# 4. Define the customer – The Customers Domain of Information

The final definition of the customer is always the result of an iterative process in which the initial definition is first created and then gradually refined to perfection. Refining the initial definition requires access to more detailed information from the other information domains of needs, functions, solutions, and processes. Therefore, you need to revisit the other information domains several times. This iterative approach to filling the domains with value-critical information increases your chances of creating a WoW product.

Products aimed at unclear or broadly based market segments will push your company in one of three directions:

Developing one-size-fits-all products

Products that passably fit a large number of customers but perfectly fit none. I call them tube socks. A basic type of product that must be sold at a low price as it will never justify a premium price. (Unless customers are experiencing a daily Jekyll and Hyde situation and sometimes wake up to find their feet have gone rogue overnight).
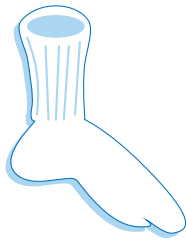
Developing something-for-everybody products

Over-featured products with every conceivable feature any odd customer requested. I call them Christmas trees. It is a very costly product, but it is not necessarily a product customers are willing to pay extra for.
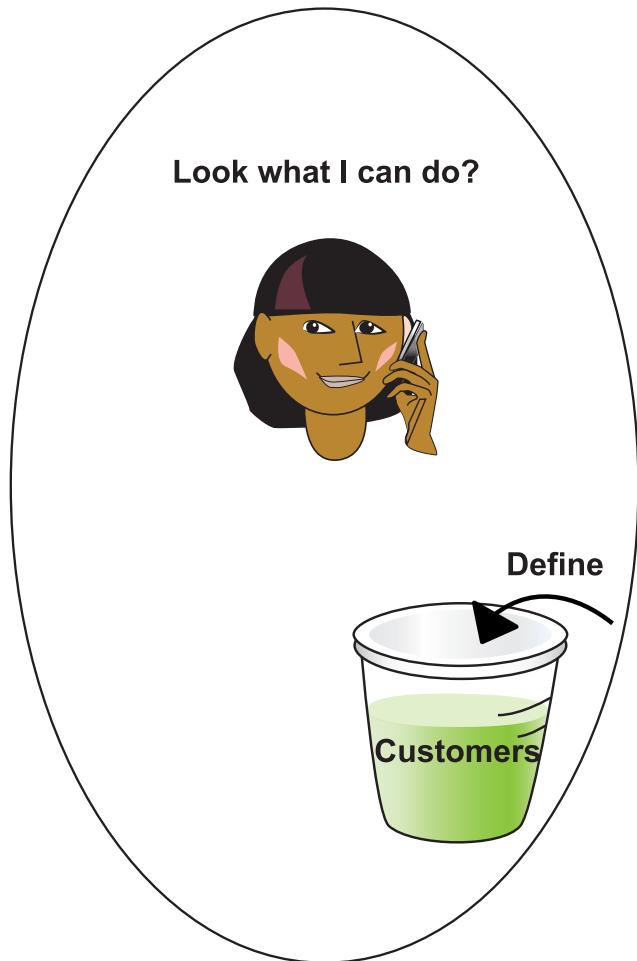
Developing variation-overloaded products

Every customer gets exactly what they want. I call it a variant jungle, and the high overhead costs of managing all

The customer's world

Look what I can do?

Define

Customers

different variants of the same product will kill profitability.

All three scenarios will significantly impact profitability and growth, potentially even threatening the company's existence. The situation often occurs when a company has segmented the market solely from a sales and marketing perspective.

The message is that if your company already has defined market segments, it does not necessarily mean they are suitable for developing new products. You can test the usefulness of your existing market segments, if you have any, by checking how many of the criteria below are met.

A market segment is a selected share of all potential customers. A good market segment should meet many requirements. Here are some of the more important ones:

Homogenous

The customers within the segment should have a common perception of needs and resource con-

cerns. It is the most important aspect as it means that you can develop a unique product that will WoW all customers in the market segment. This is the criteria for which most existing market segments fail.

