

## BM.5

# Generate ideas for the customer segments block

*Requires dialogue*

This activity aims to generate ideas for how to address hotspots or strategic changes related to the customer segments block.



### INPUTS

- Hotspots or strategic changes related to the customer segments block from the activities *ST.7 Do a SWOT analysis*, *BM.2 Gather additional data on the business model*, and *BM.3 Gather additional data on operational performance*.

### OUTPUTS

- Specific ideas for how to change the customer segments block to address the hotspots or strategic changes, used in the activities *BM.4 Generate business model concepts at the big picture level* - if taking a 'Bottom-up' approach, *BM.15 Evaluate the benefits*, and *BM.16 Evaluate the costs* and *BM.17 Evaluate the risks*.

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Two fundamental questions need to be considered with respect to customer segments:

- Which customer segment(s) should we target with our products and services?
- What are the needs and requirements of our target customer segments?

The choice of target customer segments should have already been made when defining the business strategy, so you do not need to consider this further at this stage.

The ability to identify and articulate the detailed customer requirements for your chosen customer segments is a fundamental challenge for any form of innovation. For small companies embarking on eco-innovation it is particularly important, as a poorly defined set of customer requirements can lead to an expensive market failure – which they cannot afford.

To build a better understanding of the needs and requirements of your customer segments you have to engage your customers, typically through some form of market research. Figure 8 provides some suggestions for ways in which you might engage the company's customers, rated according to the cost and effort required to perform them, and their ability to generate customer insight.

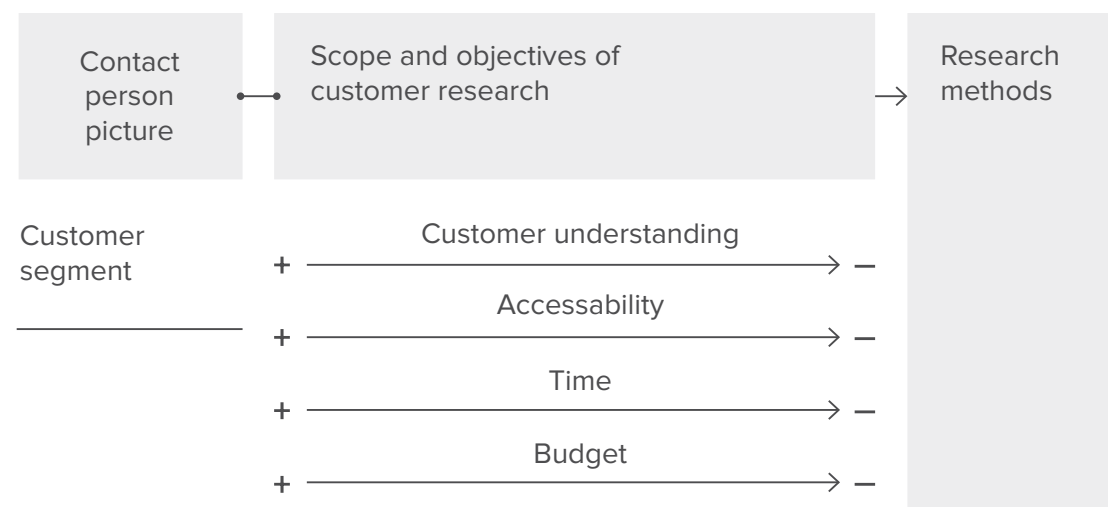
## HOW TO GO ABOUT IT

1. Using the *Customer research template*, define the scope and specific objectives of this activity by deciding what it is you want to find out about the needs and requirements of the target customer segments. If there are entirely new customer segments proposed

in the new business strategy then you will need to an extensive investigation of their requirements. If it is a new selling point to be used for an existing customer segment then your research in this activity can be more focused.

2. Based on the scope and objectives, decide which market research technique is most appropriate. Figure 8, below, provides a summary of some of the most common market research techniques and can help you to make this choice.
3. Plan and implement the market research activity you have selected.
4. Write-up your analysis of the results and main findings - these will be used in the *Evaluate the business model concepts and select one to pitch* step.

