‘The Alignment Factor’: Market Alignment With Segmentation and Differentiation

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This is the second in an exclusive series of articles from Total Alignment *authors Riaz Khadem and Linda Khadem titled “The Alignment Factor.” Check back in every Thursday for new installments.*

Businesses small and large are being impacted by the pandemic, and entrepreneurs are not immune. In order to survive and prosper during these difficult times, it might be necessary to reinvest in your business concept and redesign your offerings.

As a successful entrepreneur, you have been aligned with your market, but are you still aligned? Do your customers need the same things as before, with the same mode of delivery? For example, imagine a previously successful restaurant that has lost its customers during the pandemic. Does the owner truly understand the current needs of his customers beyond the menu it used to offer or the ambiance it had created before?

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What Is Market Segmentation?

In a nutshell, it’s grouping heterogenous people into homogeneous groups, or segments, by some criteria related to their needs. By defining a segment and focusing on the needs of that segment, and aligning products or services with those needs, you have taken steps toward market alignment. The key characteristics of a market segment could be similar customer needs or preferences. In a company with multiple locations, a segment will likely account for geography, demography and choices people make, the type of services they value and the quality they expect. In a smaller company, it could be a subset of these criteria.

Let’s look again at restaurants. Assuming the wearing of masks is a pretty universal requirement, the first pressing issue for owners is how to proceed over the next few months. Should the restaurant continue to offer inside dining? If so, how do you protect the customers? Usually, this is met by distancing the tables farther apart, requiring the servers to wear masks and hopefully the kitchen staff to wear masks and gloves. But what about the substantial number of people who now want to-go meals? Should they be forced to walk into a restaurant where people are eating (obviously without masks) to pick up the food? Or, more conveniently, can the restaurant offer to bring the food to the car? What about payment? Does the customer need to enter the dining room and present his credit card? Or can they pay over the phone or on the website when ordering?

These issues are not unsolvable, yet many restaurants seem unable to adapt. Perhaps it is a rigidity in the way the owners see their establishments and an unwillingness to re-evaluate the new needs of the market segment they were serving. It’s crucial to re-evaluate your customers and perhaps re-segment your market in line with the new reality. Otherwise, precious resources can be wasted on activities that are no longer in alignment. Flexibility and creativity at this

juncture can mean the difference between success and failure.

What Is Differentiation?

After re-defining your market segments, you will have to identify what is important to customers in a segment likely to buy your product. Value drivers could be cost, quality, features, safety, buying experience, after-sale support, etc. In a restaurant, they could include the cost of items on the menu, the quality of the food (e.g. organic or not; using meat and poultry and sea food from sources that care for the animals well in a healthy environment), the variety in the menu, safety in the process of acquiring the food and eating, the restaurant experience and treatment received after the service is completed.

For each segment, evaluate the importance to the customers of each appropriate value driver on a scale of low to medium to high. For example, quality might be high for a segment while cost is a medium. Safety could be high, and follow-up support could be low. The evaluation should be based on data, not just opinion. You may need to use customer surveys to hear the voice of the customer.

Next, evaluate the same value drivers in terms of how your offering is different from your competitors. For example, is the quality you offer significantly better than your competitors? Is the cost you offer substantially lower than your competitors? Are the features you offer unique to you and unavailable to the customer from other suppliers? As you evaluate your value drivers, you can assign a low, medium or high rating to each. For example, if your value driver is *features*, and you offer unique features no one else is providing, your differentiation would be high. If everyone offers the same features, then your differentiation is low. Again, the evaluation should be based on data.

After evaluating your differentiation on each of the value

drivers, you have a set of two evaluations for each one: The first is how important the value driver is to the customer in a segment, and the second is the differentiation of that value driver from your competitors. You can plot the two evaluations on a two-dimensional grid, the scale being low, medium and high on both axes.

The value drivers that fall in the (High:High) category should become your primary focus, both in terms of the message you send to the customers in that segment and in terms of making absolutely sure that those value drivers are perceived by your customers as you promised – or even better. For example, if quality and safety have been evaluated as (High:High), your resources should be directed toward making sure your customers are aware of your differentiation and that your quality and safety are, in fact, at the highest possible levels.

Strategies for Each Segment

Your market segments don't all deserves the same attention. You could close out some segments and put your investment into others, especially during these challenging times. As entrepreneurs, you will have a preference based on emotional attachments. This is dangerous, as your pet offering might not be appropriate for all segments. Having re-segmented your market during this pandemic, you are in a position to decide where to put your energies and investment. You will have to choose the segments to grow, those that could stay at the same level of growth and those you should exit.

How do you make such decisions? There are guides in the management literature to help you do this. Essentially, for each segment, you perform a two-fold evaluation: How strong is your segment compared to your strongest competitor in terms of the internal processes that deliver value to the customer? And how attractive is the segment to an investor?

If you are much stronger than your strongest competitor, then

your strength in that segment would be high. If you are at the same level as your strongest competitor, your strength would be medium, and if you are weaker than your strongest competitor, your evaluation in that segment would be *low*.

As for market attractiveness, you will have to evaluate whether the market in a segment is extremely favorable, (considering a set of external criteria) or not. The external criteria could include the size of the market, the growth of the market and the profitability of the market. If the market segment is favorable, then the evaluation for that segment would be high. Otherwise, it could be medium or low. The value of this exercise is that it will enable you to see the relative position of your different segments compared to each other.

The segment with high strength and high market attractiveness (High:High) is the one that deserves your attention the most, and the segment that has low strength and low attractiveness (Low:Low) can be divested unless it provides input into an attractive segment. Other segments will require appropriate strategies based on their evaluation.

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Strategic Mindset

The strategic mindset we are proposing in this article will help you arrive at a set of strategies appropriate to each of your market segments. To develop a strategy, you need to have identified your market segments, differentiation and the relative position of your segments on the business strength/market attractiveness continuum.

Choosing where to put your time and investment will be key to your survival and growth, enabling you to make sound decisions and use your precious financial and human resources to deliver maximum value to your customers.

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