Profitable

If the segment contains only a few customers, they must be willing to pay a high enough price for the product. Having numerous customers means that profitability can be found at lower price levels. Consideration must be given to volume, price, and competitiveness.

Workable

Not only must you be able to communicate with the customer, but you must also be able to distribute and service the product cost-effectively.

Differentiable

The market segment possesses a unique characteristic that distinguishes it from other segments, and that unique characteristic must be something you can capitalize upon.

Stable

The market segment is consistent over time, without frequent or significant changes.

> **They are invisible to your finance department and don't show up on your balance sheet, but loyal customers are any successful company's biggest asset.**

Market segments must meet various criteria besides those mentioned above, but my goal isn't to provide an exhaustive list or guide on optimal market segmentation. For that, I recommend visiting www.8-step-voc.com to purchase my book on the topic. However, it is crucial to grasp the importance of market segmentation and not simply rely on your company's existing segmentation.

If your company's market segments are unsuitable for product development and cannot be changed, you can address this issue by introducing the concept of target customers. Shift from a one-dimensional to a two-dimensional model. Plot the existing segments on the x-axis and the target

customers on the y-axis. This allows you to develop the new product for a specific target group. A target group that fulfills all the criteria above. Marketing and sales teams continue to use the existing segments. However, they will now find customers for the new product in several existing market segments.

Access to a proper and efficient definition of the target customers or market segment is an essential first issue for ensuring the development project's success. The foundations for future work are laid at this point. We believe that creativity and innovation in defining and working with different market segments will have increasing significance for future profitability. Success is just as much about removing poor and unprofitable customer segments as it is about identifying and harvesting previously undiscovered ones.

Routine geographical or demographical segmentation is far too blunt a method of attack. Work has to be aimed at identifying homogeneous segments with unique needs or resource concerns. Segments that can be cultivated by applying innovative methods and within which a dominating position can be created. If your company does not have the potential to become the number one or two in the segment or target audience, you need to rethink your segmentation.

A few concepts are essential to understand about market segmentation as they directly impact product development.

4.1 The variables used for defining the market segment
4.2 The ideal number of market segments
4.3 The customer chain
4.4 The customer journey or cycle of care
4.5 Diffusion of innovation
4.6 Situation-specific value-critical information
4.7 Persona
4.8 Summary.

4. 1 Variables used for market segmentation

A market segment or target group is a specific set of customers within a larger market who share certain characteristics or meet specific criteria. These criteria are used to divide and categorize

the overall market into more manageable and strategically beneficial groups. Understanding this helps you determine whether an individual customer belongs to your target group or market segment, and whether their needs and resource concerns warrant your attention. No product can have unrivaled customer value for all customers. A product can only have unrivaled customer value for a well-defined market segment or target group.

The variables used for dividing your market should answer one of three questions:

