How to Avoid Unprofitable Market Segments: A Guide to Smart Targeting



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How to Avoid Unprofitable Market Segments: A Guide to Smart Targeting

- Understanding Market Segmentation
- Benefits of Identifying Attractive Segments
- The Pitfalls of Unprofitable Segments
- Performing Market Segmentation
  - Structural vs. Needs-based Segmentation
  - Identifying Needs-based Segments
  - Determining the Most-attractive Segments
- Q&A





Today's Learning Outcomes

1) Name six characteristics of a market segment

2) Describe the benefits of identifying attractive market segments

3) Differentiate between structural and needs-based segmentation

4) Conduct a workshop to evaluate and prioritize segments

What is a Market Segment?

A specific group of customers with similar ***needs***, ***purchase behaviors***, *and/or* ***identifying characteristics***



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What is segmentation?



*Segmentation is the **process of partitioning markets into groups** of potential customers*

- *who have similar needs and/or characteristics*
- *who are likely to exhibit similar purchasing behavior*



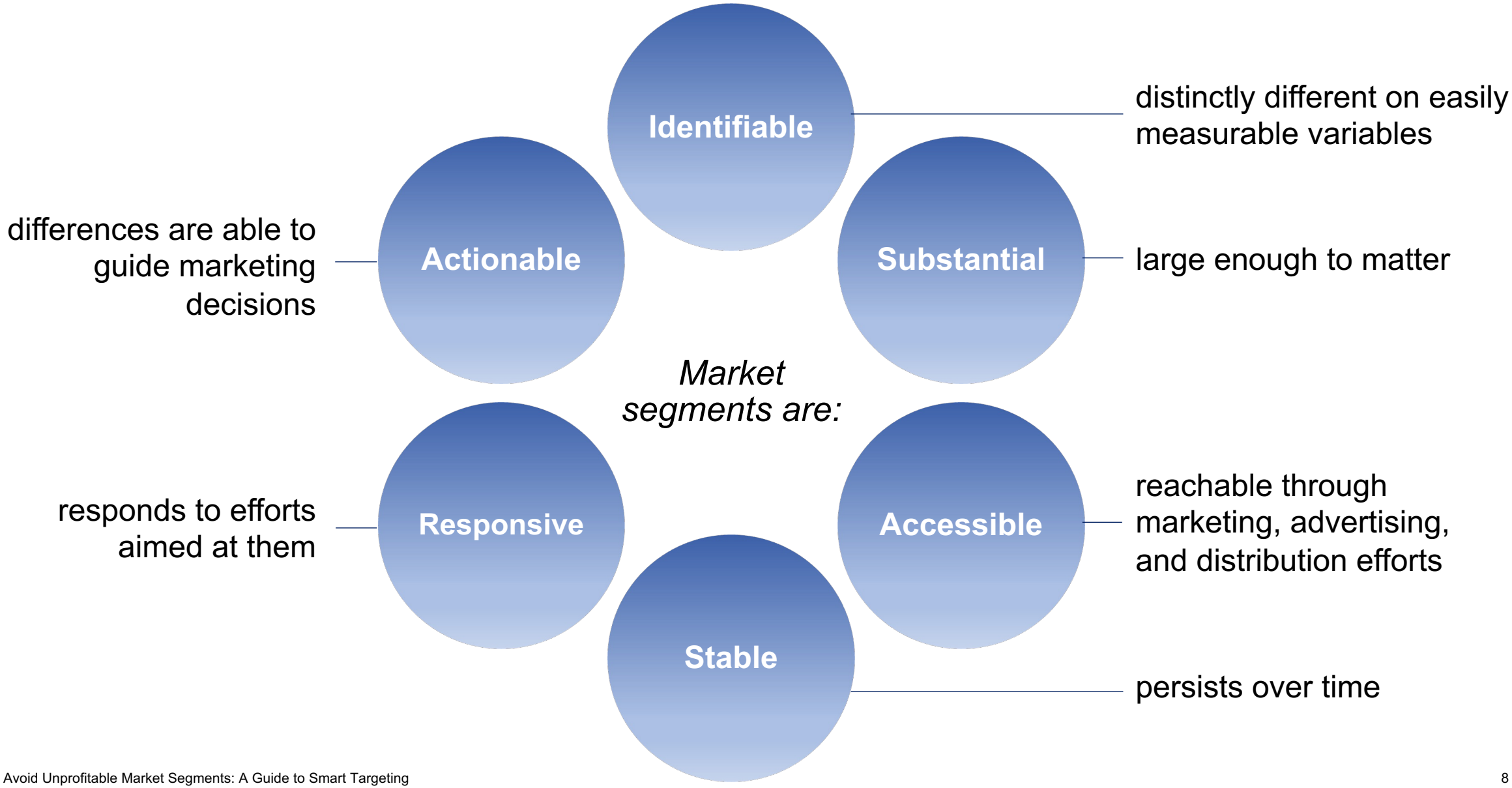
The Goals of Segmentation

To UNDERSTAND customers' needs, and develop strategies to ATTRACT, SATISFY, and RETAIN the target customers



How do you know you've pinpointed a market segment?

