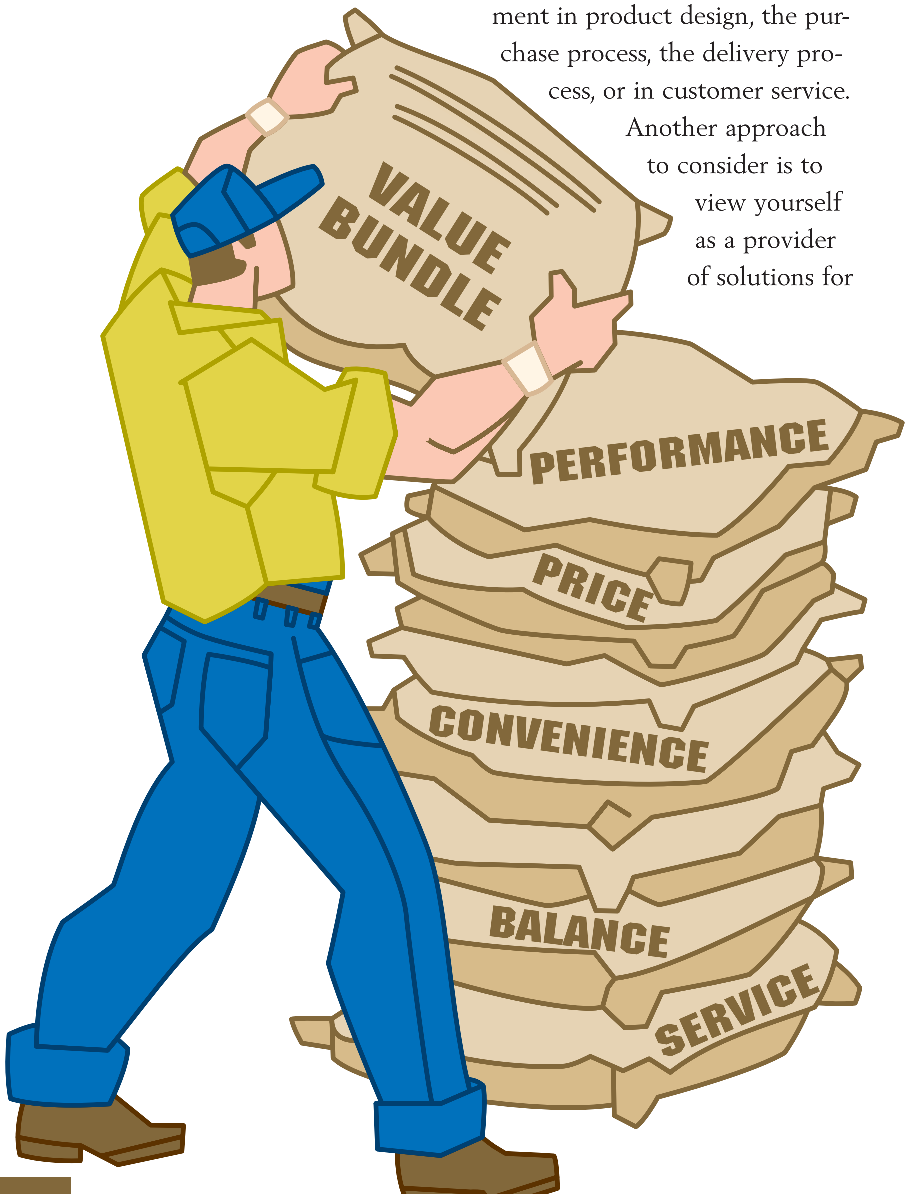
By Drs. Christine Wilson & John Foltz

Creating Value for Your Customers

Understanding customers and the value bundle

How well do you know your customers? Do you know and understand what your customers want from you with respect to products, services and information? A periodic reassessment of these questions is key to creating value for your customers and profits for your business.

Creating value for your customers starts with understanding your customers, their needs, and how they make buying or selling decisions. One is to attempt to "become" the customer — to see, experience and feel your customers' experiences. This can help you see opportunities for improvement in product design, the purchase process, the delivery process, or in customer service. Another approach to consider is to view yourself as a provider of solutions for your customer rather than only thinking of your business as a seller of products and services. You can create more value for your customers by providing "solutions" rather than mere products. Customers care about the benefits they receive from using your product or service. Thus, you want to convert everything into customer benefits when marketing to the customer.



Regardless of how you create value for your customers, you must always keep in mind that customer value is the difference between customer benefits and the cost of the purchase. You must be alert to both the benefits that you create for your customers and the cost they incur acquiring those benefits. For example, if you are selling dairy feed to a price conscious buyer (discussed in more detail below) who balances his own ration, then offering this service in conjunction with a higher priced feed really has no benefit for that particular customer — and he will not be likely to buy the product.

You must also have an understanding of how your customers behave. How do your customers make decisions? How do your customers choose their suppliers? The answers to these questions can help you better understand what they want in terms of product, service, and information.

Several factors may influence customer buying behavior: the location or convenience of the supplier, the service and information provided as well as other personal factors, product price, product performance and support services.