Who is the customer?
These variables help identify and locate the customer. Typical variables in this group include geographic, demographic, psychographic, application-based, and lifestyle characteristics.
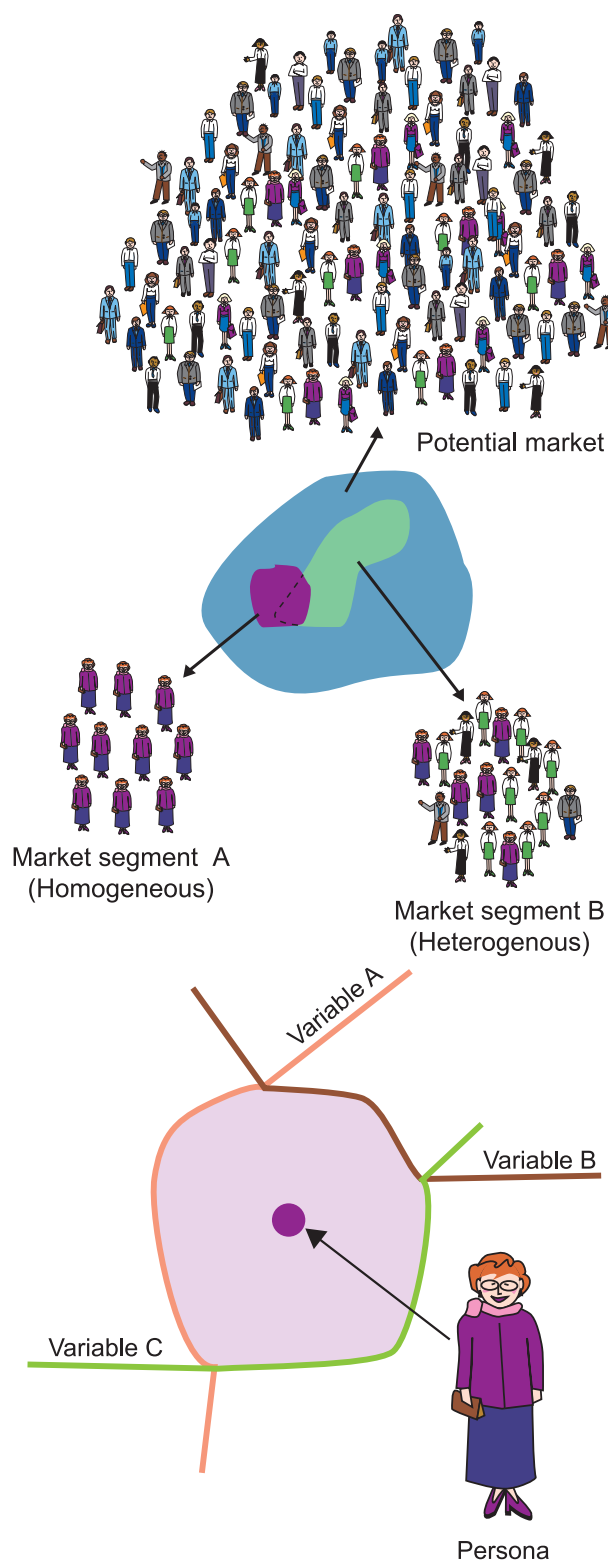
How does the customer buy?
These variables describe important patterns in customer buying behavior. Typical variables in this group are buying quantities or frequency, sales channels used, attitude to risk, and similar characteristics.

Why is the customer buying?
These variables are more difficult to grasp and identify, but they may lead to a favorable segmentation if it can be done. You find image, quality, functionality, performance, customer needs, and resource concerns variables in this group.

A clear understanding of the variables used to define the market segment or target group for the product to be developed is value-critical information. It must be clearly stated in the customer domain. If not, you do not know which customers to listen to or which to ignore. Remember that products developed for unclear or broadly based market segments will push your new product into becoming a one-size-fits-all, something-for-everybody, or variation overload type of product.

Potential market

Market segment A (Homogeneous)

Market segment B (Heterogenous)

Variable A

Variable B

Variable C

Persona

4.2 The ideal number of market segments

A common question that arises regarding target customers or market segments is:

• How many target customers or market segments should a company have?"

My consistent response is that a company should ideally have eight segments. This number can be considered the golden ratio in customer segmentation. If a company has fewer segments approaching four— each target customer or market segment risks containing a mixed bag of customers whose characteristics differ too significantly from one another. Such diversity leads to a muddled understanding of the customers' needs and resource constraints, making the segments less effective.

Conversely, if a company attempts to manage too many segments approaching twelve —it becomes increasingly challenging for the organization to understand and keep track of them. This excessive segmentation ultimately diminishes the usefulness of the segments. I recommend employing sub-segments to achieve a more nuanced understanding of the customer base without overwhelming complexity. This approach allows businesses to maintain a manageable number of primary segments while still facilitating detailed categorization when necessary.

