4					
	Customer 5					
	Customer 6					
	Customer 7					
	Customer 8					

We first looked at this with a local photography supply company. As we started talking about the customers and the products, we had discussions about just “who” these customers are. First, we have professional photographers. They’re buying the high end expensive equipment like

Nikons and the very expensive lenses, and tripods, as well as the lighting systems.

Then we have the “prosumer”. These are the customers who are serious about photography as a hobby and buy the middle to upper-end gear. They buy professional gear, but as a consumer, hence the “prosumer”. They not only buy higher end materials, but most likely a few of the other things around the store as well. Then there’s the hobbyist or just the average weekend shooter. Before the advent of smartphones, they were going to buy the “point and shoot” cameras.

As we continued to talk we were baffled. There was this whole other segment that we had to figure out because we had a product category that couldn’t be matched up—the printing and scanning, copying and retouching of photographs. Customers would walk in with boxes full of old pictures and say, “Can you save these?” or “Can you make copies of these?” or “Can you remove the folds and creases and fill in the imperfections of these old photographs?” Their interest was not in the process, but the product—in the photographs themselves. Of course, these customers wanted the

¹ There are some exceptions to this rule. Occasionally you can better serve your customer by referring them to a competitor – and then build your relationship with that customer for the future.



photos for a reason. After discussion, we decided these customers are in a category called memories. Customers that don't see photography as a hobby or a profession. They buy the equipment, and supplies, and the services, because they want to capture the moment. To have the memories. Kodak had understood and started marketing to this category long ago with their "Kodak Moment" line. That goes back to when they were encouraging people to take more pictures (using film) to capture the moment. They still have signs in amusement parks, such as Disney, encouraging people to take pictures at the "picture spots." While the business rationale to encourage picture taking has changed (what's "film" after all?) the

These discussions can lead to other valuable conversations. In this instance, the industry of "memories" is shifting with digital – so how do you respond when your traditional business model is shifting, or even dying?



motivation for the customer remains the same. To capture the moments of life, and be able to go back and enjoy them, and share them.

These customer segments made sense and they aligned nicely with the product categories as well. It accounted for nearly everyone who walked through the door, and not only matched the products and services offered, but provided the framework for additional exploration.

Once we had this initial matrix, the possibilities for ways to use it were becoming clear. Almost anything that described the nexus of the two could be put in the cells and would provide valuable information about the running of the business.

		PRODUCT CATEGORIES					
		DSLR/Mirrorless	Lenses	point-shoot	Processing	Prints & Retouching	Supplies
CUSTOMER SEGMENTS	Professional	✓	✓			✓	✓
	Prosumer	✓	✓				
	Hobbyist			✓	✓		
	Novice			✓		✓	
	Memories				✓	✓	

Do you want to know what customer/product combination contributes the most to total profit? That would be a combination of margins and revenue by category.

	PRODUCT CATEGORIES					
	DSLR/Mirrorless	Lenses	point-shoot	Processing	Prints & Retouching	Supplies
Professional	4%	3%			20%	20%
Prosumer	5%	7%				
Hobbyist			9%	30%		
Novice			9%		45%	
Memories			30%	45%		

Interestingly, the margins on the high-end equipment were rather small. There's a lot of competition, especially online, for selling photography equipment. And so, you make two, three, maybe five percent on the gear that you sell. On the other hand, when people come in with memories that are precious to them, you have a higher margin, and you're putting more time and effort into it. Now, don't start thinking that you need to drop the low-margin items (and customers) to capitalize on the higher margin items. While you can make more money off those items, you may find having specific customer categories provides you with prestige, or credibility, in the profession. In this case being the store that the professionals turn to you are establishing your place in the minds of all

customers that *you* are THE professional resource that they are to turn to for their needs. So, keep the product mix, but understand the value you bring to each category, and the value that those categories bring to you.



