



The Best Customers

- How to build a valuable customer portfolio

As entrepreneurs we may find ourselves in a situation where we have the “wrong” customers. Wrong in the sense that they are not as attractive and profitable as other potential customers. So how do we find out who are the right customers for our particular business?

As entrepreneurs, we should actually be happy, to have reached the point where we have regular customers and not have to worry about next month’s income. However, it can be risky, to be in a situation, where the customers have chosen us, rather than the other way around. On the surface, being chosen by our customers may seem like a great situation to be in, but what if our business had the opportunity to cater to a different and even more attractive market and customer base, which we may have overlooked so far?

Segmentation reveals new customers

One way of identifying potential new customer groups, whether you already have a lot of customers or not, is to make a systematic segmentation of potential customers in your market. Segmentation means dividing the market into similar categories, called segments, and then using these as the basis for the the business’ sales and marketing efforts. There are many advantages to this approach: Firstly, by segmenting the market, we will be able to discover new customers we might never have considered before, because segmentation provides an overview of customers and highlights previously unexplored areas of the market.

Secondly, segmentation allows us to prioritize the absolutely best customers for the particular business we are in. Finally, segmentation can provide inspiration to treat customers differently so that we can adjust our products and marketing to meet the various preferences and needs of different customers.

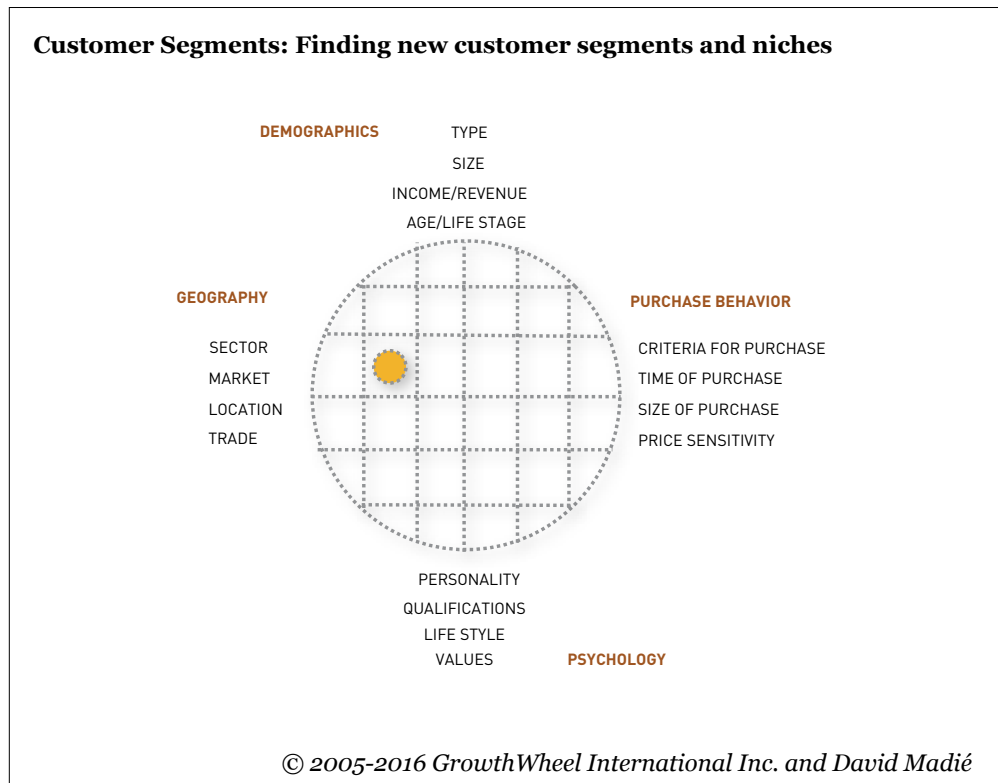
How to segment customers?

