



Supercharge Your Segmentation



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In organisations seeking visionary impact in their chosen markets, segmentation has become a pivotal weapon in the armoury of new wealth creating strategy development. Beyond the well-ordered world of incremental growth and continuous improvement, the challenge inherent in identifying unconventional market segments, is to embrace change and out-think the competition. We thus, capture the commitment and loyalty of the most attractive and profitable customers, whom we will be able to address uniquely well.

Those who aspire to lead the field and transform their business, must generate strategies much more about the future than the past. And to reliably achieve this outcome, they 'supercharge' the creative process and replace existing segmentation with a fresh framework, which originates in the market conditions, which lie ahead.

In this paper, the elements required for the formulation of 'new age' segmentation are outlined in their logical sequence. Segmentation being, of course, the foundation upon which all market objectives, strategies and action plans, (whether radical or conservative), are built.

Breaking out of the 'Business as Usual' Spiral

As the pace of global change quickens, the key question facing management is: "how do we harness the forces that are reshaping our markets, and innovate faster than the competition?" The old axiom of 'continuous improvement' is proving increasingly inadequate as a response to this challenge, and one is driven to accept that in an environment of increasing choice, the market or to be more exact the customer, is truly becoming the final arbiter.

The transformation involved in supplementing or replacing incrementalism is to out-think the opposition and address attractive new opportunities with the most desirable and rewarding offerings. We thus seek to create ‘disruptive innovation’, to lead the industry and our chosen market, into the future.

The bold accomplishment of change is the natural gift of the successful entrepreneur. However, when operating within an established organisation, perhaps once highly regarded for its enterprise, ‘young turks’ are often constrained by orthodoxy, and ground breaking opportunities for growth and profit, can become obscured. What follows, seeks to facilitate innovative business development strategies, which connect the assets and abilities of any business to its opportunity horizon and true profit potential.

The Segmentation Mainstream

Occurring early in planning, once accessible markets have been assessed, the definition of groups, or segments, which contain attractive potential customers with similar needs and characteristics, takes place. Thereafter, specific objectives, strategies, value propositions, offerings and action plans are developed for those segments, to ensure the benefits of sustainable competitive advantage.

Market segmentation often appears disarmingly simple, when proven examples are explained. It can be a real shock therefore, when the challenge defeats a management team, this all to frequent outcome confirming that segmentation remains both an exacting science and an intuitive art.

In recognition of this difficulty, many strategists wisely adopt a step-by-step segmentation approach, involving sequential selection, to maintain control and limit complexity. This logical sequence, usually evolving tables, which describe and progressively delineate the market in terms of:

1. Who buys (or will buy) What?
2. Then for selected preliminary whom? buys What? Segments - Why they buy?.
3. With a selection then made (* as below) of the most promising segments, for further analysis and validation.

		Why they Buy (C)			
		C1	C2	C3	C4
Who (A) buys What (B)	A1/B3		*		*
	A3/B2	*			
	A3/B4			*	
	A5/B1	*		*	*

In creating a conventional continuous improvement oriented segmentation, strategists normally seek to optimise or enhance an existing schema, by focusing upon where new offerings might succeed, where competitors might be displaced, and of course, where existing business resides. This relatively low short-term risk approach, mirroring the company's current portfolio and infrastructure, and often targeting 'low hanging fruit', will as a consequence, prompt incremental strategies which reflect enterprise, but perpetuate the company's orthodox business model.

Preparing the Ground for a Fresh & Unconventional Scenario

In order to focus energies on as yet undefined opportunities, which one might address uniquely well, a business should postulate ambitious objectives to prepare the ground for radical thinking. Targets for growth, market share and financial return, dramatically above those recently attained, will establish the proper context and reduce, if not actually outlaw, conventional constraints. (*)

To raise ones game in an already fast moving competitive environment, either by growing the market or by capturing share from major competitors, or both, one must create a significant, positive and long lasting discontinuity in trading patterns. Plainly in seeking the rewards of disruptive innovation, one must insulate future opportunity from the constraints of present capabilities, and thus armed with insightful market analysis, one is ready to address the eternal question of the 'superhero' strategist: "What offerings will create the greatest realisable value, for which customers?"

(*) *Known non-negotiable constraints and investment limitations, must of course, be respected.*

Supercharge your Segmentation

When a business seeks to command market leadership through discontinuous innovation, then it must discard nostalgia and develop a new destiny in the context of presently un-addressed potential and key drivers of change.