That's just one example of how to use this matrix. There are several other ways to use this matrix. For instance:

- Total Revenue
- Contribution to Profit (revenue * margin)
- Total Number of Customers
- Number of “repeat” customers

For this example, we talked about customers, segmenting them by their behavior and interest in the product/service. There are other ways to segment your customers. Perhaps you want to evaluate customers not based on how they use your service, but rather how they arrive at your business. This could include walk-ins, phone calls/orders, and online sales. While they are still purchasing the same product categories, they will require their own set of additional services. Online sales, or phone sales, may incur shipping expenses. Tracking what percentage of your business is online versus in-person sales can not only tell you how effective your online marketing program has been, but also what your total expense has been for servicing those clients.

Let's look at another example. The local florist provides a wide range of products, from the traditional floral arrangements for special occasions, or simple table decorations, to corsages and boutonnieres, to full service event floral support. Of course, there are the walk-in sales of the single roses, the bouquets, and the pre-made arrangements. In addition, many florists offer various gift accessories, live plants, or knick-knacks. Each of these are considered product categories. What types of customers (or customer segments) do you think would be interested in each of these?

Potential customer segments could include:

- Brides/grooms
- Children
- Spouses/significant others
- Well-wishers

(We could identify “walk-ins” meaning those people that just happen to walk in off the street, but they will fit into a category.)

Let's consider one final example. Perhaps you are a bookstore. A bookstore can be a good example of understanding customer segmentation. While everyone there is seeking a book, their interests are often quite divergent. Given that, the value proposition, and how you talk to each customer, is potentially quite different.

You can easily see what the categories are going to be in a bookstore. They are on the signs over the bookshelves! There are categories for fiction, nonfiction, history, historical fiction, science fiction, drama fiction, romance fiction, romance nonfiction, business books (one of my favorite categories of course) and even books on hobbies such as photography. Talk about easily categorized! I suspect even in this incomplete listing of categories the reader sees themselves in more than two or three.

SOURCES OF DATA

All this discussion is useful, but you might be left with one question: How do I get this data?

There are many ways to do it. The most “brute force” way is to start tracking information in a notebook. Who comes in, what they buy and what segment you think they are in.

Luckily, you might already have access to a few ways of automating this process. If, for example, you use SquareUp® to process your transactions then there is already collecting and summarizing information about your clients and what they are purchasing.

So take a few extra minutes and evaluate your point of sale system. It just might make your life easier – and more profitable.



Now comes the time to put the lesson into practice. In the first part of this chapter we discussed the general value your products or services provide. It is important to have a broad understanding of your value to customers so that you can begin to think through exactly what types of customers you are most likely to attract. Once you have that, it then it is important to tie that, and perhaps “tweak” it, to more specifically resonate with the various customer segments that you have identified.

Looking over your matrices that you create, think back to Chapter 1 and your goals that you have set, and your Mission and Vision statements. What customers are most in alignment with your statement of direction for your business? Identify which customers most contribute to your goals and use that as a starting point.

Take the Value Proposition Canvas model presented earlier and using the information from the Matrix for the customer segment most in alignment with your goals, start identifying the “wants, needs, and fears” of each of that customer segment.

For example, if you were to consider the professional photographer as the segment then they need high quality and reliable photography gear. What they want is to be able to go into the shop and talk to a fellow professional who knows the equipment, knows the profession, and can speak their language. Their fears? Perhaps the professional photographer fears wasting time in the shop. Perhaps they fear getting inferior equipment.

Having identified these things your “product” square becomes a little clearer. For the professional photographer, you provide high end, quality equipment (features) that directly addresses their need. Perhaps you also ensure you have a well-trained, knowledgeable staff satisfying their “want.”

This brings up another point—the diagnostic aspect of this approach. Once you have identified the product categories, customer segments, and their wants, needs, and fears, you are faced with the one question. “Are you meeting those wants, needs, and fears”?

The exercise above can help you not only match what you are doing with the customer’s specific requirements, but also identify areas where you can improve your operations to better satisfy (and keep) those customers. At this point, you are ready. Find your data, and start analyzing who you are, what you provide, and to whom. You just might surprise yourself!