One can think of these eight customer groups as a large family. Within this family, some segments may be older, having served the company well in the past, but will gradually become less significant and may eventually need to be phased out. Most segments will likely represent the company's most profitable customer groups today. Finally, a few segments should be identified as innovative or emerging, possessing the potential to become future revenue generators.

It is essential to recognize that these segments are not static; they undergo slow, gradual changes over time. Every two to three years, either a new segment will be identified or an existing one will be retired. In the long run, all customer groups should be replaced with more effective and intelligent target customers or market segments.

4.3 The customer chain

Within a market segment or target group, there are many different stakeholders. Some decide what to buy, some install the product, and others use it. All these different stakeholders have different needs and different resource constraints. It is more a rule than an exception that these needs and resource concerns conflict. This leads to many internal discussions and disputes in product development teams. Who should we prioritize?

The first step in solving this problem is drawing a customer chain in which all these stakeholders are included. At the top is your company, and below are all stakeholders involved in any of three flows:
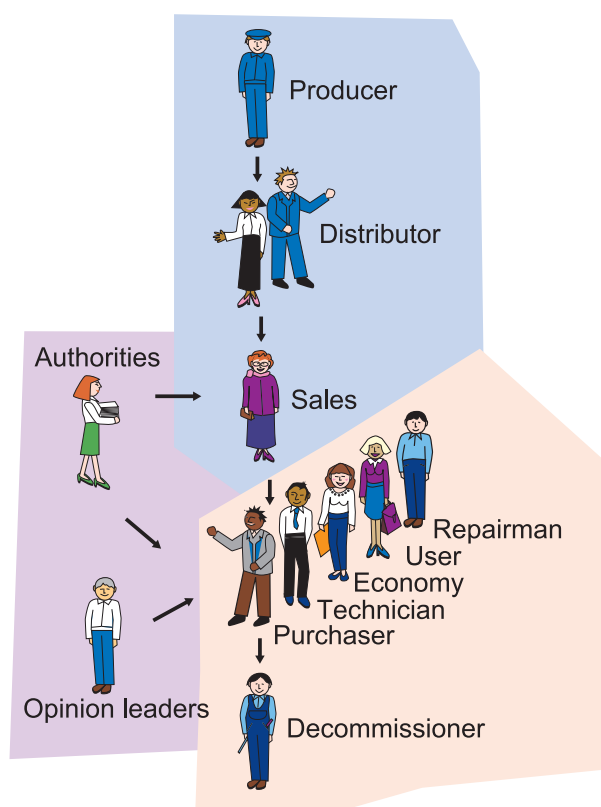
The physical flow
All stakeholders who are handling or touching your product during its life cycle. This may include distributors, installers, service people, users, and the recycler.

The financial flow
All stakeholders participating in the transactions created by the product during its entire life span. This may include agents, leasing companies, banks, and end customers.

The information flow
All stakeholders that provide information or opinions or make decisions about the product. This may include certification bodies, customs, influencers, environmental movements, and newspapers.

The customer chain must cover the product's lifespan from cradle to grave. An apparent tendency today is that the individuals at the end of the chain are gaining more and more power. User opinion now breaks through the customer chain faster and more powerfully than before. In the past, stakeholders higher up the chain could often disregard the opinions of stakeholders further down.

It is often advantageous to open up and describe the influential decision-makers involved at each stakeholder in more detail. The end customer may consist of:
- Plant manager
- Purchaser
- Operator
- Quality Engineer
- Maintenance personnel
- Financial people.

All stakeholders along the customer chain are customers but may have conflicting needs and resource concerns. It is unlikely that every stakeholder's needs can be fully satisfied. A key principle is that the further down the customer chain the stakeholder is, the more influence they have in the long term. In the short term, other stakeholders may have more decision-making power. When mapping the customer chain, the final step is identifying the most critical stakeholder and decision-maker. Only one stakeholder can be the most important, which is the one you should select for your Persona.