Characteristics of Market Segments



Quiz: Segment or not a Segment

	Segment	Not a Segment
All businesses in the U.S.		👎
Yoga studio owners in the U.S.	👍	
Yoga studios owners in rural Minnesota		👎
Small businesses in rural Minnesota	👍	👎
Minnesota yoga enthusiasts aged 25-54 earning $75K - $100K annually	👍	

Benefits of Segmentation

Focus on customers that ***matter most***

Avoid wasting resources

Develop effective pricing, positioning & promotions

Power new product development

Design better sales strategies

Deliver tailored customer service

Recognize unattractive, unprofitable segments





Case Studies of Unprofitable Market Segments



IBM Watson Health

Product	AI-powered healthcare analytics suite
Path Taken	Aimed at broad range of healthcare players, including hospitals, clinics, medical device and pharmaceutical companies
Investments	$1 billion on organic product, sales and marketing investments; $4 billion on acquisitions
Challenges	• Didn't understand the diverse needs and resource constraints within each segment of healthcare • Expensive and complex solution discouraged many potential customers
Unprofitable Outcome	Sold off to private equity firm for $1 billion

amazon fire



Product	Smart phone
Path Taken	Broad-based marketing to U.S. consumers; little customer research
Challenges	• Lacked any differentiating features that resonated with a specific user segment • Capabilities around object recognition and 3D screen effects did not entice users to switch from iPhone or Samsung
Unprofitable Outcome	$170 million write down; $83 million of unsold phones

SEGWAY®



Product	Personal transportation device
Path Taken	Positioned as a solution for a wide range of users—from commuters to businesses to law enforcement
Challenges	• High price point, $5,000, limiting potential buyers • Cities had regulations that restricted the use of Segways on sidewalks and streets
Unprofitable Outcome	Product never took off and was always niche; Segway was sold in 2010, then again in 2013 and 2015



Common Issues Leading to Unprofitable Segments

- *“Go big” mentality … target customer base is too wide, containing multiple segments*
- *Inadequate customer research*
  - *Needs & pain points*
  - *How & where they buy*
- *Poor willingness to pay (WTP) analysis*
- *Insufficient market, competitor & regulatory examination*



Performing market segmentation

Two Segmentation Methods

A Priori Segmentation

*Segmenting into generally accepted, **identifiable** classifications*

- NAICS codes
- Geography
- Company size
- Customer base
- Gender
- Geography
- Age
- Ethnicity
- Race

Post Hoc Segmentation

*Segmentation based on a **research study** for the purpose of segmentation*

Research study possibilities:

- Pains points experienced; benefits sought
- Product attribute preferences
- Product usage patterns
- Brand preferences
- Secret shopping
- Product purchase patterns
- Competitor's customers

Two Segmentation Methods

Structural Segmentation

*Segmenting into generally accepted, **identifiable** classifications*

- NAICS codes
- Geography
- Company size
- Customer base
- Gender
- Geography
- Age
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Needs-based Segmentation

*Segmentation based on a **research study** for the purpose of segmentation*

Research study possibilities:

- Pains points experienced; benefits sought
- Product attribute preferences
- Product usage patterns
- Brand preferences
- Secret shopping
- Product purchase patterns
- Competitor's customers

Two Segmentation Methods

Structural Segmentation

Firmographics

- NAICS codes
- Geography
- Company size
- Customer base

Demographics

- Gender
- Geography
- Age
- Ethnicity
- Race

Easy to do …
Easy for competition to do …

Needs-based Segmentation

Behavior

- Usage patterns
- Price sensitivity
- Channel preferences
- Purchase frequency

Needs

- Convenience
- Customization
- Quality
- Safety
- Power, esteem

Hard to do …
Hard for competition to do …

Examples

Structural Segments	Needs-based Segments
Consumer food and beverage manufacturers with $500M - $2B in annual sales who sell through grocery retailers	*Consumer food and beverage manufacturers building new processing and distribution facilities in high-growth Asian countries and having difficulty hiring employees.*
Female millennial nurses	*Female millennial nurses looking to advance their careers and move into hospital administration*
Companies using the SAP ERP software	*Companies hoping to find unnecessary seats/licenses of their SAP ERP software*



Smart Targeting:

Identifying Needs-based Segments

Perform Customer Research

Which method should we use?



