

### GET THE SCOOP ON...

Finding your best prospects ■ Defining your market ■ Profiling current and potential customers ■ Determining demographic details ■ Locating research resources

## Zeroing In on Your Customer

**W**hether you're planning a new business or working to boost sales in an existing company, it's always smart to start marketing by looking at where you expect your sales to come from: your customers. If you have an existing business, it's much easier to look back at who has bought from you in the past, of course.

Yes, your product or service is important, but unless you have people willing to pay money for it, your business isn't viable. For your company to stay in business, you need customers—but not all customers are equal. In fact, there are good customers and there are bad customers, and bad customers cost you money.

Unfortunately, you can't often tell a good customer from a bad one just by looking at them. It takes research to discover which customers are the most profitable and to be able to weed out the unprofitable ones, but it can be done.

# Chapter 1

Studying your customers helps you determine which marketing methods will work best for your particular company. By studying your sales records, you'll be able to divide your customer base into market segments—groups of customers with similar buying habits or needs—and to create marketing campaigns to increase sales from these segments. Grouping customers together by factors such as how far they have to travel to get to your business, how much they spend each month with you, or how old they are helps you create a more effective marketing program. Instead of using a single message to reach all of your different types of customers, you'll be able to create marketing messages that speak to each of your market segments, and encourage them to buy. And that's what marketing is all about isn't it—making money.

## Divide and conquer

There are several ways to divide your customers into different market segments, including using the following characteristics:

- **Geographic:** Use a location as the common element, whether that's a home address, business site, or proximity to a particular mall.
- **Use-based:** Use the frequency of usage of a product or service as the commonality, such as airline flights per year, trips to the supermarket, or subscription to a particular magazine.
- **Benefit-oriented:** Use a focus on the benefits received from using a product or service as the shared bond, such as a desire to lose weight or save money; that is, the reason behind the purchase.
- **Psychographic:** Use lifestyle and an individual's preference for certain activities as an important factor, such as environmentally conscious purchasing habits or political activism. To find out more about segmenting your customers this way, check out [www.examtutor.com/business/resources/studyroom/marketing/market\\_analysis/8\\_psychographic\\_segmentation.php](http://www.examtutor.com/business/resources/studyroom/marketing/market_analysis/8_psychographic_segmentation.php).

- **Demographic:** Use personal characteristics, such as age, education level, or household income to group individuals.

The more you know about your different types of buyers, the more targeted your marketing can be, and, thus, the higher your sales.

That's not to say that marketing to everyone the same way never works. It can, but undifferentiated marketing, as mass marketing is often called, is also generally more expensive. To market to everyone, you need to use a method that has broad reach, such as advertising in a national business magazine or securing a product placement on the top-rated television show.

Mass advertising can work, but it's also very expensive to do well, and few small businesses have an overflowing budget. Which is why dividing your entire customer base into individual segments often works better. You can choose the marketing method that works best for each group and reduce the amount of money you waste by reaching people who aren't in your target market.

Segmenting your customer base also enables you to prioritize your many market segments and focus your marketing attention on those with the highest sales potential. Or you can target them all simultaneously, but with different marketing messages. It's up to you, but you need to have information about your target market in order to do that.

## How many customers make a successful business?

Before you start segmenting your current customer base—dividing it into smaller groups of like customers—take a step back and assess how large your potential market is. That is, if you sold to everyone in your target market—the group of customers you want to sell to—how many customers would you have? And is that number enough to sustain your business, long-term? The answer depends on how profitable your product or service is, and how high your expenses and income goals are.



### **Bright Idea**

To determine how large a particular target market is, check out [www.infousa.com](http://www.infousa.com). Find out how many people live in a certain Zip code, or the number of pediatricians nationwide, for example. InfoUSA can give you a sense of whether your customer base is big enough to support your business.