### Template of Customer Research



# Customer research

Project \_\_\_\_\_

Date \_\_\_\_\_

Version \_\_\_\_\_

Add a picture or drawing

Customer segment

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## Scope and objectives of customer research

What do you need to know about the customer segment?

## Research methods

What research methods would be most appropriate?

## Customer understanding

How well do you know your customer segment?

+ ← —————→ -

## Accessibility

How accessible are the people you are trying to study?

+ ← —————→ -

## Time

How long do you want to spend in research?

+ ← —————→ -

## Budget

How much are you planning to spend on research?

+ ← —————→ -

Used during activities

**BM.5**

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### LEARNING CASE STUDY OF CUSTOMER RESEARCH



#### Customer segment

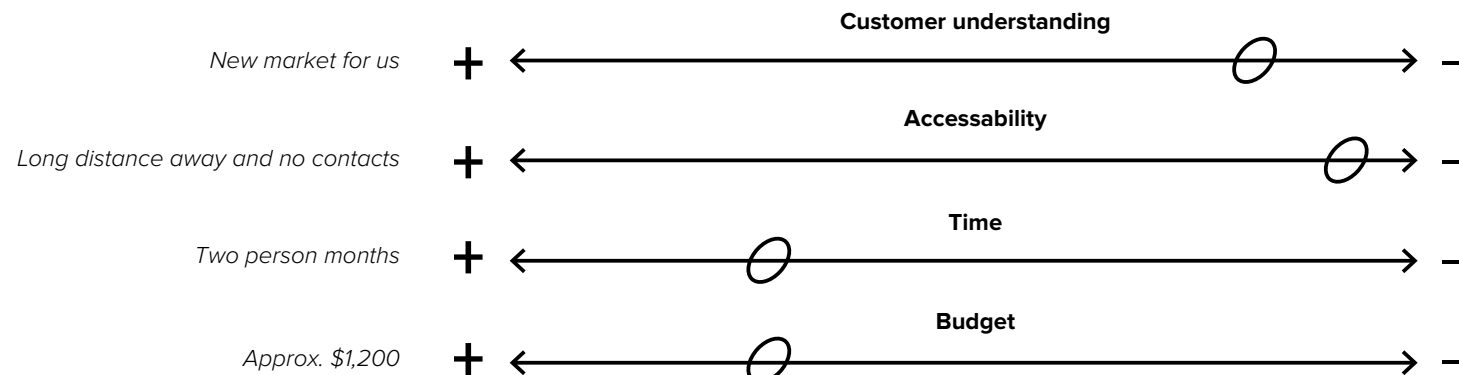
European consumers

#### Scope and objectives of customer research

- Aim of this research is to answer the following questions for the European consumer market:
- Are sustainability issues an important consideration in the purchasing behaviour of European consumers?
- If so, which sustainability issues are most important?
- Are European consumers willing to pay a price premium for products that perform better in terms of the most important sustainability issues?
- What is the most popular size of tuna can purchased in this market?
- What is the most popular fill in this market (oil, brine or sauce?)
- Which European retailers sell the largest volume of canned tuna?
- Do the largest European retailers have sustainable procurement policies or expect certain sustainability certifications?

#### Research methods

- Desk research – may be able to find general data on European consumer attitudes to sustainability and more detailed market data through Internet research.
- Telephone interviews with large retailers – as a prospective supplier they may be willing to share market information with us.
- Web survey – will need to get email contacts for potential customers. Partner with large retailer to get this?



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## TIPS & TRICKS

## ENGAGE END USERS

If the company's direct customer is not the final customer, or 'end user', in the value chain (e.g. one of the Tasty Tuna Company's customer segments is large international food retailers, but these customers are not the end user of the product), it may be worth also trying to engage the 'end user'. Their views and feedback can have a significant influence on the success of eco-innovation implementation activities and the willingness of the rest of the value chain to engage in those activities.

## GENDER-SPECIFIC NEEDS

If the company operates in 'Business to Consumer' (B2C) markets it is important to consider the different needs and requirements that women and men might have for the product or service. You can ensure that these different needs are identified by including a balance of men and women in customer engagement and insight gathering activities (unless the product is exclusively used by one gender).

