

Grow by knowing your customer

Developing the ideas outlined in his first article in this series, Phil Allen of MarketAbility focuses on the first step in his suggested five step approach to Customer Value Management – knowing your customer.



Phil Allen runs the Marketing Excellence Practice, MarketAbility, serving a broad base of clients in the construction, chemicals and energy sectors covering all aspects of improving business profitability through applied practical marketing and customer value management. Phil is the founder of the Customer Value Management Circle of Excellence (www.customer-value.com).

Tel: +41 1 783 8777

Email:

phil.allen@marketability.org

www.marketability.org

In my first article, I introduced the concept of Customer Value Management, which is a best practice five-step model to enable supplier and customer to create value through a planned and systematic exploitation of mutually beneficial sustainable and profitable market opportunities. This may sound very basic, and it certainly is not rocket science; but then I have to ask myself, if it is so very basic and such good business common sense, why do so few companies practice it?

In reality, my experience over the last 30 years is that most companies practice some of it, to a greater or lesser extent. The REAL challenge for many companies is to practice all of it well and consistently. This five-step model is intended as a framework to facilitate and enable the implementation of Customer Value Management consistently well.

Understand your customers

In this second article, I will explore in more detail the first step in this five-step model, understanding your customers. This means looking at the world through the customer's eyes and seeing what they see and how they see it. Understanding your customers takes place at several levels and through several contact points and methods.

Who is the customer?

But first of all you must identify whom your customers are. Simple, you may say, "they are the companies I sell to". Expand your

definition of the customer to include any member of the value chain who – directly or indirectly – purchases or influences the purchase of your products and services.

For any business, this definition is a much broader one than just considering your current "sell-to" accounts, it goes even beyond lapsed accounts and potential accounts and it starts to beg the question:

Who – specifically – in the value chain or within an organisation purchases or influences the purchase of your products and services?

Many construction market value chains include an architect or other specifier, who influences but who never directly purchases a product. Many companies already target architects within their marketing programmes, but do you really treat them with the same importance as a customer?

Also, if we examine the broader construction market, we can discover many and multiple levels of customer in a complex web of value chains between raw materials suppliers and final users and or occupiers of finished building projects. Some raw materials are formed into intermediate products and are consumed within the value chain (for instance chemicals which are formulated into timber impregnations, which are used on timber roof trusses or floor joists.). The value of these products tends to be recognized only by an intermediate value chain member, rather than the final consumer of the finished project. Other products are clearly

seen and valued by the final consumer of the finished project.

Whatever the situation, it is important to examine the value chain in order to identify:

- Who is the direct customer
- Who is the final member of the value chain to derive a benefit from your product or service and to recognise the value of it?
- Who specifies or influences the purchase of your products (or services)?
- Who is the value chain captain – who exerts the most control and influence in the value chain?

In most cases it will be important to consider as a customer each of the levels in the value chain described above and to treat them accordingly.

Identifying the customer in the construction value chain

The construction market is complex and multi-faceted. There are many ways of viewing the industry as a basis for identifying customers. For example, customers could be organised by type of project – under public and private sectors and under categories like schools, water, health etc. – each of which could be subdivided: new and maintenance. Each might include a number of key purchasing decision-makers and influencers.

Customers could be viewed by type of construction company, such as flooring contractors, roofers', building and civil engineering contractors, each of which might include a number of key purchasing decision-makers and influencers.

Customers could be listed by type of investor, financial or non financial, private or public organisations, local government and private households, each of which might include a number of key purchasing decision-makers and influencers:

Or we could compile lists of customers who are more usually in the category of influencers, like consulting engineers, architects, lobbyists, media, insurers. Customers could be grouped along the lines of need or behaviour, lowest cost buyers, those wanting a full package service, those valuing superior performance or environmental friendliness above all.

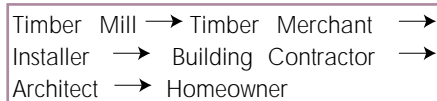
Customers could be listed by reference

to types of construction materials they produce, who may be customers to some companies providing raw materials, but who are also suppliers of finished products to the construction industry. For example, we could have metal products, plastic products, structural steel, asphalt products, crushed rock, ceramic tiles etc.

What does the customer really need and value?

On their own none of these perspectives of the construction market really provides us with a meaningful basis for developing a differentiated marketing offering. Ideally, we should be looking more deeply – first of all at the value chain and secondly at the specific needs of customers in that value chain.

We can identify which product sector we are working in – let's take the timber joinery, sawn wood product sector and examine an example of timber floor joists. We can begin to define the market sector by type of construction activity: these timber floor joists are used in private housing. We can easily identify the value chain for these products:



In this case, the homeowner, whilst being the ultimate consumer, probably has little knowledge and direct influence over the use or choice of the product.

The type of floor support solution would typically be decided by the Architect. The Building Contractor and the Installer would probably decide the product to be used.

But, even though we can identify that we need to undertake some form of marketing, selling or sales promotion to the Architect (to influence the specification) and to the Building Contractor and Installer (to convince them to choose our brand of product), how can we work out what should be the basis of our offering and how to position it and market it to them.

This is where we need to move beyond the traditional boundaries of product and application and into the examination and understanding of customer need and buying behaviour.

Case Study

Trus Joist MacMillan, a US timber products producer, developed a new solution to floor support, which could offer significant benefits to installers, builders and homeowners – the I-beam, a resin-bonded wood-based floor joist formed in cross-section into the shape of a letter I.