Understanding that more customers generally means more sales, some small business owners elect to claim everyone and their brother as potential customers. They assume that if their potential market is huge—astronomical, even—their sales, likewise, should be huge. But, in fact, thinking that everyone is your customer is dangerous and can be very costly.

Although it's possible that all humans could use your product or service, such as if you are a doctor or a supermarket, for example, the reality is that you can't afford to market to all humans everywhere. Trying to alert all 6.6 billion humans on the earth of your products and services would put you out of business quickly.

A smarter approach is to limit your marketing focus to the group of humans likely to do the most business with you. That is, don't try to do business with everyone, just those most likely to buy from you. They may be customers within a certain radius of your location, such as five miles, individuals in a certain demographic group, such as moms of new babies, or they may be owners of a certain brand of automobile or computer.

All potential customers are not worth your time and money, however. Just go after the most profitable ones.

Don't know who those are? Start by looking at who is currently buying from you.

## **Who are you currently selling to?**

To determine who is currently buying from you and why, consider creating a customer profile to help identify your major market segments.

A customer profile is a snapshot of who your customers are, how to reach them, and why they buy from you. Asking questions of your customers to learn more about them and their buying habits can help you choose marketing tools that work better than what you're currently using, and then save you money by dropping marketing methods that are ineffective.

Because every business's customers are different, there is no standard customer profile I can give you to use, but I can provide a series of questions for you to choose from so you can create your own. Add questions to your customer profile that help you understand your customer more. Each answer should help you choose how to spend your marketing dollars by telling you more about how, why, or when your customer makes the decision to buy from you.

Don't waste your customers' time asking questions that won't impact your marketing decision-making. For example, if you own a local pet store, finding out whether a customer personally owns a pet, and what kind, is critical information that will help you improve your marketing message to that person. But if you own a medical transcription company, knowing that your customer owns a pet may be interesting, but it's not at all useful in encouraging them to do more business with you. Stick to questions that tell you more about their habits, preferences, and needs, so you can address them when you provide marketing information.

Questions that help you determine how to divide your customers into different market segments include information about when, why, and how they buy.

- **When:** Is there a particular event or time of year that triggers a need for your services?
- **Why:** Do you have a particular expertise that some companies don't have on-staff, or a knack for remembering your customers by name?
- **How:** Are your customers frequenting one of your locations more than another, or buying online more this year than last?

For a consumer-focused company (versus a business-focused venture), possible questions include the following:

How long does it take to get to our location?

☐ 5 minutes ☐ 10 minutes ☐ 15 minutes ☐ 20 minutes  
☐ more than 20 minutes

How many people are involved in the decision to buy from us?

☐ 1 ☐ 2 ☐ 3–5 ☐ more than 5

How long have you been a customer? ☐ less than 6 months

☐ 6–12 months ☐ 13–24 months ☐ more than 2 years

How many times a year do you buy from us?

☐ 1 ☐ 2–4 ☐ 5–8 ☐ 9–13 ☐ more than 13

Approximately how much do you spend, on average, at each visit or project? \$ \_\_\_\_\_

Is there any particular product or service you rely on us to provide? \_\_\_\_\_

Do you buy from us for yourself or for someone else?

☐ myself ☐ someone else ☐ both

What is it about our company that you like most? \_\_\_\_\_

What do you like least about us? \_\_\_\_\_

What one thing could we do that would encourage you to do more business with us? \_\_\_\_\_

How did you initially hear about us? ☐ friend ☐ newspaper

article ☐ ad ☐ Web site ☐ direct mail ☐ drove by  
☐ other: \_\_\_\_\_

How do you typically travel to us? ☐ car ☐ bus ☐ cab

☐ train ☐ on foot ☐ other: \_\_\_\_\_



### Watch Out!

If you gather personal information from your customers, you owe it to them to keep it confidential and to clearly state your privacy policy up front so they know you won't sell, rent, or loan your customer list with their names on it. If you do, you risk losing many customers.

