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Customer Analysis

Purpose

This tool will help you to better understand your customers' needs.

Overview

By working through this tool, you will be able to address the following issues.

- What do customers want?
- How to approach segmentation?
- What is a value driver?

People involved

Management who have clear responsibilities for the allocation of resources.

Background Reading

- PRINT21 Background Paper 2
- | | |
|-------------|-------------------------------|
| Section 2.1 | Sell total business solutions |
| Section 2.2 | Invest in your people |
| Section 2.3 | Manage your technology |

Useful Inputs

Any available information on your major customers including customer surveys, and literature dealing with customers and customer satisfaction, such as

- industry reports
- research carried out by government bodies.

Important Ideas

What customers want

Buyers of print and related products and services are increasingly looking for high quality and rapid turnaround. Customers are now looking to their suppliers of print to provide integrated services and tailored solutions.

Not all customers value the same things to the same extent. These variations need to be taken into consideration when offering products and services to customers and prospective customers if you are going to succeed in generating positive outcomes and higher profits.

In an ideal world you would be able to understand what all your customers really value and then be able to deliver accordingly.

By understanding what your most attractive customers and prospective customers value, and then fine-tuning your business to deliver on the major items, you will be able to maximise the likelihood of your business achieving high levels of customer satisfaction and therefore commercial success.

How will Customer Analysis help to improve your business?

Key Points from the Printing Industries Action Agenda

Business success will depend on getting close to your customers. In doing so, many firms are developing a market orientation instead of the production orientation that was typical of many firms in the past.

A key finding from the Action Agenda is that production orientation describes a method of working that places operational concerns before market needs. Firms that operate in this manner focus their resources on producing goods and services and only later consider the needs for those outputs.

A marketing orientation has market needs at its core. Firms that possess a marketing orientation invest their time, energy and other resources to understand their customers' needs and wants before attempting to satisfy those needs and wants.

By developing a deeper understanding of what your customers value and how their perceptions of value are likely to change over time, you will be in a better position to adjust your business and its offerings.

Your customers' perceptions of how you perform with respect to meeting their needs can be compared to those that relate to your competitors. These perceptual differences will indicate where you should concentrate your efforts to improve your competitive position.

A comprehensive assessment of what your customers value will enable you to:

- understand which types of market segments exist
- appreciate which of those segments are the most attractive to serve
- gain insights into the main factors that influence customers' value perceptions, and
- map the relative importance of these value perception factors.

Important Ideas

Segmentation - What is it ?

Segmentation is a way of grouping your customers, based on their shared characteristics and common needs. The most resource efficient way to service customer needs is to segment your customers. By grouping like customers together, you can service the needs of your market and focus on servicing the needs of groups of customers, rather than individuals.

Segmentation- How to do it

There are many ways to approach segmentation and you are in the best position to determine the segmentation criteria that are useful to your business. As well as determining which customers currently contribute the most to your profitability, you should also try to gauge which customers are likely to drive your future prosperity through their needs and priorities.

Some of the more common criteria used by Australian printers to segment their markets include:

- the type of print product purchased
- type of people
- industry type
- corporate structure
- physical size
- geographical location, and
- annual spend.

In addition to the more common criteria, you could also consider segmenting your market in terms of well-defined customer needs. In this way you will be classifying your customers according to what you offer them in terms of products and services.

What are your market segments ?

Think of the most useful descriptors of your customers - that is, what is the most common factor to a range of your customers? This could be the type of product they purchase, for example you could also classify according to the size of the business, customer needs, demography or location.

Now list the most important segments to your business, for example, are most of your customers small or large firms; are they located globally; do they belong to a particular industry sector?

Who are your customers?

Australian printing companies typically have relationships with many different types of customers who have different needs and different values.

A printer may produce a long run of two-colour catalogues for a print broker. The broker may supply these catalogues to the advertising agency that engaged the broker's services. The advertising agency may in turn supply the goods to a national hardware chain in line with the purchase order it received from the chain. Finally, the hardware chain may distribute the catalogues to the customers on its database. These customers are ultimately the consumers of the print product.

