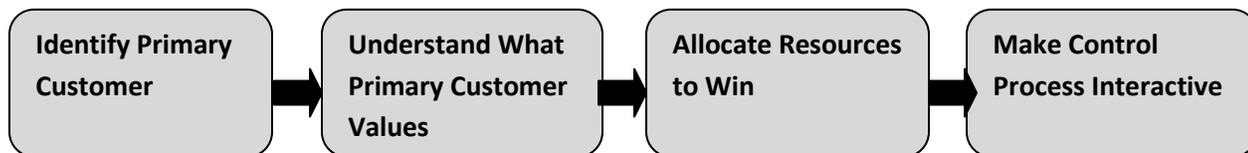


Do You Know, Who is Your Right Customer?

Companies should follow selective specialization in target market selection to serve prime customers better

All Companies say they are customer centric. Do they know what they mean by 'customer centric'? Does it mean all customers are equal or everything to everyone? Do they know who their primary customers are? Can companies become 'customer-focused' without identifying any one primary customer?

Robert Simons, Harvard professor, provides a framework to identify the best primary customer for your business. The framework follows four steps.



Selective specialization where a company selects a few market segments to operate in instead of a single segments. The company develops products to fulfill the needs of a few selected segments, thereby minimizing the risk of depending on a single segment. Even if one segment becomes unattractive, the other segments can compensate for the overall profits of the organization.

- 1. Identify Your Primary Customer:** Your most important customers may not generate the most revenue but who can give you the most value in your business. To identify the primary customers among your customers group, look at the following three parameters.
 - **Perspective:** It refers to the culture, mission, and folklore of your organization known through stories, special events or leaders who left a legacy behind. For example, Wal-Mart's Sam Walton is known for his frugal lifestyle or Amazon's delivery of superior experience.
 - **Capabilities:** Capabilities are embedded resources built over time which are difficult for others to duplicate. For example, Dell has an efficient low-cost supply chain management to serve direct-to-consumer sales model.
 - **Profit potential:** Compare the profitability of various customer types and choose the customers who are more profitable with the help of any model such as Porter's five forces analysis. Profit potential may not about customers who can pay premium prices. For example, HBO targeting filmmakers as their profit potential customer group rather than cable operators to sell content.
- 2. Understand What Primary Customer Values:** Explore and identify which product attributes customer values because he may not know what he values. Do the research at multiple levels to uncover his priorities and tastes. For example, Nestle, continuously monitor social media to track customer voice that relates to products acceptance so as to target primary customers with correct value proposition

- 3. Resource Allocation to Win:** Adopting business model based on understanding what primary customer values. The following configurations company can adopt.
- **Low price:** If primary customers are interested in low price, follow the Wal-Mart model of centralized distribution to get economies of scale
 - **Local value creation:** If customers want local tastes, organize like Nestle by allotting more resources to local managers to offer customized products
 - **Global standards of excellence:** If customers like best possible technology, organize resources around global business units. For example, Microsoft has separate units to operate globally for Windows, Servers, MSN, Mobile, and Xbox.
 - **Dedicated service relationship:** If customers like embedded service relationships, organize like IBM
 - **Expert knowledge:** if customers are interested in expert technical knowledge, follow Google, where R&D sits on top of product organization which receives major share of resource.
- 4. Make Control Process Interactive:** Customer tastes and competitive environment change continuously. Primary customers also change with the dynamic conditions. In radical situations, select a different primary customer by making company control systems interactive. For example, Amazon’s category managers study every week data about product assortment choices, revenue growth, customer orders, and inventory turnover etc.

Since companies have experienced death by becoming everything to everyone, it is the time to know who are your primary customers and their value proposition to last in the market for a long time.

Topic			Course
Selective	Specialization:	Market	Marketing Management
segmentation and market targeting: Unit 8.7			

Source: Robert Simons (2014), Choosing the Right Customer, Harvard Business Review, March 2014.