"Problems cannot be solved by the mindset that created them"

Albert Einstein

Step 1: Disown the Status Quo:

The first step in supercharging segmentation is to lay aside, as potentially inhibiting, any or all existing business directions and value systems. Examples of this 'not needed on the journey baggage' including:

- Current product plans - steeped in life cycle considerations,

- ❑ Market descriptions and delineations - based perhaps on the products and positioning of key competitors,
- ❑ Constraints which originate from corporate structure and reward systems.

Step 2: Identify insightful opportunities:

Having emptied ones mind of distractions, one must now create several high-level perspectives, with the potential to dramatically accelerate the growth and prosperity of our business.

Sources of inspiration can be found in either:

1. **Market analysis.** Identifying previously un-addressed opportunities, by reviewing key drivers of change - like new technology, globalisation, outsourcing & services, or perhaps creative business models - including e-Business.
2. **Potential customer value.** Identified through the recognition of presently unmet and largely unexpressed needs, priorities and benefits desired, in the customers' own context.

Whilst market analysis, often expensively researched, has its place, it does suffer from an inherent limitation in that it requires the formulation of appropriately insightful questions, often outside presently favoured definitions and boundaries, in order to discover and identify the 'shock of the new'.

Potential customers on the other hand, know a great deal about the opportunities, problems and frustrations, which make their goals so challenging. To build a bridge to this rich source of raw opportunity, we must not only address the customer's goals in his own terms, (rather than our own), we must achieve real intimacy in order to understand what is keeping him awake at night.

As an example, we read that in the field of oil exploration and extraction, priorities relate to:

- (i) Ongoing challenging operations,
- (ii) The need to operate in ever-deeper (> 1500ft.) seas and
- (iii) Extracting a greater proportion (than 30-35%) of the oil which is present, when a field is first tapped.

Now within top-level priorities of this nature, we should seek out presently unmet high priority needs, which we might address with innovative offerings, and which if satisfied, would doubtless attract considerable interest from customers.

Ultimately, by a combination of market analysis and customer understanding one discovers major opportunities, based on the creation and capture of real customer value. Each insight, potentially enabling significant beneficial change, in the operation of an industry, a function, or a business process.

Step 3: From vision to Supercharged Segmentation

Armed with new perspectives to enable the business to achieve greatness, one is ready to begin 'supercharged' market segmentation.

It is of course inescapable, that for any segment one chooses to address, one must be able to deliver a competitively superior offering, which will drive the Customer Value Proposition (CVP) for that segment. In an environment of disruptive change one therefore creatively builds the identity of target segments in an unusual sequence. This guarantees compelling CVPs by delineating the market in an alternative sequence of steps:

1. What key needs might one satisfy with uniquely superior offerings?"
2. Then for a selected sub-set, "Who would buy?", "What would they buy?" and "Why?".
3. With a selection then made (* as below) of the most promising segments, for further analysis and validation.

	C1	C2	C3	C4
A1/B3		*		*
A3/B2	*			
A3/B4			*	
A5/B1	*		*	*

As before, a supercharged segmentation will represent the whole market, within a matrix or framework. The descriptors on each axis, being chosen to specifically identify the needs, customer groups and other qualifying factors, which allow one to select and describe a sufficiency of attractive target segments, and defocus from the remainder.

Step 4: Reality Check

With such an approach, involving the creation of dramatic value in an innovative context, the resultant segmentation schema will appear radical. And given that markets are defined in terms of needs fulfilled, then in comparison to a comfortable continuous improvement market definition, discontinuous innovation will have identified a very different competitive arena, which might operate horizontally across previously recognised silos. In such a situation, before moving ahead too impetuously with strategy development, it will almost certainly be wise to undertake targeted research, to establish the soundness of key assumptions and business logic.

Conclusion

The armoury of strategy development does, of course, accommodate both continuous improvement and disruptive innovation options, to be applied as appropriate. History however, (plus 20:20 hindsight), shows that many once great corporations have failed to metamorphosise parts or all of their business appropriately, and thus have squandered the potential of a further generation. Recent times have indeed witnessed whole industries remodelled by competition on a 'winner takes all' mission, and many mainstream operational processes have been transformed.

The priority for corporate decision makers, above continuous improvement, disciplined execution and financial efficiency, must be growth, return on investment and security of earnings. Success however will always depend on selectively targeting significantly more attractive offerings to receptive, and attractive, groups of customers. In which case, to underpin continuing growth and ongoing prosperity in an environment of accelerating change, one should periodically supercharge ones market segmentation.

Further reading:

Meeting the Challenge of Disruptive Change
By: Christensen & Overdorf
Harvard Business Review – March/April 2000

Spend a day in the Life of Your Customers
By: Gouillart & Sturdivant
Harvard Business Review – Jan/Feb 1994