

THE COMPETITIVE EDGE

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HIDDEN IN PLAIN SIGHT

In March, we presented seven initiatives to improve profitable business growth. In April, we described one initiative: improve growth by improving market focus. In this newsletter, we explore another: resegmenting markets to expose opportunities hidden in plain sight.

Fiberite is an excellent example. In the mid-1990's, Fiberite, a maker of plastic composites, thought it had a dominant share of the slowly growing aircraft-interiors market and little room for expansion. Frustrated, the company's management sought growth through ill-conceived diversification. The effort failed and the executives lost their jobs.

Jim Ashton became Fiberite's CEO in 1995. He led a more detailed look at the market segmentation schemes in Fiberite's business units. All hid opportunities. For example, Fiberite has treated aircraft interiors as one market segment. Ashton pushed for separating the segment into two: the passenger compartment and the cargo hold.

Surprise! Fiberite had a low position in cargo-hold interiors. Based on this finding, Ashton focused on gaining cargo-hold share. This focus created great new growth.

Now we'll look at four ways resegmenting can uncover opportunities hidden in plain sight.

1. INCREASE LEVEL OF DETAIL

Broad, simple-minded market segmentation schemes can hide growth opportunities as Fiberite discovered. If you use market segments based just on broad industry or demographic differences, drill deeper and try different approaches to expose significant new opportunities. Take your existing segmentation scheme and try breaking down each segment into sub-segments. . The sub-segments can be based on categories like customer size, application difficulty, need for special service, etc. Then, study the sub-segments:

market share, value proposition, profitability, competition. You will likely uncover neglected sub-segments with attractive growth potential. Build targeted strategies to exploit those opportunities.

Be warned. If you don't identify neglected sub-segments, someone else will. We've seen it happen in product lines as diverse as coolers, ceiling fans, and yogurt.



2. REJECT 80-20

The 80-20 rule is a great tool to improve market focus, as we discussed in our April newsletter. But, used mindlessly, it obscures growth opportunities while increasing competition, which is exactly what happened in banking in the Eastern U.S. around 1997. Many major banks did an 80-20 analysis of their customers, identified the apparently most-profitable 20 percent, focused strategy initiatives on those customers, and reduced the level of service to the “less-profitable” 80 percent. These “top customers” tended to be the same type for each bank, leading to “me-too” offerings and disappointing growth from those offerings.

Commerce Bancorp of Cherry Hill, New Jersey chose a different way. Commerce looked more closely at the lower-performing 80 percent. They divided the 80 percent into eight sub-segments, four of which were high users of bank services. Commerce gave these high users the value they wanted: unmatched simplicity, convenience, and service. At the same time, Commerce gave them very low interest rates on deposits. The low rates enabled Commerce to make a high profit margin while still being attractive to high users. This resegmentation enabled Commerce to grow revenues and profits 27 percent per year while competitors were stagnant.

3. USE JOB TO BE DONE

The late Clayton Christensen recommended segmenting by job to be done. He cited the example of a milk shake vendor trying to increase its sales. This firm had divided customers into segments based on demographics. Not much help. When the firm explored why people bought milk shakes, i.e., the job milk shakes did, it uncovered differences unrelated to demographics. They found a lot of early morning buys were for the job of eating while commuting, while many afternoon buys were for being able to say “yes” to a child’s request, after many “no’s”. Sales increased after using different value propositions for the situationally defined commuter and parent segments.

4. USE PERSONAS

A dog-food company sought to improve flat sales. Its market segments were based on demographics and moist vs. dry offering. The company resegmented the market based on buyer personas, the personas based on the relationship of pet owners to their dogs. At one extreme “the dog is my child” persona. At the other, “the dog is my tool” (as in hunting, herding, protection). The personas perspective exposed segments with high growth potential. By focusing on these, the company enjoyed significant growth and dominance in some categories.

BE CREATIVE

The resegmentation approaches illustrate the power of this activity. Being creative about looking at segments in new ways can uncover great growth. A well-designed 2-3 hour session can generate many ideas worth exploring further.