Target Customer List

The Chartered Institute of Marketing

Introduction

This item explains in simple terms why grouping customers for your products and services and targeting one or more customer groups can help to grow your business and keep you profitable. It provides you with a step-by-step process on:

- how to find out which customers you already have are your best
- how to 'profile' them
- how to group customers
- how to choose the best group for your business
- how to compile a target list

What it is

A small business with just a few customers tends to treat every customer differently, providing a high level of personal and personalised service. However, as the business grows and acquires more customers, it becomes difficult to make a profit at the same time as providing such a highly personalised service.

Grouping customers is a way to continue to provide high levels of value and service to customers while making a profit for the business. If you like, it is a form of 'mass personalisation' that helps a business to manage large numbers of customers. It is based on understanding both what they want and how they buy, as well as which customers you would regard as 'good for your business'.

For example, a car manufacturer might identify the following groups of customers (called a 'segment' in marketing speak) in the car and small van market based on the usage of the vehicle:

Usage	Needs
Running about in cities and towns	Economy, small size, limited luggage capacity
Family/passenger	Seating capacity, carrying luggage capacity, safety, economy, price
Business	Status, appearance and finish, reliability
Leisure driving	Appearance, sporty, speed
Local deliveries	Carrying capacity, & courier economy, reliable, security

When a business knows which existing customers are profitable - the usual measure of whether customers are 'good for the business' - it can then establish what characterises those customers (called 'profiling') and set out to find and attract more customers like them.

Why it is important

All customers in the market are not the same and, as the old adage goes, if you try to please everyone you'll end up pleasing no one. So it makes sense to try to group customers with characteristics that are similar. This will enable you to refine and tailor your products and services to meet the particular requirements of these groups more closely, and so too any communication you have with them.

Grouping and targeting customers in this way can help your business to:

- Meet the needs of larger numbers of customers as the business grows. Such an understanding shows these prospective customers that you have a product or service which suits their needs and can be tailored to meet any aspects particularly important to them
- Maintain or increase profits as the business takes on more customers.
- Retain customers by providing products and services specifically for them
- Focus marketing communications by communicating messages relevant to your target customers through channels (magazines etc) that you know they are using
- Avoid competition from larger companies by focussing on specialist needs that are too small for those companies to serve profitably

What you should do

Here are five steps for grouping customers and deciding which group you are going to target:

- Step 1 – Establish which customers are profitable
- Step 2 – Profile your customers
- Step 3 – Define customer groups
- Step 4 – Decide which customer group you will target
- Step 5 – Compile a target list of prospective customers

Step 1 – Establish which customers are profitable

It pays to use your own experience and knowledge of its customers, starting with identifying which of your customers are the most profitable. For tips take a look at the 10-minute 80/20 rule. It will help you to identify your most important customers, your key customers. These are the customers on whom you should focus most of your efforts.

Step 2 – Profile your customers

Then you should identify what it is that characterises your key customers.

- Is it the way they use or consume your products and services?
- Is it the way or the frequency they buy your products and services?
- Are they looking for a particular benefit that your product or service delivers?
- Is it the way they live their lives that makes your products or services appealing?
- Is it where they are based, live or work?

Nobody said this would be easy. But, if you can see what it is that makes this group of customers different, you are well on the way to growing your business and making a healthy profit in the process.

If you don't know where to start, it may help to understand who buys, why they buy your type of product or service, and why they buy from you.

Who buys?

You may be selling to the consumer, or individuals for personal needs, or to organisations for business needs. You may be selling directly to them or indirectly through distributors, wholesalers, retailers or agents.

- Consumers – It is not vital that you can identify and understand them all personally, so long as you know enough about their purchasing activities to create a collective profile of how a specific group of consumers behaves.
- Organisations – Several people are likely to be involved in the purchase decision. The larger the organisation, the more people will be involved. Research has shown that often many more than five people influence the decision, yet rarely are more than two recognised by the supplier. People involved tend to have different roles in the 'decision making unit' or DMU. (You can find out more about the DMU later if you want to.)

Why do they buy?

To find out why customers are buying a particular product or service, there are two ways you can go about it. Your sales people should already know the answers to these questions so perhaps you can start by asking them.

- Simply ask your customers why they buy. Try to find out how they use it and what benefits (not features) they are looking for
- List all the main characteristics of your product or service package (e.g. price, quality, packaging, customer service, reliability, guarantees etc) and consider how important each is to the buying decision. Put these items in descending order of

importance. By ranking your offering against these characteristics should enable you to identify the gaps, and therefore the opportunities for improvement.

Why do they buy from you?

Common sense says that they buy from you because, in relation to other suppliers, you deliver well on the things your customers value most. Interestingly, these may not be what you have carefully designed into the basic product or service but what you would regard as fringe benefits. It is also worth remembering that, when customers buy a product or service from you, they are also buying into a relationship with you.

Even though you think you know why customers are buying from you, it pays to contact a few key customers for their feedback. This may give you more information (or even provide an opportunity to sell more). At the least, it may give you confidence in your analysis.

It helps to know just what your competitors are offering so that you can identify where customers see an advantage in buying from you.

Step 3 – Define customer groups

Having profiled your customers, you are now in a position to identify one or more groups. It pays to list a number of possible customer groupings for your business. An example of a customer group identified by an insurance broker might be 'female drivers over 35 who have not claimed in last three years and who live within the county'. This type of grouping would be particularly appropriate if the broker wished to build a local reputation for providing low cost insurance to low risk drivers.

