4.3: Reaching the Customer

Reaching the Customer

Where to sell

You may have figured out who your customers are and what they like, but now you have to figure out how your product will get into their hands. That means determining where your customers buy items like yours, or how they would buy them if they could. Some of the options are:

- On the shelf of a store
- Online
- Through a distributor
- In a catalog
- Directly from a salesperson

In deciding among your options, consider how your customers will recognize the value of your product, whether the conditions will be favorable for purchasing, and what it will cost you. Direct sales methods enable you (or a salesperson working for you) to tailor the message to the individual customer and allow you to answer questions and get feedback during the sales process. But be aware: using one-on-one techniques are expensive. Catalogs and websites might be cheaper options, but they make connecting with individual customers more difficult. Your sales methods should be appropriate for the complexity of the product and the message you are trying to convey.

Products are easier to sell when consumers clearly recognize their benefits. Buyers may resist buying your product if you try to make them alter their habits. Greater convenience, lower cost, or higher quality can convince customers to change their buying behavior. In fact, some businesses are successful simply because they sell something in a different way (like Amazon.com and eBay). You should weigh the tradeoffs when you consider any distribution choice that requires the customer to think differently or take a risk.

Links in the chain

There might be many links between you and the ultimate customer. This means you will have more than one type of customer—such as a distributor or salesperson—that you have to think about. Your product has to create value for them, too.

Examples of these links in the chain include distributors, Value Added Resellers (VARs) and Value Added Distributors (VADs), Systems Integrators (SIs), Manufacturer’s representatives, Original Equipment Manufacturers (OEMs), and strategic partners. See the glossary at the back of the book for more information on each of these middle men.

Every one of the above will want its own profits, so consider the benefits your products will gain from intermediaries. Understanding their incentives is the key to building the right relationships. You don’t want the layers to make it harder to connect with your customer. Offer intermediaries a compelling value so they will be as aggressive selling your product as you would be. Find out how you can benefit from their customer relationships and market knowledge in return.

What to charge

The price of your product is, of course, extremely important. Price too high and few will buy, price too low and you lose money. Pricing is also a form of communication between you and your customer; price it wrong, and the customer might come away with a bad impression of you and your product. Consider the following factors in pricing your product:

Willingness to pay

Think about how many customers you will gain if you lower the price, or how many you will lose if you raise the price. Be careful about the distinction between “worth” and “willingness to pay.” Just because people tell you that they think the product is worth $50 doesn’t mean they’ll actually buy it at that price.

Cost To make a profit, you must charge the customer more than it costs you to make the product. That’s obvious. But also consider all of the mark-ups through the chain before the product gets to your customer. Salespeople, distributors, retail outlets, and all the other links in the chain need to make a profit too.

Competing products Consider what alternatives the customer has and how your price will influence his buying decision.

Sticker shock This is when someone looks at the price of a product and says, “No way I’d buy at that price!” Different markets have different sticker shock points (writing utensils vs. cars, for instance). Know your market’s sticker shock point.

Perfect for you or the customer?
The product is supposed to satisfy the customer. That means if the cost of making the product exceeds the price that your customers will pay for it, you must rework it. You may have to find alternative solutions to the problems you solved in the design phase. If that doesn’t work, consider what features are least important to the customer and cut costs by weakening or eliminating them. This process may be frustrating, but for a product to be viable in the market, the design and the price have to be desirable to the customer.

A low-risk distribution model for a start-up

Fluent Systems found an effective model for product distribution. The Fluent E-Team, originally formed at the University of Madison Wisconsin, devised the Wireless NH3 Monitor to help farmers apply ammonia nitrate fertilizer more efficiently to fields. The team relied on free product publicity provided by trade journal articles to pique the interest of end users. They then made the product available to consumers through a network of distributors. In the end, after less than a year of product sales, Fluent sold to Raven Industries for $1 million.

Fluent president Chad Sorenson says that in the product’s first season, a handful of fertilizer dealers were offered exclusive regional distributorship of the NH3 Monitor. In exchange, these distributors were required to purchase a minimum inventory of monitors. Sorenson says, “We had the luxury of selling a product not available anywhere else. If you create a product of value and you’re convinced that distributors will make money, you have some bargaining power, even though you’re a small producer. We wanted our distributors to have a vested interest in moving the product like we did. If we had distributed the units on a consignment basis, our distributors wouldn’t have had any stake, and we would have had to finance our own inventory.

Diversification = Survival

In 1999, former economics professor and entrepreneur Dick Sabot co-founded eZiba, an e-commerce company selling handcrafted products made by individuals in the developing world. After the dotcom bubble burst, eZiba was listed by Forrester Research as one of the companies that would not only survive but benefit from the Darwinian shakeout (along with amazon.com, Wal-Mart and e-Bay). Why the success? Sabot points to the fact that eZiba didn’t remain exclusively an e-commerce business for long. As soon as possible, the company diversified its channels, reaching the customer through an award-winning catalog and retail stores on top of the website. Says Sabot:

“EZiba was one of the first e-commerce businesses to recognize it needed to go multi-channel. We had to find ways to generate traffic, and the portal sites just weren’t doing the job. So we experimented with a catalog that would arouse people’s interest in eZiba and bring them to the website; the catalog worked well and became increasingly cost-effective. Then the opportunity to expand into brick and mortar stores presented itself, and we jumped on it. So we now view ourselves as a multi-channel retailer. There is an online side to the business, but there’s also the catalog—millions of copies of which are distributed every year to households all over the country. The catalog is the biggest driver of eyeballs to the website and the biggest driver of business overall, so we’re very much a multi-channel retailer.”

Having a company with social goals also went a long way in ensuring eZiba’s durability. “Our customers are very aware that not only are they are buying beautiful products at good prices, but when they buy one of these products they’re also having a positive impact on a low-income community,” says Sabot. “One of the reasons eZiba has been so successful is because it’s offering a positive and potentially quite large social rate of return on investment.”

Sabot says the future is bright for other companies with social aims. “I believe that as the buying public becomes more sophisticated, social responsibility will increase profitability because the public will vote with its dollars for products they view as socially responsible. So in terms of generating demand and a marketing message, I think being socially responsible as we move ahead is going to be a big plus.”
