

## Do You Really Know Your Customers or Is Your Business Flying Blind?

Who are your customers and which ones are the most likely to spend their money with you? While a company may believe that its core customers are 35-54 year-old white males with deep pockets, this information is woefully incomplete. Probing beneath the surface of shallow customer profiles can reveal hidden opportunities and provide companies with the true market intelligence required to focus their strategies on areas with the highest growth potential. This is especially critical today because constrained consumer spending is forcing companies to fight for increased share in entrenched markets to drive growth.

### Setting the Right Strategic Agenda

As a consumer yourself, you're aware that basic demographic information doesn't reflect your personality or pinpoint why you make your purchasing decisions. Consider two suburban moms who both shop at the same local mass merchant. The first woman is increasingly budget-conscious and less interested in fashion today than she was before her three-year-old son was born. The second mother is a brand maven who only shops the retailer for a handful of food and consumable categories where she believes the savings are meaningful and thus justify monthly stock-up trips.

Although the two women share the same age demographic, zip code and ethnicity, their needs and purchasing patterns vary significantly. If the retailer relies on the same value proposition to attract each customer, it would almost certainly miss the

mark with one – and potentially both. The frugal mom may be very responsive to promotions across a broad range of categories, which would stimulate incremental trips and basket expansion. The brand maven, however, is generally not interested in most categories the retailer offers, but could be enticed to “explore” beyond her historical routine if the deal or product assortment is right.

An organization needs to identify the unique customer segments within its market, the relative value of these segments, and how their distinct profiles shape decisions about what and where they shop (e.g., their attitudes, lifestyles and behaviors). Marrying this knowledge with an understanding of how different consumers perceive your brand relative to alternatives can reveal eye-opening intelligence about a company's most and least promising growth prospects. This high-resolution picture of your market can then enable you to prioritize your company's strategic agenda.

Without this level of understanding, L.E.K. Consulting has seen many companies run blind strategically and pursue imperatives that are destined to fail. Take the example of a CEO who looks at his company's 5% market share and projects that the runway for growth is exponential. With this perspective, the CEO pursues a status quo strategy that supports the same programs that propelled sales during the past five years. However, this executive fails to understand that his market is really comprised of six unique consumer segments. Further, the brand only resonates strongly with one segment, where it already enjoys

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a 40% market share. Because the business may be reaching a saturation point with this core customer segment, maintaining the current strategy likely won't drive new growth.

## Successful Program Execution: Align and Conquer

A clear and common understanding of your addressable customer base can also enable organizational functions to work in lock-step to achieve the same focused goal. This occurs when individuals across the organization have a shared definition of the most important customer segments and the keys to winning

their business. Imagine the enhanced corporate productivity and increased rate of success if all functions were aligned in this way.

In this scenario, you'd have product design, marketing, merchandising, store operations and other departments synchronized around common objectives rather than executing initiatives informed by their individual, unique interpretations of specific segments and their needs. Further, if any function was working off strategy, it would be immediately transparent to the organization and senior executives could direct a project back toward accepted company objectives.

## L.E.K.'s Growth Opportunity Segmentation Model – “Market Seismology”

Just as scientists monitor the earth's interior for early signs of earthquakes and other dramatic geological changes, true customer segmentation also requires sophisticated “market seismology” to look beneath the industry's surface, identify distinct segments and track changes in each customer group. Although each project is tailored to address specific company needs, L.E.K.'s segmentation research is built on the following proprietary four-phase model:

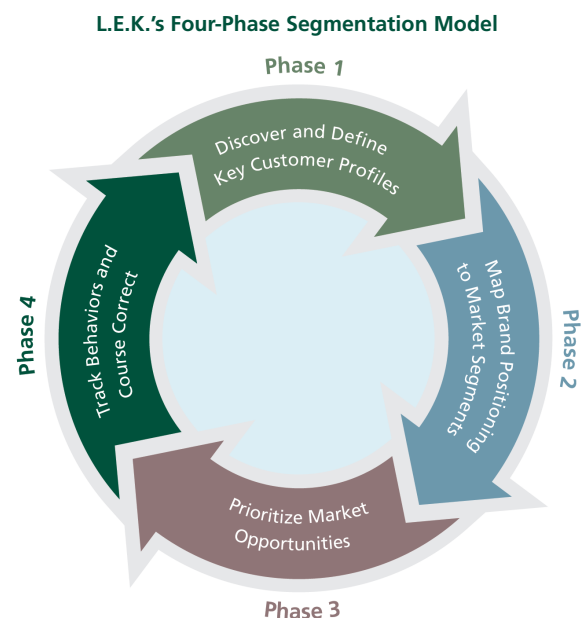
**1) Discover and Define Key Customer Profiles:** L.E.K.'s approach brings customer segments into focus by uncovering the various customer groups that exist within your addressable market. This phase further determines the size and value of these segments, and clearly defines them based on their multi-dimensional attitudes, lifestyles and behaviors. Insight into the wants, needs and aspirations of each customer segment is pivotal to understanding the purchasing “triggers” for each group.

**2) Map Brand Positioning to Market Segments:** The next step is to understand how your brand is positioned vis-a-vis the specific customer profile that defines each segment. Here, L.E.K. closely examines individual segments to quantify your current share position, understand consumers' affinity for your brand relative to competing brands, and map the dimensions where the brand resonates with consumers and where it's falling flat. This insight measures the brand's “fit” within each segment.

**3) Prioritize Market Opportunities:** After combining the learnings from phases one and two, L.E.K. prioritizes market segments based on their expected value. This considers each market's size and your brand's share position. Importantly, it also pinpoints where your brand is most likely to unlock

incremental spend based on the connectivity of your offering to the various market segments (through new customer acquisition or growing spend with existing customers). The result is a clear hierarchy of consumer groups based on their “accessibility,” and the triggers to driving incremental share gains (e.g., product assortment, marketing and brand alignment, channel and pricing strategy).

**4) Track Behaviors and Course Correct:** Periodically surveying customers enables companies to measure evolving trends and calibrate operations to address market and consumer shifts. Conducting systematic “tracking” research on an annual basis will also help identify new opportunities as they emerge, and allow you to capitalize on them quickly.



## Segmentation Case Study: Mature Brand Finds Unlikely Market for its “Authentic” Apparel

A major apparel brand had experienced substantial sales increases during the past decade that management attributed to a growing population of teens and young adults who were being drawn to the “authentic” and “hip” virtues of its brand. That said, the company was at a crossroads as executives debated the size and scope of the brand’s future opportunities.

On one side, senior managers believed that the brand’s single-digit market share would continue to grow for years. On the other hand, board members were concerned that the company may be “tapping out” its true brand enthusiasts and that sales could stagnate. This issue stood squarely in the way of consensus on the right strategic path forward, and the company turned to L.E.K. to better understand where its growth opportunities may lay. Using its Growth Opportunity Segmentation Model, L.E.K. brought clarity to the brand’s multiple customer segments, its relative market position, and was instrumental in establishing the strategic priorities to realize future growth.

### PHASE I: Discover and Define Key Customer Profiles

L.E.K. tested and analyzed the attitudinal, lifestyle and behavioral characteristics of consumers. The research determined that the brand’s addressable market was in fact comprised of four distinct customer segments, each with fundamentally different drivers of purchase behavior and brand perceptions. Further, not all segments had equal value, as they varied by population size and spend levels. The four segments identified were:

- **Alternative Authentics:** This group has been the company’s primary target for years. This predominately male segment is between 15-24 years old and perceives the brand the same way that they describe themselves – “hip” and “authentic.” Consumers in this segment incorporate these brand attributes into their own sense of individualism, which emphasizes a conscious decision not to embrace traditional pop culture, but to follow a less mainstream fashion aesthetic.
- **Fashion Followers:** This predominately female group wears many hats (as well as apparel, shoes and accessories), and the company’s brand is currently in vogue with this young, hip 15-24 year-old consumer. This demographic follows the Hollywood red carpet, and their high annual spend makes this segment the largest for the brand. This segment finding was very surprising

to many senior executives, who often saw this trendy group as the antithesis to their brand.