For business-to-business market segments, more appropriate questions could include the following:

In what city is your headquarters located? \_\_\_\_\_

How many other locations or branches are there  
statewide/nationwide/worldwide? \_\_\_\_\_

How many people do you employ?  
\_\_\_ full-time \_\_\_ part-time \_\_\_ contract

What are your annual revenues? \$\_\_\_\_\_

In what industry does your company operate? \_\_\_\_\_

In what year was the company founded? \_\_\_\_\_

What is your top-selling product/service? \_\_\_\_\_

To develop your own customer profile, consider what information would help you serve your customer base better; that is, what kind of information are you currently lacking? Then use that to create your own customer profile form to distribute to your current customer base.

Type up a form and ask customers to fill it out. Depending on your type of business, you may be able to hand it to them as they stand in line at the check-out, leave it on the table or in a waiting room, mail it to them and ask them to return it, or direct them to a Web site where the questionnaire is available. Explain that you're making an effort to provide better service to them, your customers, and that their answers to your questions will help you do that.

After you have the information, you'll want to look at the profiles in bulk, to get a sense of the commonalities among your customers. Are they all buying from you because of a sudden trend? Do they buy because you're one of the few companies open at a particular hour? Look for important reasons why, when, and how your customers are buying in order to understand how to attract more like them.

**Bright Idea**

To encourage customers to fill out your form, offer an incentive, such as a gift card for a free cup of coffee or a percentage off their next purchase from you. The more time and personal information you want from your customers, the larger the reward you should offer.

## Understanding demographics

Learning more about your customers' purchasing habits and buying preferences is only part of the puzzle—you also need to learn more about the person making the decision. Information about a person's background—their demographic characteristics—also helps you understand what makes them tick.

Demographic questions include the following:

How old are you? ☐ under 19 ☐ 19–25 ☐ 26–35 ☐ 36–45  
☐ 46–55 ☐ 56–65 ☐ 66–75 ☐ over 75

What is your approximate household income?  
☐ less than \$25,000 ☐ \$25,00–40,000 ☐ \$41,000–55,000  
☐ \$56,000–70,000 ☐ \$71,000–85,000 ☐ more than \$85,000

Do you live in a(n): ☐ single-family home ☐ condo ☐ apartment  
☐ student housing ☐ retirement community

What is your gender? ☐ female ☐ male

What is the highest level of education you have attained?  
☐ high school attendance ☐ high school diploma  
☐ some college ☐ college degree ☐ graduate coursework  
☐ graduate degree ☐ postgraduate work

Are you: ☐ employed full-time ☐ employed part-time  
☐ self-employed ☐ unemployed ☐ student ☐ retiree  
☐ stay-at-home caregiver

How many hours per week do you work outside the home?  
☐ under 21 ☐ 21–35 ☐ 36–40 ☐ 41–50 ☐ more than 50



Do you have children? ☐ no ☐ yes

If yes, what are their ages? ☐ under age 2 ☐ 2–4 ☐ 5–10  
☐ 11–15 ☐ 16–17 ☐ over 18

What Zip code do you live in? \_\_\_\_\_

What is your ethnic background? ☐ African-American  
☐ Native American ☐ Asian American ☐ Hispanic  
☐ Caucasian ☐ other: \_\_\_\_\_

Information you gather about the demographic characteristics of your current customers can help you make marketing decisions. You may decide to adjust your marketing message, such as including both Spanish and English promotions if you discover the majority of your customers are of Hispanic heritage. You may find that it makes sense to explore new advertising vehicles, such as a senior citizen newsletter, should you learn that your best customers often travel from a certain center. Or you may discover you need to make some changes to the way your business operates, perhaps staying open later at night to accommodate professionals who leave work later than most.

Taking the time to fully describe your customer base—in terms of their relationship to your business (how they feel about it, how loyal they are, how often they buy, and so on) and their personal characteristics—can help you define categories of customers. From there, you can see how well those existing customers match your definition of the perfect customer.