Step 4 – Decide which customer group you will target

It is unlikely that you will be able to serve all the customer groups you identify. So you need to select the one or two groups that you are going to focus your resources on. For a customer grouping to be useful it needs to pass a number of tests.

- Should be able to satisfy their needs with the same marketing mix. For more take a look at the Marketing Mix.
- This group should be unique. It should react specifically to the marketing mix you are offering.
- It should be expressed in clear terms that are relevant to purchasing decision (e.g. for an insurance broker 'female drivers over 35 without a recent claim' is useful while 'left handed female drivers' is not)
- It should be identifiable, that is, you can find data on this group (e.g. it would not be practical to identify a list of 'left handed female drivers')
- The group must be large enough for you to make a profit and cover fixed costs like marketing communications.

Any group that does not meet all these criteria should be rejected. It will not warrant the refinements to your product or service and special promotional activity or material.

All the customer groupings that do pass the test should then be subjected to further evaluation in relation to your objectives.

Now list your business objectives and score each grouping against them. The simplest scoring system is 1-3 where 3 is the most attractive. In the example below, the grouping that best meets the business' objectives is B.

Objectives	Grouping A	Grouping B
Few competitors	1	2
Potential for better margins	2	1
Growth potential	2	3
Mainly large organisations	1	3
Total score	6	9

Step 5 – Compile a target list of prospective customers in your target group

Having identified which one or two customer groups you are going to target, you now have to find your new prospects. Direct mail is just one way of reaching target customers and is particularly effective when you can identify and reach customers individually. It may not be appropriate for reaching a mass market but some firms do use it in this way. For more information on the methods available to communicate with your customers, look at the 10-minute Promotional Mix.

You can either:
- build your own list of prospective customers through business networking and research
- buy a list from commercial sources or your local Business Link

The customer group profiles you have generated above will help you define the specific characteristics to be used to define the list. Using the insurance broker example, you could identify females over 35 who live in a certain postcode area and have a specific salary range.

Creating your own list may be time-consuming but you then have control over how you use and develop it as part of plan for growth. Local business libraries have a range of online and offline directories and are a good place to start. Your local Business Link should have an information service that should be able to point you in the right direction. Other sources include:

- Trade associations
- Your local Chamber of Commerce
- Market surveys (published or commissioned)

Lists you buy are becoming more accurate as the quality of data improves. Even so, buying a list can be expensive and you may be limited in the number of times you can use the information. Think about the cost using the final 'cost per response' rather than the initial 'cost per contact'.

What to do now

You can now put your target customer list to use. You need to decide how to initiate contact with people on the list and what process to use to take them through to an order. You need to think about the message, medium and presentation. For more information on planning marketing communications, take a look at the10-minute Promotional Mix.

You may also want to create your own prospect or customer database. To download more information on marketing with your database, see the Business Hotline publication MA 6.

What you need to know

The concept of grouping customers, or segmentation as it is called, lies at the heart of marketing. Although some of the terminology and concepts may feel a little foreign, you may want to explore it further or take forward some of the ideas. Below are some keywords (shown in italics) that you can use to search for further information on this website or in various marketing books.

Segmentation – the process of dividing customers up into groups (or segments) based on their product or service usage, buying behaviour, life style, location and so on.

Customer profiling – a technique for developing a profile of a customer group.

Segmentation techniques – techniques for grouping customers in both consumer markets and organisational, industrial or business markets.

Targeting – a process for deciding which customer group or groups you are going to target in your business.

Positioning – the process of determining the position in the customers' minds that you wish to adopt relative to their needs and expectations and to the offerings provided by your competitors.

The *decision making unit (DMU)* – The various roles that are involved in most organisational buying decisions and some consumer buying decisions.

Where to find out more

You can use the terms above in the search facility to conduct a search of this site.

To get started in compiling or obtaining a target customer list, you may find some of the resources below helpful.

Source	Where to find it	Comments
Business Link	In your phone book or at **www.businesslink.org** which lists the Business Link in your area	The Information Services should be able to help you to define a list and provide lists of varying length depending on your needs and budget
Online directories	Dun & Bradstreet **www.dunandbrad.co.uk** Kelly's **www.kellys.reedinfo.co.uk** Kompass **www.kompass.co.uk** Yellow Pages **www.yell.com**	Directories are particularly useful for identifying prospective customers from their business activity and location
Business lists	**http://marketingfile.com/yell/buy/** **www.datanow.co.uk**	Prospect lists for sale
Consumer lists	**http://marketingfile.com/yell/buy/**	Databases include details on 24m households (virtually every household in the UK) plus 9m car drivers, 3m financial services prospects, 7m charity donors and 1.8m high net worth individuals

You may find Directors' Briefings helpful. Click on the items below to access them.
- Researching your market (See Business Hotline publication MA 12)
- Marketing with your database (See Business Hotline publication MA 6)

A good way to learn about grouping your customers is to see how other companies in your markets or industry group their customers. You can find out by reading their sales literature, looking on their websites, watching what they do at exhibitions and even talking to them. Their approach may not be right for you but it may give you some good ideas.

The Chartered Institute of Marketing will work with you to identify and develop your training needs.

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