It is important that you understand the behaviours of your immediate customer, the ultimate consumers and the major intermediaries in between. You also need to understand the drivers of their behaviours. By developing this understanding you will be better able to explain the dynamics of demand and, in turn, supply this demand to greatest effect.

What do your customers value?

Research on consumer behaviour has shown that when choosing their suppliers, customers have a tendency to focus on functional elements such as product and service offerings, delivery times and payment terms.

Research conducted under the PRINT21 Action Agenda shows that when choosing a print provider, Australian print buyers consider the most important elements of the offerings are timely delivery, service, competence and flexibility.

Price is only used to distinguish between firms that satisfactorily offer all these characteristics.

Value Drivers

What are value drivers?

Value drivers are those elements your customer takes into consideration when making a judgement about the factors they consider to be of most value. You should be aiming to create maximum value for your customers in satisfying their needs.

There are many things that drive value in the minds of a customer but they all fall into one of four groups:

PRICE

The "price" category of value drivers consists of what you charge the customer for your goods and services and the terms and conditions associated with the supply. It also includes the costs that the customer bears in acquiring these outputs from you. Examples include the following:

- price
- discounts
- payment conditions
- time of involvement
- delivery time.

FUNCTIONALITY

Functionality relates to the suitability of your company in providing the goods and services in line with the purpose for which they were intended. All aspects of functionality are objectively measurable, such as the following:

- delivery terms
- quality
- delivery to agreed time
- product development
- geographical closeness
- weight.

IMAGE/DISTINCTIVENESS

Distinctiveness refers to the way your business stands out from the crowd. Distinctiveness comes about through features including the following:

- image
- name
- professionalism
- references
- brand
- reputation.

MENTAL PROXIMITY

"Mental proximity" exists where you and your customers share common values. In situations where a buyer depends on the seller's knowledge in making a purchase decision, mental proximity is likely to determine which seller the buyer is comfortable dealing with. In this way the buyer's decision may be based on trust and shared values. Value drivers in this category include:

- trust
- shared values
- shared beliefs
- shared attitudes
- shared behaviours.

Your customers' perceived value consists of a combination of value drivers from these four categories. You may find there are more 'value drivers' than those shown here.

Now, list the most important value drivers for the three most important customer groups you identified earlier in this Diagnostic Tool:

TABLE 3.1 CUSTOMER SEGMENT 1

PRICE	FUNCTIONALITY	IMAGE	MENTAL PROXIMITY

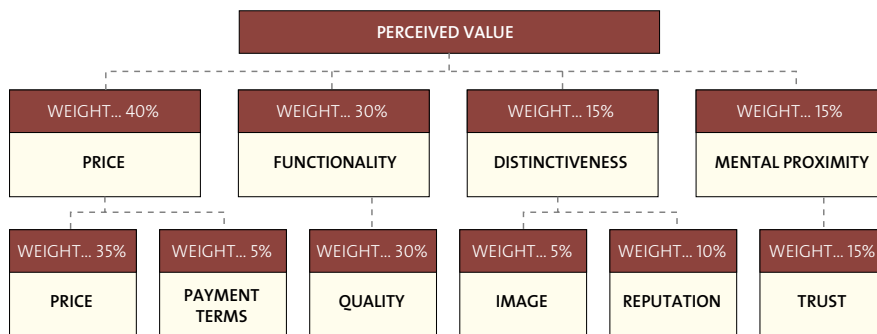
CUSTOMER SEGMENT 2

PRICE	FUNCTIONALITY	IMAGE	MENTAL PROXIMITY

CUSTOMER SEGMENT 3.....

PRICE	FUNCTIONALITY	IMAGE	MENTAL PROXIMITY

When analysing your customers' value drivers in the next exercise, you will have to assign a weight to each value-driver. The diagram below will help you to picture this later on in this Tool.



The example here shows that customers' perceived value consists of the four factors discussed above. Some of these are more important than others. By first identifying them and then weighting them for each of your customer segments you get an understanding of what is most important.

If you realise by talking to your customers that you are not performing to their satisfaction on any of these factors you might want to consider measures to change your current work practices to better address your customers' commercial values.

Putting it all together

We have so far looked at what customer analysis is about and how it may benefit your business in the long run. By segmenting your customers and assessing which are the most attractive customer groups, your business will be able to better align its products and services to target these groups.

