3.1: Identifying Your Customers

Know who you're selling to

Every entrepreneur has, in the back of her mind, a mental picture of the prototypical customer. The question is whether this image is based in reality. Does this ideal customer exist? What if she does, but it turns out that she doesn't want to buy your product?

As you learn more about your market,you may need to be flexible and willing to change your image of both the customer and the product itself. Professor Kathleen Siders of Babson College says, "Entrepreneurs think they have divine intuition, which is fine if you're part of the audience you are trying to reach. But when you move outside that market, your gut instinct can let you down."

Basic market identification

Identifying your customer begins with formulating a value proposition. It's from here that the most important work starts. You have to be able to answer the question "To whom is this proposition of value?" The end user might be consumers, operations, or development. The proposition might be valuable to industry, education, or government. Companies intending to make a profit need to ask themselves,

- Will the proposition reduce costs?
- Will it improve efficiency?
- Will it add value to what's already out there?
- Will it eliminate waste?
- Will it serve as a replacement technology, or eliminate the need for something?
- What is the potential market value of the proposition to investors?

This line of questioning also has to address the scale of the market. Will it be a family-owned business or a lifestyle business with limited growth? Or does the team have an appetite to think bigger—regional, national or global?

Make it simple

Your value proposition should be easy to understand. If you have a hard time describing the benefits of your product to potential users, they probably won't figure it out for themselves.

Market segmentation

When trying to answer the question "To whom is this proposition of value?" it helps to simplify things by breaking the market down into components. There are three broad categories of customers who could buy your product: individuals, channels (covered later), and organizations. Each of these categories can be further broken down into smaller segments. This is called market segmentation—picking out the particular groups of people/organizations that benefit from your product, and selling to them. Individuals can be segmented by:

- Geography
- Income
- Age
- Interests
- Gender
- Nationality/ethnicity

Whereas organizations can be segmented by:

- Industry
- Size
- Function
- Level and type of individuals within the organization

Many segmentation schemes are combinations of the above lists. For example, let's say a venture developing an innovative digital storage product decides to sell only to organizations, not individuals. It segments its potential market by size of organization, size of data storage requirements, and need for speed of retrieval. That leads to a focus on large financial institutions and large medical centers. Within those targeted organizations, the importance and cost of the purchase dictates that the venture focuses on selling only to "C-level" executives: the CIO, CFO, etc. Finally, as the technology is very new, the venture team chooses to target the executives that are technology enthusiasts—people who love new technology for its own sake, and are often willing to look at it in preliminary form.

Distribution

Inexperienced teams often neglect the question of distribution: How will the product get to the end user? We cover this in more detail in section 2.3, but for now, in order to develop a complete marketing plan your team must determine what the revenue scale and cost structure will be over a five-year period.

The second part of distribution is secondary expenses, or selling costs. What will it cost you to get the product to the end user? Relevant questions include: What distribution channels will you use? What threats or opportunities does this proposition offer to the industry? Will the product use a technology similar to one already in existence, or will it replace current technologies?

Awareness of the market is crucial to new businesses that want to convince investors that they have an opportunity worth funding. The only way to gather this information is through thorough market research.

Failure to research customers can be costly

Darlene Mann, serial entrepreneur and General Partner of Onset Ventures, has some wisdom to share with new entrepreneurs.

"In 1990, I was a director of product marketing at Verity, Inc., which made sophisticated software for document search and retrieval. We made the assumption that our product would be managed by high-caliber technicians at the companies that used it, but because of our software's complexity, it was difficult to set up and maintain. We thought the product was important enough to our customers for them to justify using highly-skilled personnel to run it, but actually our customers felt they had scarce resources and that it was difficult to get people with the skills needed to use it. In fact, we had only one customer that successfully installed the software on their own: NASA's Jet Propulsion Labs. A clear sign to us that maybe you did have to be a rocket scientist to use it.

Our solution was to reengineer the software to make it simpler to install and use. We did that, and the product was very successful, but the delay cost us a year and we lost significant repeat sales early on because we didn't do our homework. Had we simply started by asking ourselves and our customers the questions we should have, we wouldn't have wasted all that time and money."