### Watch Out!

Never start a customer profile or questionnaire with touchy demographic questions, such as asking the individual's age or income level. Instead, start with easy-to-answer questions and finish with the more personal queries. That way, if a customer is offended by any questions, at least you have their previous answers.

## Picture your perfect customer

Writing a description of your perfect customer can be a very useful exercise. For one, it helps you hone your marketing strategy to better reach that particular group. For another, it can help you see how your current customers differ from the customers you really want to be serving.

After you define your target customer—the type of person likely to be most profitable for your company—you should try to

“ Know your market very, very well. Know what they want. Know where they shop, what they read, radio stations they listen to, TV programs they watch, and where they live. Know everything possible about your market. ”

—Terri Franklin, owner,  
Accents of Color

quantify how many such customers there are. Not only will it help you confirm that there is a large enough market to sustain your business, but it will help tremendously in marketing planning, both in establishing a marketing budget and deciding which marketing methods will be most effective.

Some of the best reference tools for estimating your target market size are available at your local library, although more are now available online, too. These include the following:

- **The U.S. Census:** [www.census.gov](http://www.census.gov)
- **Statistical Abstract of the U.S.:** [www.census.gov/prod/www/statistical-abstract-04.html](http://www.census.gov/prod/www/statistical-abstract-04.html)
- **County and City Data Book:** [www.census.gov/prod/www/ccdb.html](http://www.census.gov/prod/www/ccdb.html)
- **State and Metropolitan Area Data Book:** [www.census.gov/prod/3/98pubs/smadb-97.pdf](http://www.census.gov/prod/3/98pubs/smadb-97.pdf)
- **Service Annual Survey:** [www.census.gov/econ/www/servmenu.html](http://www.census.gov/econ/www/servmenu.html)
- **Encyclopedia of Associations:** Available at your local library.



### Money Saver

Most local libraries provide access to research databases, such as Dialog and InfoTrac, as long as you have a library card. Before you spend money downloading reports and articles, check with your library to see whether you can get them free.

If you don't find a market size figure that exactly fits what you need, try searching online magazine articles to see whether any publications cite the statistic you're looking for, or if there are reports that reference it. Article databases available at the library generally allow you to search for keywords that match what you're looking for, such as "number of private school students" or "companies with fewer than 200 employees."

If that doesn't work, you'll have to extrapolate from what you have, essentially working backward from what you need based on the data you have in-hand, or combining existing statistics to give you your best guess.

Extrapolating just means you'll need to do some math. For example, you may not be able to find the exact statistic for how many K–12 students there are in the U.S., but you can come up with a strong estimate by adding the number of public school students to the number of parochial and private students. Or, if your product is revolutionary, there is no way you're going to find a published report estimating its market size. However, if you can identify a product with similar functionality or usage benefits, you may be able to use data associated with the other product for your own.

Don't give up if you can't determine the exact size of your target market immediately. It may take a while. But do settle on your best guess based on the information you gather and then refine it over time, as you learn more about your customers and their buying habits.

By constantly tweaking and improving the information you have about your customers, you'll be able to regularly improve the quality of your marketing results. Marketing is an ongoing process, rather than a one-time event, but figuring out who your best customers are or should be is the first step in deciding how best to design your marketing strategy.

## Just the facts

- Before you plunk down tons of money to market your product, service, or company, verify that there are enough customers to make your venture profitable.
- Your current customer may not be your best customer. In fact, you may not even want them as customers after you create a profile of your perfect customer and compare the two groups.
- Sometimes, defining a customer by his or her demographic characteristics is inadequate and other factors need to be taken into account, such as psychographics, product or service usage, or geographic location.
- Preparing a customer profile form to evaluate your current customer base can help you more accurately segment your customers and fine-tune your marketing plan.
- There are many tools available, both online and in print, to help you estimate the size of your target market.
- Defining your target market and estimating its total size is a critical first step for developing an effective marketing plan. Without that information, you'll waste money pursuing customers who aren't a good fit for your business.