In this analysis you will

- weight the value-drivers for the customer segments identified on the previous page for their relative importance
- identify how well you deliver against each of these drivers from the customers' perspective
- gain an understanding of how well you are servicing your customer's needs and what you need to do to improve your performance.

Step 1

Identify customer drivers

Review the three customer segments you wrote in Table 3.1.

Step 2

Describe customer drivers

- Consider what your customers value.
- In Table 3.2 write down in the left hand column up to 5 value drivers in each category (price, function, distinctiveness and mental proximity), that could apply to any of these customers.
- For each of your three customers you need to indicate the relative importance of each of these value drivers.

Work down Customer 1's column first, considering the importance of each of the value drivers to that customer, and allocate a total of 100 points across all the value drivers that are relevant to that customer.

The more important you think a value driver is for a customer, the more points you should allocate to it (bearing in mind the 100 point limit for each customer).

When you have allocated 100 points to Customer 1, do the same for Customers 2 and 3.

TABLE 3.2

	CUSTOMER 1	CUSTOMER 2	CUSTOMER 3
A. Price Value Drivers			
1 -			
2 -			
3 -			
4 -			
5 -			
B. Functionality Value Drivers			
1 -			
2 -			
3 -			
4 -			
5 -			
C. Distinctiveness Value Drivers			
1 -			
2 -			
3 -			
4 -			
5 -			
D. Mental Proximity			
1 -			
2 -			
3 -			
4 -			
5 -			
	TOTAL MUST ADD UP TO 100	TOTAL MUST ADD UP TO 100	TOTAL MUST ADD UP TO 100

Step 3

Calculate and plot customer value drivers and interpret the findings

Using the figures from Table 3.2, add up the total points for each category of value driver for each of your three customers and place them in Table 3.3 below.

TABLE 3.3

	CUSTOMER 1	CUSTOMER 2	CUSTOMER 3
A. Total points for Price value drivers			
B. Total points for Functionality value drivers			
C. Total points for Distinctiveness value drivers			
D. Total points for Mental Proximity value drivers			
Total	100	100	100

Now do the following calculations based on the two equations which will be used later in the exercise.

$X = (100 - A) + C + D$			
$Y = 2(B+D)$ (if this figure is greater than 100 then round down to 100)			

From Table 3.3 we have calculated an X and a Y coordinate for each of our three customer segments. Keep these coordinates handy as you will need them to plot each of your customers on a values graph later in the tool.

Step 4

Assess how well you deliver and interpret findings

Now that you have identified and weighted the importance of the value drivers for each of your three customer segments, you need to consider how well you perform in relation to these value drivers.

This worksheet should be completed in four stages:

- copy the information from Table 3.2 into the table below (Table 3.4) so that you have the weightings (points allocations) of the relevant value drivers for each of your three customers. Copy this information into the left-hand column under each customer.
- for each of the value drivers, you need to indicate to what level you actually perform from the customer's perspective. Rate your performance using the following ratings scale and put the rating in the Performance column of the table.

1 - very sub-standard

2 - sub-standard

3 - acceptable

4 - very good

5 - high standard

- For each value driver multiply the weighting by the performance and put the total in the column marked (W) X (P).
- Finally, add down this same column to get a weighted average for each of your three customers.

TABLE 3.4 WEIGHTING AND PERFORMANCE TABLE

	CUSTOMER 1			CUSTOMER 2			CUSTOMER 3		
Value drivers	Weight of value driver (W)	Performance (P)	(W) X (P)	Weight of value driver (W)	Performance (P)	(W) X (P)	Weight of value driver (W)	Performance (P)	(W) X (P)
Price									
1									
2									
3									
4									
5									
Functionality									
1									
2									
3									
4									
5									
Distinctiveness									
1									
2									
3									
4									
5									
Mental Proximity									
1									
2									
3									
4									
5									
	Total 100	No Total	Total	Total 100	No Total	Total	Total 100	No Total	Total

Step 5

Interpretation

By completing this last worksheet, you have calculated a weighted average for each of your customers. This number indicates the level of your performance in relation to your customers' value drivers. Different levels of performance are discussed overleaf.