There is a vast amount of criteria that we can use to divide our market into different customer segments. This is

”The greatest advantage of customer segmentation is that it helps us to consider how we can treat various segments differently.”

illustrated by our chart “A World of Customers” on the next page, which shows that segmentation can generally be based on a customer’s demographic, geography, buying behavior and/or psychology.

One option is to begin by asking yourself, which geographical market your business belongs to right now and if there are other alternatives. For example, if you currently have customers in the U.S., then Canada could potentially



portfolio that have different levels of willingness to take risks, different lifestyles, or perhaps different attitudes to the industry we work in. On the other hand, you might observe that your existing customers are similar in all these areas, which may be a sign that you should begin looking for customers in new segments. The checklist below provides additional examples of how you can divide your clients into different segments, including suggestions for various combinations of segmentation criteria.

Finding your favorite customers

Once we have an overview of the many customer segments that exist in the market (often more than we

offer new ones. If you only have local customers in upstate New York, for example, because that was where you started, then you could consider targeting customers in metropolitan areas and other counties, or perhaps in the entire state.

Just as you might have overlooked certain attractive geographical segments, you might also have—consciously or not—limited yourself to a certain demographic groups. If your customers are private consumers, you might have focused strictly on customer groups with a high income. If you sell to businesses, you might have targeted smaller ones that seemed more accessible than larger companies.

Segmentation is even more interesting when you segment customers according to buying behavior. This means taking a closer look at how to divide customers into different categories based on which products they prefer or perhaps based on what kind of characteristics they expect a product to have. For example, some customers might primarily go for quality, while others are more concerned with the price, or something completely different. Alternately, you can segment customers according to whether they buy small or large quantities. This kind of segmentation might reveal that you have a lot of small customers and that it would make more sense to target bigger customers, who buy in larger quantities or more frequently.

A final way to segment customers is to divide them according to more psychological criteria. In this approach, you may well discover that you have customers in your

had originally considered), we can decide which customers to prioritize and focus on. This raises the question of what actually constitutes an attractive customer segment. Obviously it is the customers we make the most money on, however, customers can be valuable in more than one way. Certain customers provide income after only a short time, while others do so over the long term. Some customers are never really profitable, but can instead serve as excellent references, and help get other customers that are. Other customers are good because they are easy or cheap to reach, or because they are loyal and will remain our customers for years to come.

“Segmentation can almost become a treasure hunt for new, potential customers who you can service in new, creative ways.”

Using these criteria, we can try to evaluate different customer segments – both current and future ones – and decide which to focus our sales resources on. It is not always a matter of completely deselecting some customer segments; rather it is about deciding, which customers you approach proactively. You have to decide, in other words, which customers to call, and which ones to wait for them to call you.

CATEGORIES	ALTERNATIVE SEGMENTS	EXAMPLES OF CUSTOMER SEGMENTS
GEOGRAPHY	Sector	Consumers (B2C) • Businesses (B2B) – Public institutions Organizations
	Market	World region (Scandinavia, Europe, North America etc.) • Countries (U.S., Canada, Sweden etc.)
	Location	Metropolis/provinces/rural areas • Urban/suburban
	Trade	Trade • Service • Production • Professional services industry • Experience industry • Knowledge Industry • etc.
DEMOGRAPHICS	Age/Life stage	Children/Teenagers/Adults/Senior citizens • New/well established/mature businesses
	Income/revenue	1.000 • 10.000 • 100.000 • 1.000.000 • 10.000.000 • etc.
	Size	Number of people • number of locations
	Type	Female • Male
PURCHASE BEHAVIOR	Criteria for purchase	Different product characteristics (Quality, functionality, brand, etc.)
	Time of purchase	Seasonal Timing • Event • Timing of annual budgeting
	Size of purchase	Purchasing frequency consumption rate • Big/small customer
	Price sensitivity	High price sensitivity • average price sensitivity • Low price sensitivity
PSYCHOLOGY	Personality	For example: High/low willingness to take risks • Determined/indecisive • Analytical/intuitive , etc.
	Qualifications	High/low technical skills • High/low consumer experience
	Life style	Example: traditional/modern
	Values	Example: pragmatic/idealistic

Adjusting to your customers

The greatest advantage of customer segmentation is that it enables you to treat various segments differently. There are numerous ways of customizing your product offering, ways of communicating and methods of selling, only limited by your imagination.