→ Further information in the Agri-food, Chemicals and Metals Supplements

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## BACKGROUND INFORMATION

Table 2. Examples of customer engagement and insights gathering techniques

Technique	Effort Environmental impacts	Cost	Ability to generate customer insight	Description
<b>Customer site visit</b>	Moderate	Low- Moderate	Moderate- Good	The advantages of a site visit are that you get to see the customer in their normal environment, which can help to ensure better quality feedback. An example of a site visit for a business customer for the Tasty Tuna Company might be going to see the warehouse facilities of a large distributor. The equivalent research activity for a private consumer for the Tasty Tuna Company might be interviewing shoppers in a supermarket. It would be beneficial to find out how the private consumer uses the product when at home, it is quiet unlikely to be invited to their house to watch them preparing their lunch. When dealing with business customers it can be worth asking for a tour of the customer site as this can provide a lot of useful and often unexpected insights into the customer's business and how they work. The disadvantage of site visits is that the customer may be distracted by their day-to-day responsibilities. When arranging a customer visit, it is important to emphasize that it is not a sales visit as this may help you to secure a visit (and customers are often pleased that suppliers are keen to visit them even when they are not trying to sell them something).
<b>Electro- nic/postal survey Electronic/ postal survey</b>	Moderate	Low	Low- moderate	A survey requires the respondent to answer a series of pre-defined questions. The fact that there is no live interaction with the customer has advantages and disadvantages. The main advantage is that it is very scalable – the survey can be sent to hundreds of customers with little effort (although response rates of 10-20% are common for market research). The disadvantage is that they are inflexible, with little or no opportunity for participants to provide context to their answers,

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Technique	Effort Environmental impacts	Cost	Ability to generate customer insight	Description
				and can be open to misinterpretation – of the questions by the participant, and of the responses by the researcher. The questions need to be very clear and well written to minimize the likelihood for misinterpretation. Questions should be reviewed and piloted before conducting the main survey if possible. A good application of surveys is to validate insights gathered from other sources. For example, if a telephone interview suggested that a customer views eco-innovation as a good way to manage business risk, this idea could be validated by including a specific question on this topic in a survey.
<b>Focus groups</b>	High	High	Moderate-Good	Focus groups typically involve 8-12 customers participating in a group discussion led by a facilitator. The advantage of focus groups is that the highly interactive discussion can help to uncover unexpected insights. The main disadvantage is that they can be both time-consuming and expensive to arrange. They are often used to learn about the initial reactions of a specific customer segment to a new product or service idea. It is important to ensure that participants are recruited from the specific customer segment being targeted and that an experienced facilitator is employed to run the session.
<b>Telephone interviews</b>	Low-medium	Low	Moderate	Telephone interviews can be a cheap and efficient way to get information from customers. However, it can be difficult to share ideas without visual aids, and it is not possible to pick-up on non-verbal feedback from the participant. Telephone interviews can be useful for learning about a customer's general interest in sustainability and can be used as a stepping stone to gaining greater engagement from the customer.

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## TIPS & TRICKS

### USE CUSTOMER SEGMENTATION TO HELP IDENTIFY CUSTOMER GROUPS TO TARGET WITH SUSTAINABLE PRODUCT OFFERINGS

The two fundamental questions to take into account are:

- *Which customer segment(s) should we target with our products and services?*

You might consider business-to-business customer segments, such as: other food companies, hotels, restaurants, airlines, hospitals, government or private companies. Alternatively, if your strategy is focused on business-to-consumer markets then you should consider specific types of consumers, such as: the elderly; infants; or school children. You may also wish to refine

your customer segments further by targeting specific occasions, such as: breakfast time; lunch away from home; snacks; or office food.

- *What are the needs and requirements of our target customer segments?*

A proper assessment of the needs and requirements of the target customer segments is very important to guarantee market success. Do they require premium products, convenience products, long shelf-life, affordable products, or healthy options? In the eco-innovation manual some examples are provided for how consumer requirements can be assessed. This includes: interviews, electronic surveys, focus groups, or telephone interviews.

