

What Do Your Customers Actually Buy?

by John McMillan

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Customers do not buy products, they buy solutions or benefits. Companies that always think in terms of the benefits are customer orientated. These are usually more successful than product focussed companies who think in terms of what they make.

You should always look at your product or service from your customers' point of view. When you do, you will often find that what they need, and are buying is not the same as what you think you are selling.

Drills, Holes and Fixings

The example most often quoted on marketing courses is drills. If your product is drill bits, what is your customer actually buying? What he really wants is a hole. The drill is just a means to make the hole.

But it does not stop there. Why does he want the hole? Lots of people want a hole so they can put a screw through it. In which case the customer is actually buying a means of fixing things together. You are really in the business of selling ways of fixing.

If you fail to see this, you will be vulnerable to improved ways of making holes or fixings. Another company could start selling a new, cheaper or faster way of making holes. Or somebody could capture your customers by selling adhesives or spot welding.

On the other hand, if you do see this, it could be you who starts selling alternative products. You could find your customers are only using holes for fifty per cent of their fixing needs and other ways for the rest. If they like you as a supplier, they would probably be quite happy to buy other fixing solutions from you.

Marketing Myopia

One of the most important works on business ever to come out of academia was published by the Harvard Business Review. It was called Marketing Myopia, by Theodore Levitt.. Marketing Myopia looks into major industries that failed to adapt as the world moved on. Reprints are still available.

Probably the most quoted part of the work is Levitt's analysis of the American railroad industry. He describes how this once mighty industry was brought to its knees by competition from airlines and road transport. They did not fail because the need for transport declined, they failed because they let others take their customers away from them.

Levitt argued that this failure was the result of the railroad executives defining their business too narrowly. They defined it from their own perspective of trains and not from their customers' perspective of transportation. In his own words, they were product oriented instead of customer oriented.

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In the same way, he points out that Hollywood was severely damaged by television. Hollywood executives scorned TV when they could have seen it as an opportunity to expand the entertainment business.

Getting it Right

The Wells Fargo company offers a complete contrast to the railroads. Today I suspect most people still think of Wells Fargo running stage coaches through hostile Indian territory. In fact the company still exists and is a major provider of online banking and financial services.

Wells Fargo looked at their business from the customer view point. When the railways came, the managers saw that their customers only wanted to transfer letters and parcels. They were not interested in how they were delivered. They realised that the stage coach was not important.

Look at this from your experience. Do you know how many of your letters Royal Mail transports by plane. Do you care? Have you even thought about it? All you care about is that the letters are delivered and promptly.

When the railroads came, Wells Fargo simply started delivering by train, not by stagecoach. They embraced the railroads and survived. Later, when much of their business was coming from delivering letters, they realised it was the document that mattered to the customer, and more importantly the information in the document. They started using electronic methods to transfer information. They seem to have been one of the first companies to really exploit the Internet and today as I have said, they are a major provider of on-line banking.

Your Customers May Not be What You Think

There was a company that sold scientific instruments and laboratory supplies.

One day, the managers looked at their customer base and noticed that most of the customers were schools and colleges. They saw that the customer perspective was of educational supplies, not the product perspective of instruments.

They took on a whole range of extra products they could sell to their customers and went on to double their turnover. The Pareto (80/20) Effect The Pareto effect (named after its inventor) states that 80 percent of profit normally comes from just 20% of customers.

A good start point is to look at your business and identify the profitable 20% of customers. These are your key customers, your core business. Ask yourself:

- Who are these key customers?
- How do they differ from the rest?
- What exactly are they buying.

Having identified the key customers, you can move to the next stage and ask...

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Why do They Buy From You

Why do your customers buy from you rather than a competitor? The fact that they are buying from you means that they must find you different – better – in some way. What way is that? Is it because

- your product is the best to solve their problem
- it is the most reliable
- they trust you.
- you offer a better delivery
- you have the best range
- after sales service
- your prices are the lowest
- you are local
- it's easiest to buy from you
- you are the first company they find

It is important to ask these questions. Take the time to ask your key customers. When you have asked them, you will have a much clearer picture of your strengths.

In Summary

Look at your business from your customers' perspective.

Keep asking whether there is a better way to solve their problems or needs. If there is, try to provide that solution. If you don't, somebody else will.

Ask who your customers actually are. You may find you have more possible customers than you realise. They may be happy to buy other products from you.

Ask your key customers why they buy from you. What do they see as being your strongest points? Then develop those strengths.

Don't do an American railroad!

About John McMillan

John McMillan is an interim manager specialising in high tech start-ups and marketing. He gives many workshops and classes on these subjects.

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