STRAwEGY

Who Will Buy What We Sell
As you become enmeshed in developing a strategy, don't lose sight of this all-important question.

To break it down further, you need to ask: Which customers should you target? Which products or services will you offer them? And how can you better satisfy their needs and desires?

**Learn What Your Customers Want**

No one needs to tell you to listen to your customers. Most companies collect customer satisfaction data, and pay a lot of attention to the latest ways to meaningfully measure that satisfaction.

In the case of a business with a focused set of products or services — say, a specialty retailer like Toys"R"Us — such data can be helpful. But if your business serves multiple market segments — think of a department store, for example — it is often difficult to hear a single "voice of the customer." That can lead a company down the dangerous path of trying to be all things to all people.

**So how do you determine which customers to target and what to sell them?**

Who and what are clearly related. Say you've developed a state-of-the-art tennis racquet made of the latest composite materials and you plan to price it at the high end. You might choose to target either the affluent customer easily able to afford your high-tech product or the tennis fanatic willing to pay almost any price for equipment that will even marginally improve his game. If you decide to focus primarily on the former, you might consider unique style elements like bold colors that would heighten the racquet's perceived value.

In selecting a target customer segment, keep in mind that some customers are more profitable than others. Repeat purchasers, for instance, will buy a product without needing to be convinced through advertising, or may buy high-margin, after-sale services.

Along with identifying your target segment, you need to analyze these customers' preferences and estimate their demand, both for current and imagined offerings. Let's say you're thinking about opening a gas station. You could track the number of vehicles passing your location on the highway and research the basic demographics of potential customers, as well as the amount they spend on non-gasoline purchases when traveling. Deciding whether to include a donut shop, game arcade, or auto repair facility at your station requires at least this level of customer understanding.

But descriptive customer data is only a start. You'll also want to question consumers on basic preferences, such as: "How much are you willing to pay for our product?" More useful are questions that probe the nature of the customer experience: "Why and when do you choose our product over competing offerings? What is different about the times you choose our product from the times you choose an alternative?"

**Turn Your Offering Into a Customer's Solution**

Focusing on attributes rather than on products and services leads us to the next level of satisfying customer desires. In the memorable words of the late marketing expert Theodore Levitt: "People don't want to buy a quarter-inch drill. They want a quarter-inch hole."

That is, people often aren't interested in acquiring your product. All they want is a solution to their problem. Forget about what you're selling and focus on how what you're selling can help the customer.

Too many companies think from a producer perspective and spend a lot of time considering how to make and distribute what they sell. Depending on the power in their supply chain, they may feel they have little ability to shape the consumer environment or influence the consumer's purchasing process. Instead they try to excel in terms of product features or packaging, adapting their offerings to consumer demand now or in the near future.

Let's return to our example of the company with a new technology for tennis racquets. Typically, it would devote a lot of resources to perfecting the new technology and touting its benefits. A more strategic approach, though, would be to start with the tennis-playing customer rather than with the high-tech racquet.

Rather than "pushing" your product through the supply chain to the customer at the other end, think about solving a customer's problems. How can you lead her to "pull" your product into her life?
Think about this customer as she steps into her tennis club's pro shop and walks up to a display of racquets. Does she see information-rich display materials describing the racquet's new technology and how it can improve her game? This can make it easier for her to accept the significant premium she'll have to pay to acquire this cutting-edge piece of equipment.

But why limit your thinking to the point of purchase? Before the customer encountered the display, she moved along what we'll call a "consumption chain" that stretches back well before the moment she handed over her credit card.

Meet the Customer Along the Consumption Chain
About a month before this hypothetical customer entered the pro shop, she had an experience that sparked her desire for a better-performing racquet. She was playing in a club match and the opposing team had newer racquets, fancier bags, and high-tech tennis shoes. Her thought process at that moment linked cool equipment to status, confidence, and performance. When she thinks about a racquet, its technical specifications are less important than its image as state-of-the-art.

This customer reads tennis and fashion magazines, and if the company studied her behavior carefully, it might realize she has clipped out an ad for a tennis shop downtown (she craves more variety than her local pro shop offers) and has asked her husband for a new racquet for her birthday. She has also tried out two different racquets while on vacation in Florida, but is unable to recall the brand of either one, much less the stringing pattern or the specifics of the technology. She is not loyal to any one pro shop and she buys new tennis outfits every six to ten weeks. By carrying out this type of analysis, it is possible to create a detailed understanding of this and other customer segments and to understand their preferences and purchasing triggers at a deep level.

If there are enough consumers out there like this customer, the racquet company may decide to market a survey on racquet preferences in tennis magazines, featuring the chance to win a new tennis wardrobe. The company may decide to partner with another equipment firm specializing in tennis bags and accessories. It may even decide to sell directly to customers, cutting out the pro-shop middleman.

Now a company is not just looking at a particular customer segment. It's looking at the various points along the consumption chain where it might create opportunities to interact with customers. And its relationship could continue long after they have decided to buy a racquet.

Many companies increasingly see after-sales service as a way to extend their active relationship with consumers. Does it offer, given the premium price of the racket, discounted or even free restringing? Ideally, it will stick with customers to the end of the consumption chain consumption chain — to the moment of product disposal. For example, can it motivate a repeat purchase through a donation drive to collect racquets for a school program?

As this simple example indicates, numerous opportunities exist in the life of a product: awareness of a need, openness to solutions, search for solutions, selection of the product and accessories, purchase, maintenance, disposal. The exact steps in the consumption chain will vary depending on the product or service, the industry, the consumer group, and geographies.

A successful strategy may even involve altering a consumption chain. Recall from the case study you read, for example, that IKEA enabled consumers to walk out the door with their furniture and assemble it at home, eliminating an annoying step in the home-furnishings consumption chain — the long wait for furniture delivery.

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A clear, data-driven picture of the stages in the consumption chain is invaluable to both strategy development and strategy execution. Consumer preferences and behaviors evolve over time, as the customer interacts with your firm, your people, your brand, and your product. Preferences and behaviors shift as different options become available in the marketplace, as fads and fashions wax and wane, and as a consumer's spending power shifts up or down.

Clearly understanding the consumption chain enables more meaningful market segmentation, based on consumers' behavior or their relationship with an industry, a product, or a brand — rather than simply on observable characteristics like age or gender.

The more we understand our consumer, the better we will be at choosing our objectives (what we hope to achieve in a given time period); our competitive advantage (how we will uniquely compete for the same consumer's spending); and our scope (the markets, products, channels, and geographies we'll operate in).