4.4 Customer journey or cycle of care

A WoW product must include and deliver key properties, characteristics, and features to be effective at every touchpoint in the customer journey. It's a misconception that product development can't impact, for example, areas like marketing and sales. In reality, the product's characteristics and performance are crucial for success in these areas. The customer journey described in the Process Domain consists of the touchpoints with the customer as Prospect, Buyer, Receiver, User, and Decomissioner.

Depending on the product type you are developing, the customer journey may have another shape. For example:

The cycle of care for healthcare services

This cycle typically involves numerous interactions between the patient, healthcare providers, and other stakeholders working collaboratively to ensure the best possible health outcomes. Each interaction is crucial for tailoring care to individual needs and making informed decisions that enhance overall well-being.

Service life cycle in IT and software

The service life cycle in IT and software refers to the stages a software or IT service goes through, beginning with its development and continuing through deployment, maintenance, and updates until its retirement. This cycle ensures that services remain efficient, relevant, and secure throughout their lifespan.

These are just a few examples of alternative concepts to the customer journey. The basic idea of a cycle simplifies the identification of opportunities to increase customer value. More information about this can be found in the description of the Process Domain.

4.5 Diffusion of innovation

Not all customers in a given market segment or target group are equally essential to listen to. To be successful, the decision of who you will listen to must harmonize with what you intend to develop. Diffusion of innovation describes how new innovations are being gradually accepted by different subgroups in a market segment or target group. These groups differ in their willingness to change and try something new. These subgroups are usually named:
- Innovators
- Early adopters
- Early majority
- Late majority
- Laggards.

The innovators are venturesome and eager to try new ideas and play a gate-keeping role in the flow of new ideas into a social system. (Rogers, Diffusion of innovation 1983). Research has shown that innovators may have constructed prototypes or modified and complemented existing products to meet their needs. Innovators often capture different trends early.

The basic principle is:

- if a new to the world product is to be created listen to the innovators and early adopters. Ask your customers who they think are the "leaders of the pack." Asking this question to many customers and following the trail will eventually lead you to the correct company and individuals.
- if your goal is to improve an existing product to penetrate a market segment more deeply, listen to the broad majority of customers in that segment. In such a case, the market offering must be finely tuned to meet the needs of the majority of users. In that case, your company is probably already selling to those customers.

In many cases, it is also essential to keep track of who says what rather than how many say a particular thing. Let's say that 35% of all customers in the segment don't believe your product is worth the price. What conclusions can be drawn? Knowing that your most profitable, loyal, and faithful customers have that opinion rather than customers who have never previously purchased your products would result in a completely different conclusion. Therefore, don't just listen to old friends; pay visits to lost customers, potential customers, and customers of your worst competitors.

4.6 Situation-specific and value-critical information

So far, I have highlighted the most common aspects of value-critical information that should fill the customer domain. It is essential to recognize that every situation is unique, and your case may have other challenges. To ensure you don't overlook a crucial factor, consider also the following potential areas that could contain value-critical information:

- The economy of scale or capital cost may give existing players in the market a significant advantage due to their larger scale of operations, making it difficult for new entrants to compete.
- Switching costs, even if your new product will be superior, customers may be hesitant to switch due to the costs associated with changing their current solution. This could include training, implementation, or other issues or expenses that make it difficult for them.
- Access to marketing, sales, or distribution channels. Your new product may be excellent, but it may struggle to gain traction if you don't have access to the proper channels to reach your target audience.
- Patents, certifications, or other legal issues. Intellectual property rights, regulatory requirements, or other legal hurdles could prevent your new product from entering the market or limit its adoption. Researching and understanding the legal landscape is essential.
- Paradigm or dominant solutions: Existing solutions may have a strong hold on the market, making it challenging for new products to gain acceptance.

4.7 The Persona

The Persona is an essential communication tool that includes all the value-critical information gathered and is a mandatory element in the Customer domain. Think of it as a concise summary that directs the development team's attention to the customers, enabling them to create a product tuned to their needs and resource considerations. Although the Persona is usually a single, fictional individual, it embodies the entire customer segment or target group. What suits the Persona is deemed appropriate for all customers within that segment or target group. Essentially, the Persona is the archetypal customer at the heart of your market segment or target group, guiding strategic decisions and ensuring alignment with customer expectations.