- **Preppies:** These 20-34 year-old males and females are drawn to the brand’s clean, classic design. While the company usually ranks toward the lower end of this consumer’s brand preferences, it has been gaining steady traction. Interestingly, both the Preppie and the Alternative Authentics gravitate toward the brand for its timeless look, but integrate the apparel into markedly different fashion styles.
- **Budget Brahmins:** This segment is focused on price and function. Product ubiquity and availability is also critical because this group views shopping as a chore and tends to settle for whatever is currently in stock. While they’re not particularly fashion conscious, they’re open to a variety of brands and usually lean toward the big names when splurging. From a market size standpoint, this segment is clearly number two.

### PHASE II: Map Brand Positioning to Market Segments

Mapping the brand’s position within each key group was eye opening. Senior executives’ perceptions of Alternative Authentics was validated, as the brand held the highest market share in this segment. However, the brand’s market share in this segment was already very high, and it was unlikely that this faithful group would be a future source for significant growth.

While you’d expect the brand’s share to be much lower in other segments (and it was), the brand had quite different meanings to each one. Because consumers in each segment were buying for unique reasons, preserving the share earned to date and unlocking future spend would require tailored strategies for each segment.

### PHASE III: Prioritize Market Opportunities

After clearly diagnosing the addressable customer base and defining the brand’s relative position within each segment, L.E.K. identified and prioritized the opportunities most likely to deliver future growth. L.E.K. then worked with senior management to establish a priority ranking of the segments and clarify each segments’ focus in the strategic plan. For example, the Alternative Authentics were still the essence and focus of the brand, and cultivating them would be critical. However, the role they’d play from a value perspective was more maintenance than growth.

Instead, the key to future growth required the brand to expand its relationship with the Fashion Followers. This required unique messaging, and most importantly, product diversity to keep this group engaged and continuing to trade up. Failure to do this also posed a major risk, as losing relevance would cause these consumers to drop the brand without a second thought. The company was also missing key retail accounts important to this segment, which could further drive sales.

The company also needed to accentuate different brand elements for the Preppies and Budget Brahmins to strengthen its connection with these distinct segments and drive further spend. Opportunities in the Preppie and Budget Brahmin segments also would involve changing the brand's distribution strategy. The company has since expanded its channel partnerships to more effectively target these two important audiences.

Figure 1 illustrates the brand's share-of-wallet position across its addressable customer segments.

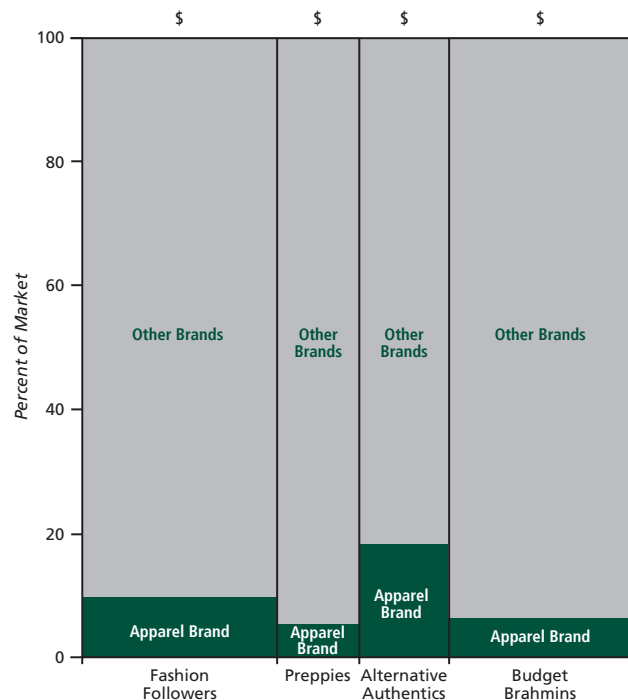
**PHASE IV: Track Behaviors and Course Correct**

In addition to driving the strategic focus for the company's next chapter of growth, L.E.K. also worked with senior executives to develop rules and guidelines to institutionalize the learnings and drive their adoption throughout the organization. This has

brought confidence and organizational alignment around the strategic plan, which will take the company down new paths to realize future growth.

**Figure 1**

**The Brand's Share Varies Significantly by Customer Segment**



**L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded more than 25 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.**

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