For many years during the 1970's and 1980's the company tried to sell their innovative solution to their traditional customer, the timber merchant. For the timber merchant, confronted with a new, unproven product line and limited space to store additional inventory, there was no attraction in the new product, unless it would be priced significantly cheaper than the traditional 2-inch by 10-inch beam.

Following a change in senior management, Trus Joist Macmillan decided to re-examine the market potential for the I-beam and went out to explore the potential by researching the needs of other members of the value chain, beyond the traditional timber merchant customer.

Here they found that some installers were dissatisfied with the traditional beam; they wanted something lighter, easier to install and which spanned longer distances.

They found building contractors, who were confronted with expensive call-backs to homes with squeaking floors (caused by the warping of the timber floor joists).

The I-beam provided exactly the solution to these unmet and poorly met needs of the building contractors, installers and homeowners.

Trus Joist Macmillan re-designed their whole marketing approach to target building contractors and installers further down the value chain than their traditional "sell-to" customer, the timber merchant. They branded their I-Beam Silentfloor, and commenced a comprehensive marketing campaign to their newly discovered target audiences.

The new marketing approach was a big success. So much so, that it pulled demand for the Silentfloor I-Beam through to the timber merchant to the extent that Trus Joist Macmillan was able to sell into the merchants at a higher price than the traditional 2 x 10.

The business was transformed from a failure at the direct sell to the timber

The Value Chain for Floor Joists	
VALUE CHAIN MEMBER	UNMET/POORLY MET NEED
Timber Mill	
Timber Merchant	More profitable sales
Installer	Lighter, easier-to-install floor joists, spanning greater distances
Building Contractor	No call-backs to mend squeaky floors (average value: USD 6000)
Architect	Enhanced reputation through satisfied customers
Homeowner	No squeaky floors

with examples of needs- and behaviour-based segments

From this table, you can identify different groups of customer at each level in the value chain, each group having a different set of needs. By understanding who in the value chain really recognizes a valued benefit from your offering, and by understanding which segment of that value chain member to target, your understanding of the customer provides you with a basis to develop real customer value, which you can go on to exploit profitably.

From your customer database, you can take this grid and expand it to identify which specific customers fall into which segment, providing a basis for quantifying, prioritising and then targeting specific customer segments, which you believe to be attractive and where you can offer differentiated offering, which has a competitive edge.

We can also see from this generic example that there is almost always a segment at any level in the value chain that is driven by lowest price. If you are unable to justify any additional value for your offering, this is the segment you will end up serving. If you are not the lowest cost provider to that segment, you will not survive.

In the next article, I will examine how to take a needs- and behaviour-based customer segmentation and use it as a basis for developing differentiated and value-creating offerings to your customers.

merchant, to a roaring success through the benefits and value marketed to the Installer, Building Contractor and Homeowner, which was then converted into high volumes of sales at higher prices to the Timber Merchant.

The real lesson in this case is to develop a perspective of the market from more than one dimension, in order to identify the REAL customers – the members of the value chain who will derive a benefit and value from your offering and will recognize that value in the form of paying a price to reflect the value.

Once you have identified the target customers, you must develop a meaningful Value Proposition to reflect the elements of your offering that fulfil a need of that target group of customers. In the case of Trus Joist Macmillan, primary target customers were: the Installer (Value Proposition: easier and faster to install, spans greater distances) and the Building Contractor (Value Proposition: eliminates expensive call-backs); secondary target customers were: the Homeowner (Value Proposition: no squeaky floors), the Architect (Value

Proposition: enhanced reputation through satisfied clients); the direct "sell-to" customer remained unchanged as the Timber Merchant.

But now, instead of just trying to peddle an untried, untested product to an unreceptive timber merchant, Trus Joist Macmillan succeeded in demonstrating to the demand-driving customers – the Installer and the Building Contractor, in particular – that their Silentfloor I-beam offered measurable value to those customers, who, in turn, demanded from their timber merchants a stock and supply of Silentfloor. Trus Joist Macmillan also gained favour with the Timber Merchants, who were happy to stock an additional product line – even at a higher price -, when there was a demonstrated and ready-made demand for the product.

In many construction industry cases, it is even possible to identify sub-segments (discrete groups of customers with similar needs or behaviour) at each level in a value chain, as this generic model suggests:

The table below shows an example of a generic Construction Industry Value Chain

VALUE CHAIN NEEDS- AND BEHAVIOUR-BASED SEGMENTS (each requiring a different offering!)				
Distributor	More profit per square metre	Broader range of complementary products		Lowest priced products
Building Products Merchant	Faster moving sales lines	Broader range of complementary products	Well-known brands to attract more customers	Lowest price products
Tradesperson	Ready availability	One-stop shop for all product needs	Tried and tested products	Lowest price products
Building Contractor	Peace of mind, no hassle	Fast completion of the project	Tried and tested products	Lowest price products
Project Manager	Peace of mind, no failures, no delays	Fast and timely completion of the project		Project completion below budget
Architect	Peace of mind solutions	Environmentally-friendly solutions	Innovative solutions to enhance building performance	Lowest cost to meet minimum standards
Building Owner	High quality, prestige building, projecting positive image	Protect contents (e.g. museum)	Easy and low-cost maintenance for the life of the building	Profitable renting to occupant
Building Occupant	Warm, comfortable occupants	Protect contents (e.g. museum)	24/7/52 undisturbed operations (hospital)	