What do my weighted averages mean?

Below 300

If your weighted average is below 300 you have a problem. If you do not start performing well on the value drivers that matter you will lose those customers fairly quickly.

Above 300 but below 400

If your weighted average is above 300 but below 400 you have a challenge on your hands. If you do not improve performance on the value drivers that matter you will gradually lose these customers.

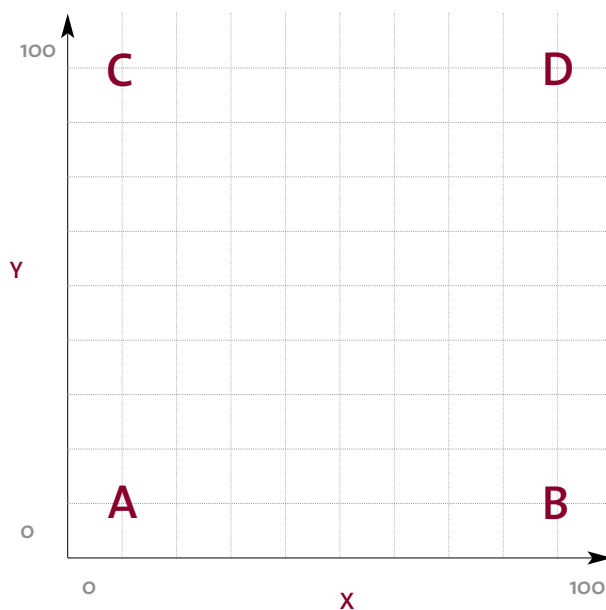
Above 400

If your weighted average is above 400 you are to be congratulated. You are performing well on those value drivers that matter the most. You probably have a sound understanding of your customer's needs.

Step 6

Interpret your graph of perceived customer value

Use the X and Y coordinates you have calculated from Table 3.3 and plot them on the diagram below.



At Point A

The closer the customer is to point A the closer you are to a pure commodity market. In this market the only thing customers care about is price. They think that they understand the product you offer them at least as well as you do; further more and the product you offer is not very important to them.

If this is the case you have a problem. If you do not do anything to change the importance of the value drivers you will be forced to focus mainly on lowering costs faster then everybody else.

The way you can change the weighting of the value drivers is by helping the customer to understand the complexity of what you do and the importance of the benefit that you can deliver.

At Point B

The closer the customer is to point B the closer you are to a market where the only thing customers care about is distinctiveness. Customers here think that they do not understand the product you offer them as well as you do. The product that you offer to them is not very important to them and therefore they look for a simple and easy basis on which to make a decision.

If this is the case you are OK. If you do not do anything to change the importance of the value drivers you will be forced to focus mainly on building your brand, reputation references and image costs faster than everybody else.

The way you can change the weighting of the value drivers is by helping the customer to understand the importance of the benefit that you can deliver.

At Point C

The closer the customer is to point C, the closer you are to a traditional industrial market where customers write a specification and ask you to bid or tender for the delivery. The product that you offer to them is very important to them and they understand this product to at least the same extent as you do.

If this is the case you are OK. If you do not do anything to change the importance of the value drivers you will be forced to focus mainly on building your product competencies and your ability to produce at low cost.

The way you can change the weighting of the value drivers is by helping the customer to understand the complexity of the benefit that you can deliver.

At Point D

The closer the customer is to point D, the closer you are to a traditional high value service market where customers know that they do not understand anything surrounding your delivery and at the same time, your delivery is critical. If this is the case you are to be congratulated. You are in good shape.

Summarise here the insights you have gained from doing this exercise:

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You may be able to identify areas where you can improve your business through either segmenting your customers better or aligning your products to better meet customers' perceived value drivers.

Formulate an Action Plan below and identify the steps and the costs associated with doing them. In tool 8 you will draw all of these Action Plans together to help formulate part of your strategy.

ACTION

SITUATION	•		COST	BENEFITS	NET BENEFITS
	•				
	•				
	•				
	•				
MISSION	▶				
	▶				
	▶				
	▶				
ASSESSMENT			NET BENEFITS FOR ACTIONS ARISING FROM THIS TOOL		\$0.00
RESOURCES					
TIME					