It isn't easy for us humans to visualize a group of people. That image always becomes some form of overview where the different individuals represent variations. Therefore, it is impossible to develop a perfect product for an entire group of people due to the variations within the group. You can only develop the perfect product for one person. If you think of your segment as a dartboard, the Persona is the bullseye, and the variables define the edges of the board. By clarifying the bullseye and aiming at it, you maximize the possibilities for developing a product that fits the entire group well.

I advocate the A:3 format for designing the Persona, and it should at least contain the following elements:
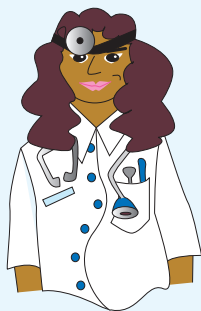
Emergency Emma

Primary value statement:
- *Quick to enter and secure*

Secondary value statements:
- *Safe to place and remove*

Personal Profile

Emma is 32 years old and has been working as an emergency physician (EP) at the accident & emergency department (A&E) for three years.

Emma performs between 1-3 intubations a month as it is the standard treatment for airway management. At least one of those patients is severely traumatized requiring immediate intubation at arrival to the A&E. The rest are less urgent requiring intubation usually within 30 minutes. The most dreaded situation is a cannot-intubate-ventilate event which happens in about 3% of the cases.

Emma works at Cross Hospital. The general hospital is serving a mixed urban and rural population of around 115 000 patients. At the moment the hospital is struggling to make ends meet.

As Emma often works under stress and time pressure a tube that is *"Quick to enter and secure"* is extremely important. Especially in patients where time is a matter of life and death.

Emma also wants it to be *"Safe to place and remove"* the endotracheal tube as dental injuries of some kind occur in many of the patients.

Segment variables:
Application: Emergency
Profession: Anaesthesiologist
Experience: < 5 years
Intubations: 1-3 per month
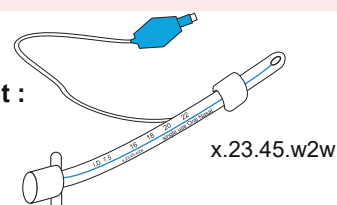Time to intubate: < 30 minutes

Significant facts:
Hospital: General
Population served: 100 - 250 000
Area: Mixed urban and rural
Payer: Government

Market data:
Competitors: C. R. Bard, ConvaTec, GE Healthcare, Medtronic
Area: Europe, North America
Segment size: 237 USD/year
Price level: Medium

Best fit : x.23.45.w2w

#	Function (Noun - verb - noun)	Type of function	Metric (System of measurement)	Unit (m is a unit of length)	Present value M_0 (Number)	Target value (Number)	Value Focus (Focus area)
1	The endotracheal tubes supports breathing	Main function	Inner diameter	mm	7,0 - 8,5	5,5 - 8,5	
2			Murhy Eye size	diameter - mm	2,5	2,5	
3			Length	mm	270 - 300	270 - 300	
4			Connector	Type/mm	Standard 15 mm	Standard 15 mm	
5			Air resistance	kPa/L/s	0,4 -0,6	0,4-0,6	
6			Standards	Type	ANS / ISO5361 - 99	ANS / ISO5361 - 99	
7			Intubation	Type	Oral	Oral	
8	The endotracheal tubes protects lungs	Main function	Tracheal wall pressure	kPa	1,9 -2,5	1,9 - 2,2	**Patient critical**
9	The tube marks enhance positioning	Additional funtion	Tube marks	Number	2	6	
10			X-ray visualization	Type	Radio opaque line	Radio opaque line	
11			Tube size indicator	Yes/No	Yes	Yes	
12			Tube length indication	In mm	No	Yes	
13	The cuff harms the tracheal wall	Unwanted function	Cuff diameter	mm	10	20 to be investigated	
14			Cuff contact area	?	?	?	**No measurability**
15			Type	Volume/Pressure	HV-LP	HV-LP	
16			Inflation volume	mL	5-10	5-10	
17	The endotracheal tubes casue patient infection/irritation	Unwanted function	Material	Type	PVC DEHP	PVC DEHP free	
18			Outer diameter	mm	9	9	
19			Packing	Type	Sterile	Sterile	
20			VAP infections	%	6 - 52	6 - 25	**Money bag**