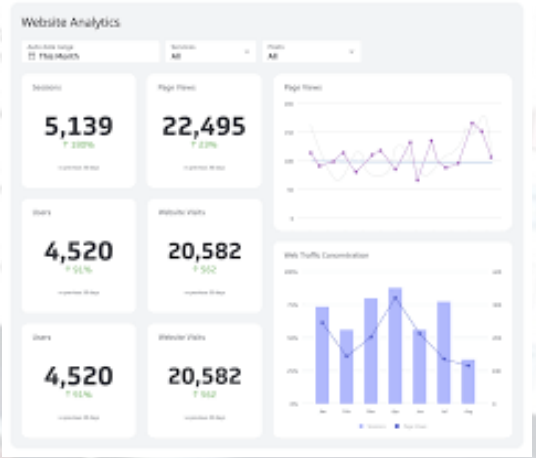
Analyze Customer Data



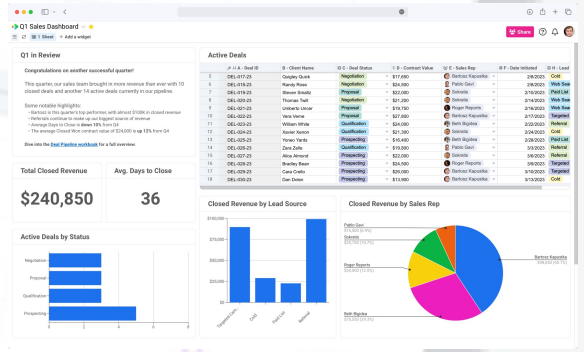
Customer Reviews



Customer Service



Website or SaaS Analytics



Sales Data

→ *Problems* → *Goals* → *Motivations*





Understand the “Why” Behind Customer Behavior

The Three Pillars for Needs-Based Segmentation



PERFORM CUSTOMER RESEARCH



ANALYZE CUSTOMER DATA

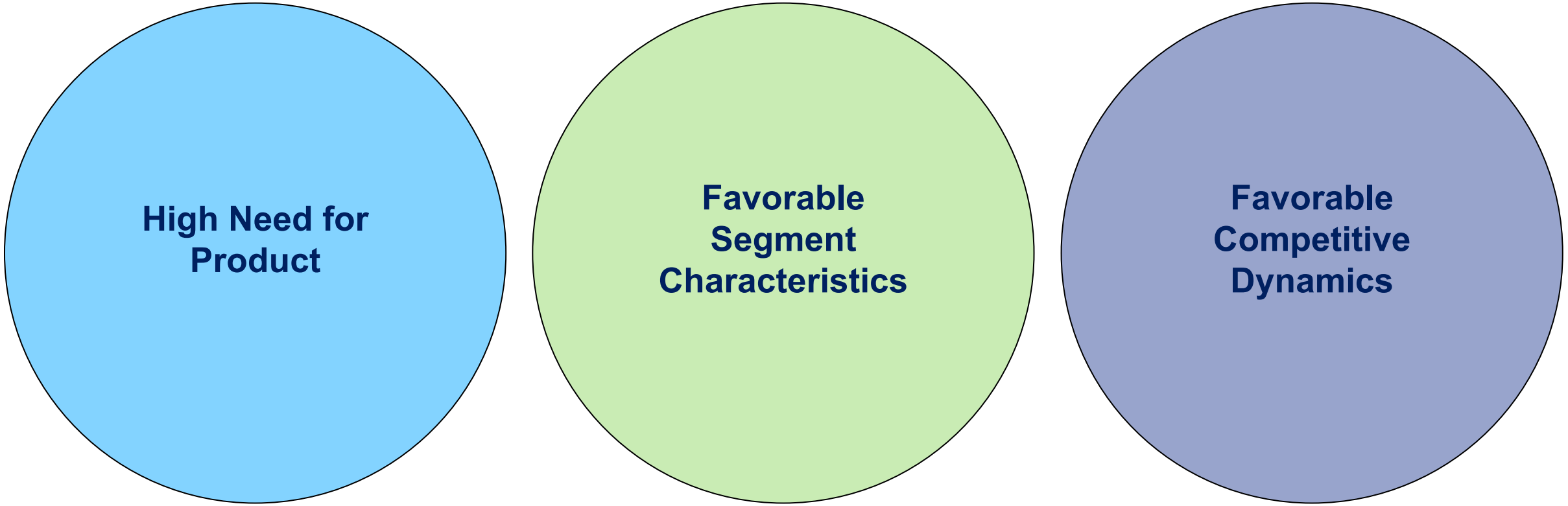


UNDERSTAND THE “WHY” BEHIND CUSTOMER BEHAVIOR

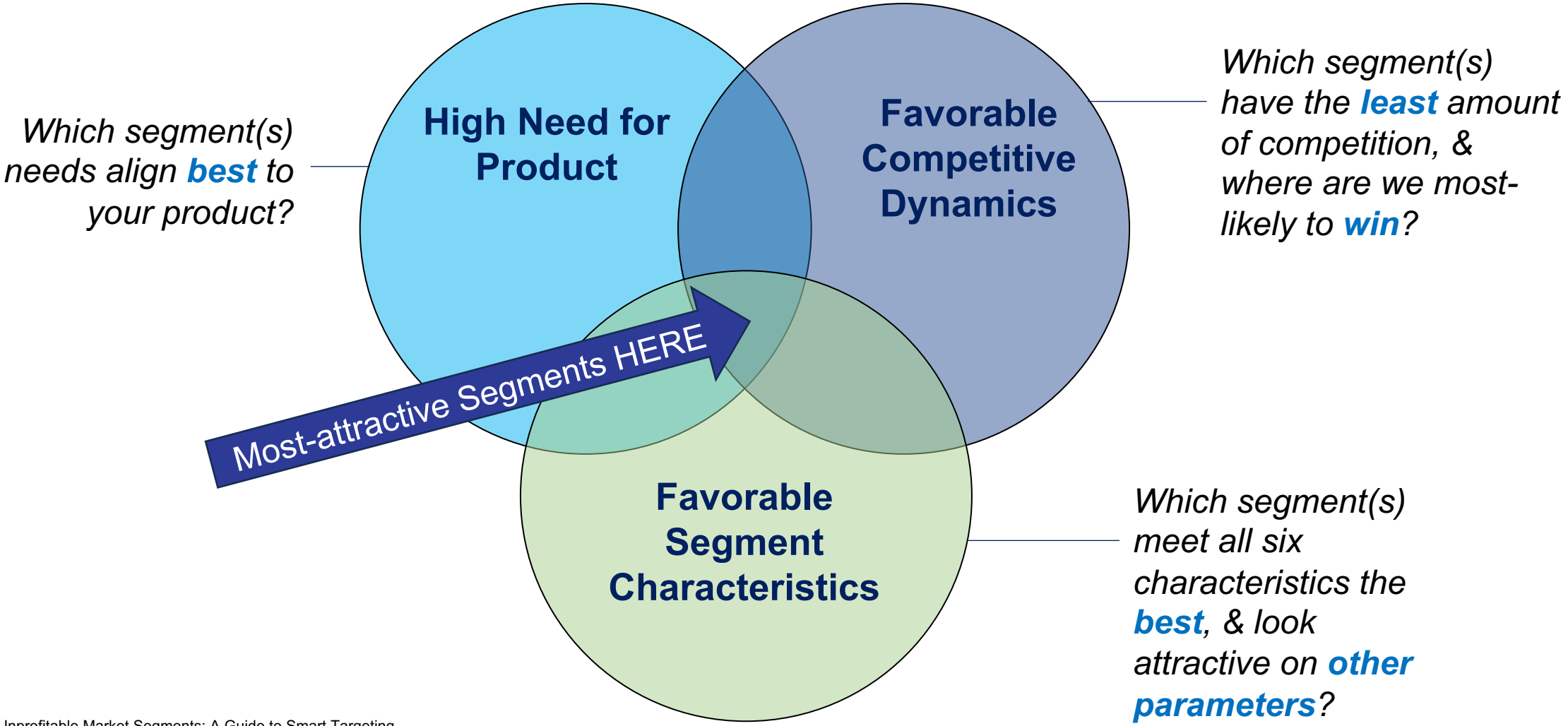


Determining the Most-attractive Segments

Framework for Identifying Attractive Segments



Framework for Identifying Attractive Segments



Creating Scorecards to Evaluate Segments

	Criteria →	Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	Criteria 6	Criteria 7	
	Scales →	0=xxx, 1=yyy, 2=zzz	0=xxx, 1=yyy, 2=zzz	0=xxx, 1=yyy, 2=zzz	0=xxx, 1=yyy, 2=zzz	0=xxx, 1=yyy, 2=zzz	0=xxx, 1=yyy, 2=zzz	0=xxx, 1=yyy, 2=zzz	
	Weights →	##	##	##	##	##	##	##	
Segments	Segment A	1	2	2	0	2	0	2	##
	Segment B	2	2	1	0	1	1	2	##
	Segment C	1	0	1	1	2	0	1	##
	Segment D	0	2	2	2	1	1	1	##
	Segment E	1	1	1	1	2	0	1	##
	Segment F	1	1	1	0	2	1	0	##
	Segment G	0	1	1	2	0	2	1	##
	Segment H	2	0	1	1	2	2	1	##

