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It's Crucial To Determine Who Your TRUE Customers Are

Customer: someone who buys goods or services from a business
Merriam-Webster

There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.
Sam Walton

It is not the employer who pays the wages. Employers only handle the money. It is the customer who pays the wages.
Henry Ford

Incorrectly identifying who your customers are can result in a strategic focus that misses the mark and can often result in the downfall of a new product or service initiative. So exactly who are your customers? The definition provided by the Merriam-Webster dictionary is correct: The customer is "someone who buys goods or services from a business." The key word is "buys." The customer is the person or group of people who actually buy or more explicitly pay for the offering. This is distinct from the person (or persons) who may benefit from the product as well as intermediaries who may buy and resell or broker offerings. An example of a beneficiary not being a customer is a television viewer: The TV network produces and supplies the content, the TV viewer is the beneficiary, however the customers, the ones who ultimately buy/pay for this content, are the advertisers. The same holds true for many websites including Google, the king of online advertising. Examples of brokers include retail stores like Walmart and Costco. Although they actually buy products from suppliers, they do so with the intent of reselling them to the ultimate (true) customer. The purchasing decisions of retailers are not based on the value to them, but on their perceptions of what the ultimate customer values.

The traps to look out for are therefore: **mistaking beneficiaries for customers,** even though in many standard cases they are one and the same, and **mistaking brokers for customers** even though they may buy your product or service (prior to reselling it). In some cases, these distinctions can become blurry. Government purchasing is one such example. If it's a big ticket item like a bridge or Pan Am Games sponsorship, the true

customer is the taxpayer. It is taxpayer money that is being spent and so the government must make the case that value is being delivered to at least a significant proportion of these customers. If not, there will be a political uproar and elected officials risk losing their positions at the next election. On the other hand, small ticket items like office supplies and conference costs are, in effect, bought by departmental managers from their budget allocations. Although the funds still come from taxpayers, there is no visibility and hence all of the responsibility (as well as the value/benefit) accrue to the government purchaser. It would be absurd to consider taxpayers the true customer for each purchase of a glass of juice or a limousine ride for your sales and marketing purposes. (Nevertheless, ex-federal cabinet minister Bev Oda's received extensive criticism for her frequent spending abuses including on such items, confirming the link back to the actual payers (see Bev Oda Wikipedia)). The engagement of large publicly-traded companies should be treated in a similar manner. For large sales, the true customers are the shareholders who bought (and own) part of the company.

This does not mean that non-customer beneficiaries and brokers are not important. In fact, they also need to be sold on the value and marketed to. If the TV content being produced does not appeal to (i.e. benefit) the 18-25 year old demographic that the advertisers also want to appeal to, the advertisers will stop buying. Similarly, for Walmart or Costco to act as brokers or distributors of your cloths or food products, they need to be convinced through your market research that the price, quality and hence value will be properly perceived by the true and hopefully eager customers. Interestingly, if the non-customer beneficiaries or brokers see the value in your offering, they will become strong advocates and an extension of your marketing efforts to the true customers.

That being said, the point is not to take your eye off your true customers, the ones who are actually buying/paying as they are the ones that are by far the most interested in the value you provide. True customers are making a sacrifice in giving up money that they could deploy elsewhere in exchange for your offering. This decision is driven by a perception of value and even passion that generally can't be matched by non-customer beneficiaries and brokers. A pair of skis to a retailer represents an item that at the start of the season has the potential to generate a 100% margin and towards the end of the season a mere 10% margin, whereas to the customer these same skies represent hours of fun with friends zooming down the hills of Collingwood. Focusing too much on non-customer beneficiaries and brokers and not enough on the true customers, will distort your business model and strategic focus and can lead to disaster. Indeed, many start-ups and new product (or service) development efforts often discover that they are addressing the wrong market early on. If there is enough time and money they can "pivot" and save their efforts, although this is not the case resulting in cancellation and failure. It is my contention that a significant proportion of new product missteps relate to a failure to identify the true customer, which results in misguided research, development and marketing efforts. This makes it imperative to identify and validate who the true customers are (See Voice of Customer), alongside any non-customer beneficiaries and brokers, when developing your business model and strategies.

Two personal stories illustrate the point:

1) I invested in a start-up that had developed a power wheelchair that could move sideways in addition to forwards and backwards, allowing the user (i.e. beneficiary) far more maneuverability especially in tight spaces like home or office environments. Our assumption was the target market was individuals with paraplegia or quadriplegia. Unfortunately, we were unable to make any sales of this $15,000 product. It turned out that through the assistive device program, qualifying users could receive a government subsidy of about $4,000 which was very close to the price a number of inferior but still competing power wheelchairs retailed for. We were asking users to pay $9,000 as opposed to $0! In effect, the government was the true customer for existing power wheelchairs not the end users, and the $4,000 products satisfied their needs (and obligations.) Although too late to save our start-up, we eventually identified two potential true customers and markets: big businesses who might buy our maneuverable wheelchair for some of their employees as opposed to undertaking major renovations to their office space, and wealthy individuals who wanted a well designed, upscale and superior power vehicle (wheelchair or scooter) for a loved one who would benefit from such assistance on occasion. This would have shifted our market research to two new customer groups: human resource departments and home care groups.

2) I mentored a team that developed a motion capture technology to analyse and make corrective recommendations for individuals using free weights in a gym. Initially, we envision this technology as an aid to gyms to attract new members with this "wow" technology. Later, we saw it as a means for personal trainers to improve their efficiency and hence earnings by facilitating the training of two individuals at once. Significant effort was made in speaking with gym owners and personal trainers with only moderate interest. The fact is that gyms and personal trainers are not the true customers for this technology, they are brokers and the true customers are the gym users. Not any or all gym users however. As Clayton Christensen et al. espouses (HBR Dec 2015), "appealing to low-end or unserved consumers and then migrating to the mainstream market" is the best approach. This means the true customers are non-gym users or infrequent users who are interested in getting fit and healthier (their job-to-be-done), need the guidance a personal trainer can provide, and most importantly are currently held back due to the price. If this motion capture technology delivers personal training guidance more efficiently and hence at a lower cost to each user, the user/customer, personal trainer, gym and the start-up can all benefit. A win-win-win-win. The result has been a shift in strategy to a focus on the unserved but nevertheless interested non-users, analyzing their needs, preferences and price points.