We can start by looking at our products and services and decide whether or not to customize these for your favorite customers. The service you provide can always be tweaked and adjusted to serve a specific customer’s needs.

It may also be the business’ way of communicating that needs to be customized for the different segments. Do you choose, for example, to communicate with the client by email, mail or phone? You can also compile different brochures or product sheets that specifically address particular segments, rather than all of them and focus on the company’s key message for this particular group.

Customization can also be done by offering different prices to various groups of customers. Prices can be varied by the composition of the supplied product. For business customers you can even price your product or service delivery according to the value you actually create for different customers, so that those customers who can afford it, (for whom your services are most valuable), also pay the most.

A final example of such customization can be the decision to appoint specific employees to handle communication with certain customer segments with regard

to sales and delivery. Certain employees will be a better match for certain customers – on a personal and/or professional level. By accommodating the customer in this respect you can strengthen the customer’s interest in doing business with you.

Segmentation reduces expenses

It is not hard to imagine how a customer adapted product assortment and marketing can increase sales. However, an added bonus to customer segmentation is that you can save a lot of resources, when you know which kind of marketing is the right one. Instead of sending out brochures to hundreds of potential customers, you might make ten targeted phone calls. Instead of building a website that reaches the whole world, you might send out an email to the top-ten preferred customers.

One way of increasing your chance of getting things completely right and reducing costs, is to collect more information about the customers than you do today. Gathering data can even be a prerequisite, if you did not get the necessary information on the customers to make the segmentation in the first place.

Regardless of whether you collect this new information using paper questionnaires, online surveys, or by calling the customers directly, it is really important to have some kind of customer database in order to register the correct customer information and later extract information from your database, spreadsheet or address book.

Emotional barriers

We have established that there are multiple advantages to discovering new and different customer groups, what then is preventing entrepreneurs from expanding the customer portfolio with new segments? There can be several emotional reasons for hesitating. New businesses might feel that they are too “green” in the market to do business with certain customers—typically the most attractive—and feel that they cannot compete with the well-established players in the market. In reality, these customers may very well have been waiting for some new, dynamic suppliers with new ideas or business models.

Another emotional barrier can be that you feel most comfortable with the customers you already have. Perhaps these are customers that resemble you, have the same background, the same education, the same age or in other ways make you feel on safe ground. If you are in this situation, it can actually be a great learning experience to leave your comfort zone and explore new territory. If you make it, you will come back, in an even stronger position in relation to the other customers in your customer portfolio.

Finally, you sometimes hear entrepreneurs say that they are just too busy to go out and look for new customers. This is certainly not a bad situation to be in, unless your existing customers are not all that profitable. If this is the case, your only option is to make the time to acquire new, more profitable customers, and, in that way, obtain the financial means you need to hire the additional staff necessary to have time for everything.

Begin the treasure hunt for new customers

Choosing the right customer segments is one of the central decisions, in designing or redesigning a business, not least, when a business is growing. It is a good idea to take a critical look at the customer database from time to time, to see which customer segments dominate and which ones are missing.

For a lot of startup businesses, there are often more and other customers than you might think. So the segmentation can almost become a treasure hunt for new, potential customers, to be serviced in new, creative ways. With more customer segments to choose from, it is possible to seek out not only more profitable customers, but also those very customers whose values you share, and who will provide interesting challenges—the customers you have always dreamed of working for. When we are passionate about our businesses, our startups will always progress much faster.

Suggestions for the next step

- Get an overview of all the alternative customer segments your business can choose between.
- Decide which of these segments contains your preferred customers.
- Come up with ways to customize your products and differentiate the marketing to each customer segment.

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