Picture and name as a mnemonic device

A mnemonic device is a technique used to improve memory by associating the Persona with something value-critical and, at the same time, making the name easy to remember. For example, the Persona Emergency Emma. It highlights that the customer works in an Accident & Emergency unit at a hospital. To make the name of the Persona easier to remember, it should start with the letter E. It could be Eva or Emilia, but I selected Emma because it is shorter.

The top two or three customer needs

Preferably, are these customer needs or resource concerns resulting from a thorough Voice of the Customer study. They should be adequately formulated, and for Emergency Emma, for example, it could be "Quick to Enter" or" Secure and Safe to Place and Remove."

The variables used for defining the segment

By definition, there should always be 100% fulfillment of those variables by all customers in the segment. If a customer does not fulfill a variable, that customer is not part of the segment. For Emergency Emma, we could have five variables:

Variables used for defining the segment

- Application: Emergency
- Profession: Anaesthesiologist
- Experience: < 5 years
- Number of intubations: 1-3 per month
- Time to intubate: < 30 ms

Significant value-critical facts

Most customers share these facts in the segment, but they are not used as segment variables. It could be to explain the context in which the product is used, facts that are important but unsuitable for selection variables, etc. In the case of Emergency Emma, we had the following:

- Hospital: General
- Population served: 100 - 250 000
- Area: Mixed urban and rural
- Payer: Government

Market data

Market data includes competitors, market size, price level, sales channels, etc. It all depends on what is essential to highlight and what the development team needs to consider.

Your best product fit today

If you have an existing product in that market segment, it should be visible in the Persona.

A narrative bringing the Persona to "life."

Remember, the narrative should only contain essential and relevant information. For example, what Emergency Emma does in her spare time is totally irrelevant. Do not clutter or dilute your Persona with such information. Include only information related to the Segment variables, business or product context, explaining Customer needs or resource concerns, or other value-critical information.

By incorporating the above elements, you can create a rich and nuanced Persona to guide your product development, marketing, and sales efforts. This will help you create a product that truly resonates with your target audience and meets their needs and resource concerns.

4.8 Summary

A clear and adequate definition of target customers or market segments is crucial for the success of a development project. This stage sets the groundwork for all future efforts. Creativity and innovation in defining new and untapped market segments will become increasingly crucial for future profitability. Achieving success involves eliminating unprofitable customer segments and discovering and leveraging new ones.

The top document of all value-critical information collected in the Customer Domain is the Persona. To develop the perfect product for the Persona, one individual, simplifies product development. It helps avoid the three pitfalls that are often put on the market. The one-size-fits-all product, the something-for-everybody product, or the variation-overloaded product. Neither will ever become a WoW Product.

Value-critical information in the Customers Domain of Information may include:

- A carefully crafted market segment or target group that the new product can successfully and profitably harvest.
- Straightforward and easy-to-use variables defining the crafted market segment or target group. Variables that help the development

team know which customers' needs and resource concerns to prioritize and which customers' to ignore.

- A visual and comprehensive customer chain that encompassed all key stakeholders and decision-makers involved.
- A clarification of the customer chain, the cycle of care, or the service life cycle, highlighting all crucial touchpoints where customer value can either be created or lost.
- A clear understanding of which category within the Diffusion of Innovation process the new product will aim to target.
- A comprehensive and visually appealing Persona that emphasizes value-critical information. This Persona will assist the development team in maintaining a customer-centered focus throughout the development process.