



Editorial

Markets are Customers not Products.

For many in B2B industries marketing is something of a black art, with little or no scientific substance, unclear processes and concepts – and that’s just what the marketers themselves think about it!!

I’d like to try and shed some light on the true substance and value of marketing to any industry or business. Let’s just start by examining the word “MARKETING”, which suggests that it is about “MARKETS” or perhaps “GETTING TO MARKETS”.

But what is a “MARKET”? And how do I “GET TO A MARKET”?

A market is a group of customers who have a need for certain products and services which provide a valued benefit to them and for which they are prepared to pay a certain amount of money, based upon the value of the benefit they derive from the product(s) and service(s). This amount is generally reflected in the price of the products and services. Not so very complicated. But why is it then that so many industrial marketers struggle?

Well they fail to define markets in this way. Many industrial marketers see the market as an aggregate of sales of products by her or his own company and its competitors. This is the starting point for the errors of thinking and judgement that pervade the commercial corridors of many industries – a totally false premise as a basis for all the business and marketing strategising and tacticking.

Markets are NOT about products, markets are about CUSTOMERS. Customers who have a need that can be fulfilled by a product delivered in a certain form and quantity, applied in a certain process or method developed by a reliable supplier in collaboration and co-operation with that customer. The customer is prepared to pay a certain price for the product/service/solution provided by the supplier, based on the value to her/him of the benefit derived.

Actually, we can also represent this in a simple formula for customer value: $CV = DB/RC$, where CV is Customer Value, DB is Desired Benefit and RC is Relative Costs. CV quantifies what the customer gets divided by what the customer has to give up to get it. A desired benefit is something the customer really wants, something that matters to them and for which they’re willing to pay. Relative Costs is more than price. Cost is what the customer has to give up to acquire the Desired Benefits derived from your products or services, which is more than the price of the product or service. The formula is a ratio, rather than a simple subtraction, because the purchasing decision by the customer is a trade-off.

A product or service is perceived to have value when the customer perceives the value ratio to be $\geq 1.0/1.0$. This value really does make a difference to the customer, and so it is more likely to prompt a buying decision. If the ratio is $\leq 1.0/1.0$, then you haven’t created value or the perception of value for the customer. To increase a value ratio, you have to either increase the Desired Benefits and/or decrease the Relative Costs.

Buyers of the same product will have different value ratios. A high-quality automotive paint shop is more focused on the Desired Benefits component of the value ratio and is less concerned about the Relative Costs. Conversely, a small-town mom-and-pop auto body repair shop is more of a price buyer.

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Markets are Customers not Products (continued)

But for true marketers, a price buyer is also a value buyer. For a price buyer, price is an important value driver and is a big component of the Relative Costs denominator in the value ratio. The price buyer sees no differentiation in physical product nor in the basic services of each supplier. Typically, price buyers are sophisticated and knowledgeable users of what they are buying. If these customers are chosen as target customer to pursue, the challenge becomes forming the organization's processes, resources and people to serve them profitably.

Actually pure price buyers are very rare, and this is the true challenge of the value-based marketer in many industries. Even in some large markets for undifferentiated products, we can discover new value drivers for what were regarded as "Lowest Price Buyers." For example, the ease of doing business can be more valuable to such customers than pure lowest price or the value of the relationship with the supplier as a basis for trust.

In the customer value ratio, price is just one factor of Relative Costs. This means that, rather than thinking of price in terms of supplier costs plus margin, value-based marketers perceive price in terms of value to the customer. The more value you deliver in terms of Desired Benefits to Relative Costs, the more price is impacted. The less value you deliver, the more price is commoditized.

If you can't establish a positive value ratio for the customer in any aspect of the offering, price is irrelevant. Instead, you must challenge whether that element of the offering is relevant or appropriate. As customers' needs change over time, you must either make regular checks with customers to maintain your understanding of their value set and how that affects price or you must proactively develop new value offerings based upon your knowledge and insights about your customers.

In summary:

- drive your offering to deliver VALUE the customer is willing to pay for
- include elements of customer value that DIFFERENTIATE you from competition
- if you cannot differentiate, REDEFINE the market or the offering
- without any basis of differentiation you will end up selling on price.

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