## BACKGROUND INFORMATION

Two end markets exist for food and drink products: the consumer market (or the mass market) and the food-ingredient market. A food-ingredient company will manufacture products that are generally a few processing steps away from being ready-to-eat, then sell them in bulk to other companies that will add value to those ingredients. In contrast, companies that manufacture consumer-ready products will place them on the mass market through a distributor such as retailers or wholesalers.

Recently, with the rise of the retail sector, many food and drink processors are providing processing services instead of selling a product. Retailers are mostly interested in this service for the creation of private labels that can increase customer loyalty. As for the food processors, they will settle for a lower margin for the benefit of securing a market without the need for expensive marketing activities, such as branding and promotion.



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## TIPS & TRICKS

### USE CUSTOMER SEGMENTATION TO HELP IDENTIFY CUSTOMER GROUPS TO TARGET FOR SUSTAINABLE PRODUCT OFFERINGS

The chemical industry is progressively focusing on the customer and many companies have launched customer-segmentation initiatives in order to categorize their customers to help align the company's marketing and sales approach to the values of the customer and improve their meet their demand both in terms of value and price.

You can define customer segments in the chemical industry in several ways. These include:

- Chemical category: as mentioned in the PREPARE phase,

there are 3 broad categories of chemicals – commodity, fine, or speciality chemicals. Commodity chemicals are typically destined for mass-market distribution and decision-making is typically price-driven, whereas fine and speciality are normally tailored for niche markets and decision-making is typically results-driven.

- Position in supply chain: the chemical can be an intermediate or an active ingredient to be later incorporated in an end product (e.g. TiO<sub>2</sub> used as a photocatalytic biocide agent), an end market product (e.g. anti-aging cream, anticorrosive paints), or an auxiliary chemical for industrial users of

chemicals (e.g. solvents or acids for surface cleaning, dyestuff for wet textile processing).

- Customer values: different customers place different values on the product relative to price. For example, buyers of the chemical products rank product quality and performance, innovation that improves reliability/quality, and reliability of supply ahead of price (Erhardt, 2011).

It could be useful to categorize the company's customers in a way that reflects their values in order to help align the company's marketing and sales approach to the values of the customer. Customers valuing product quality and performance may be more open to eco-innovative business models and value chain collaboration.

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### LEARNING CASE STUDY

For example, the TipTop Textiles Co. recognizes that its corporate wear customers value sustainable sourced products, reliability of supply and speed of service and are therefore open to a fibre-leasing concept with bundled services including support for prolonging product life and minimizing washing costs, such as water and energy consumption, during use.

### BACKGROUND INFORMATION

Erhardt, G. (2011). Aligning Customer Segmentation with Industry Realities to Achieve High Performance in the Chemical Industry. Accenture.



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### TIPS & TRICKS

#### CONSIDER ENGAGING KEY PARTNERS

You can consider inviting key partners from the value chain, including suppliers (materials, services, equipment) and customers to workshops in order to gain insights on which product functions and service offerings provide most value to customers. Furthermore, you can use such opportunities to quantify life cycle impacts downstream and upstream of the company. Incorporating suppliers in the workshop also raises awareness to the sustainability concerns of their end market and can provide incentive to collaborate on sustainable solutions. Companies often use Value Analysis/Value Engineering (VAE), which identifies priority product

functions, their relative cost, and overall value to the customer. VAVE activities have been known to reduce material costs by 30%.

### BACKGROUND INFORMATION

The metals industry serves both “mass” markets (e.g. production of various metal and metal containing products) and “niche” markets (e.g. car batteries). In addition, an increasing number of companies in the metals value chain are moving towards offering tailor made solutions to specific Customer Segments, often including services. This migration helps to align the companies’ marketing and sales approach to the values of their customers, thereby improving their ability to provide customers with what they truly want and are willing to pay for.

Collaboration with suppliers and customers is becoming more common in the metals value chain, especially integrating customers into the cost and resource reduction process.