Considerations for Scorecards, Prioritization & Workshops

- Let research guide the criteria
- Whittle the segment list early on
- Build separate scorecards for each lens
- Have team members submit their personal scores first
- Allow the scorecard to inform further research areas



If You Want Examples of Scorecards …

… email me at chad.eckes@csquarede.com

Segmentation Scorecard Example

Weights (sum to 10) >>>	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*0.71*	*Sum of Weights = 10*	
Characteristics >>>	**Length of procedures**	**Volume of physician's daily procedures**	**Volume of outpatient procedures (nationally)**	**5-year procedure growth forecast**	**Number of single-specialty ASCs**	**Frequency of specialty offered at ASCs alongside GI**	**Complexity / variability of procedures**	**Number of ASCs that offer the specialty**	**Competitors target the specialty**	**Volume of procedure codes**	**Image-capture is part of some procedures**	**Existing procedure note creation <2 minutes**	**Dictation as most-common**	**High concentration at ASC mgmt companies**		
Scale >>>	0=over 2 hours 1=1-2 hours 2=less than 1 hour	0=1-3/day 1=4-8/day 2=more than 8/day	0=bottom half 1=second quartile 2=top quartile	0= <10% 1= 11-20% 2= >20%	0=bottom half 1=second quartile 2=top quartile	0=bottom half 1=second quartile 2=top quartile	0=a lot 1=some 2=a little	0=bottom half 1=second quartile 2=top quartile	0=yes 1=no	0=few 1=some 2=many	0=no 1=yes	0=yes 1=no	0=no 1=yes	0=bottom half 1=second quartile 2=top quartile		
Surgical Specialties >>>															**SCORES**	**RANK**
ENT	1	1	0	1	0	0	2	1	0	0	1	0	1	0	**5.71**	5
General Surgery	2	1	0	0	0	0	2	0	1	0	0	1	0	0	**5.00**	6
Gynecology	1	0	0	0	0	0	1	0	1	0	0	1	1	0	**3.57**	7
Ophthalmology	2	2	2	2	2	2	2	2	0	0	0	0	0	2	**12.86**	1
Orthopedics	1	1	2	2	1	2	1	2	0	0	1	1	1	2	**12.14**	2
Pain Medicine	2	2	1	2	2	1	2	2	0	0	1	0	0	1	**11.43**	3
Plastic Surgery	0	0	0	1	0	0	1	0	0	0	0	1	1	0	**2.86**	8
Urology	1	1	1	1	1	1	1	0	0	0	1	1	0	0	**6.43**	4

PURPOSE

To identify and score the characteristics of eight surgical specialties that would make them attractive targets for <company>. The result is a prioritized list of specialties.

CHARACTERISTIC	DATA SOURCE	NOTES
Length of procedures	Primary research	
Volum of phyisician's daily procedures	Primary research	
Volume of outpatient procedures (nationally)	The Advisory Board	2019 estimates
5-year procedure growth forecast	The Advisory Board	2019-2024 growth forecast
Number of single-specialty ASCs	Medpac analysis of Medicare data	Specialties scored using data that does not include GI
Frequency of specialty offered at ASCs alongside GI	Definitive Healthcare (MEDICARE DATA)	
Complexity / variability of procedures	Primary research	
Number of ASCs that offer the specialty	Definitive Healthcare (MEDICARE DATA)	Specialties scored using data that does not include GI
Competitors target the specialty	Secondary research	Compared to COMPETITOR-1 and COMPETITOR-2 only
Volume of procedure codes	CMS	
Image-capture is part of some procedures	Primary research	
Existing procedure note creation <2 minutes	Primary research	
<company> has existing customers	<company> customer records	
Dictation as most-common	Primary research	
High concentration at ASC mgmt companies	Michele	



Summary

- ✓ Segmentation is a process, a project, a mindset, an ongoing endeavor
- ✓ Failing to perform segmentation can lead to wasted resources and unprofitable products
- ✓ Needs-based > Structural
- ✓ Segmentation = Research + Data Analysis + Prioritization
- ✓ Attractive segments = high-need + favorable competitive + favorable characteristics
  - Scorecards help evaluate segments

Thank You

Q&A



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