Segmenting customers

Buyers typically fall into distinct categories, so it may be advantageous for you to analyze your customer base and split your customers into segments. Essentially, you want to identify buyers with similar characteristics, which may be demographic, geographic, psychographic or behavioral. Demographic characteristics refer to such things as age, sex, income and education. Geographic characteristics relate to the region where people live. Psychographic characteristics include social class, lifestyle and personality characteristics. Behavioral characteristics include such things as knowledge, attitude, uses or responses to a product or service.

Many times behavioral segments are the most useful because they provide the most predictive information about buyers. When you identify customer buying behavior segments, you identify groups of customers who react differently to marketing choices. By tailoring your value bundle offering to the segment or segments you want to target, you provide the most value to these segments and profit to your business.

Traditionally, customers have been classified into three important segments: Economic buyers, business buyers and relationship buyers. Business buyers generally give relatively equal weight to factors such as price, product performance, service and convenience when making purchase decisions. Economic buyers base a majority of their decisions on the price of a product. Relationship buyers are most heavily influenced by convenience level and customer service. These segments differ in their value bundle preferences and in what they are willing to pay for. Understanding what creates the most value for your customers and your customer segments can help you price the value bundle you provide.

"Analyze your customer base and split your customers into segments."

These are not the only customer segments, and these segments may themselves contain other customer sub-segments. As an example, data from the 2003 Large Commercial Producer survey conducted by the Center for Food and Agricultural Business at Purdue University was used to identify five distinct groups of producers based on their buying behaviors. The key survey question used to identify these segments was the following: "When you choose a supplier, how is your decision influenced by the following factors?" Respondents were asked to assign a percentage, out of 100%, to each of the following factors: a) convenience/location, b) service/information and personal factors, c) price, d) product performance, and e) support services. Based on their answers, five distinct market segments were identified: balance, price, performance, convenience and service.

These segments actually provide a more detailed and insightful picture of the three traditional buying groups. Producers in the balance segment and the performance segment can be categorized as traditional business buyers. Producers in the price segment can be categorized as traditional economic buyers. Finally, producers in the convenience segment and the service segment can be categorized as traditional relationship buyers. When analyzing your own customer base, you are certain to find segments specific to your business.

Building your value bundle

Once you understand your customer needs and have identified your customer segments, you can begin to fully analyze and describe your customer segments and then build the value bundle that creates the most value for your target segment (or segments). Analyzing the segments can consist of profiling the members of the segments in regard to their demographics and their behaviors and preferences. This information can then help you determine your value bundle offering and pricing scheme. Information from the study about each of the five segments makes

it possible to characterize these segments and create a meaningful value bundle for each.

Price segment buyers are traditional economic buyers, looking for the lowest price product. They are the least loyal to suppliers and brands and look for the salesperson who will bring them the lowest price. They are the least likely to use customer service and the most likely to make purchases on the Internet.

The price segment value bundle consists only of the product. Buyers in this segment want service and information priced separately from the product. They continually compare prices from different suppliers and generally purchase from the supplier who offers the lowest price. These buyers are relatively self-sufficient in terms of information and service, with a lot of in-house expertise, and are only willing to pay more if they need service or information that they cannot provide themselves. These buyers are hypersensitive to efficiencies in their business and yours; they dislike seeing inefficiencies because they assume they are paying for them.

Buyers in the service and convenience segments are traditional relationship buyers. Buyers in both segments are the slowest to adopt new products, but are the most loyal to brands and suppliers and are the most likely to buy from one supplier. They are willing to pay more for products from local dealers who provide good service and information.

The meaningful value bundle for the convenience segment is location, while the meaningful value bundle for the service segment is service and information. The important value bundle for these groups of relationship buyers is service and information first, and product last. For this group, the importance of the salesperson cannot be overestimated. They view the salesperson as the physical embodiment of the service and information that comes with the product. In their ideal world, they will have one salesperson whom they rely on entirely, and this person will have the relevant information to help them make product-related decisions. In pricing a value bundle for these segments, keep in mind these are people willing to pay more for the product that is delivered by someone they trust.

The performance and balance segments are traditional business buyers. These segments are the most information-intensive of the segments. They acquire information and purchase products via the Internet considerably more than the other segments. Technical competence, product quality and brand name are very important to these buyers. These segments are more innovative than other segments, and members of the performance group generally have the highest adoption rate of new products.

The meaningful value bundle for the performance and balance segments is first, product and information, followed by service. This group cares the most about product quality and performance. They are often the first to adopt new products, so the product supplier should keep current with new product introductions. For all the products they buy, the value of the product is enhanced by information that allows them to get the maximum performance from the product. Service still matters and they are willing to pay for it. However, they will only hire the most technically competent person, whether a local dealer, a manufacturer's rep or a consultant. In pricing the value bundle for these segments, keep in mind these buyers are willing to pay for the product quality they receive, whether it is an inexpensive generic product or an expensive branded product.

The 'take-home' message

While the categories we have outlined may or may not accurately describe your customer segments, the point is that you too can segment and analyze your customer base. Doing so will help you better understand what your customers want from you with respect to products, services and information. This will help you create value your customers are willing to pay for. In today's grain and feed industry, this sort of analysis is vital to remain competitive and on top of your market. ■

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