

Agenda

Introduction to Customer Segmentation (SP7)

Start with Focus on 1 & 2

Nine building blocks

1. Customer Segments

2. Value Proposition

3. Channels

4. Customer Relationships

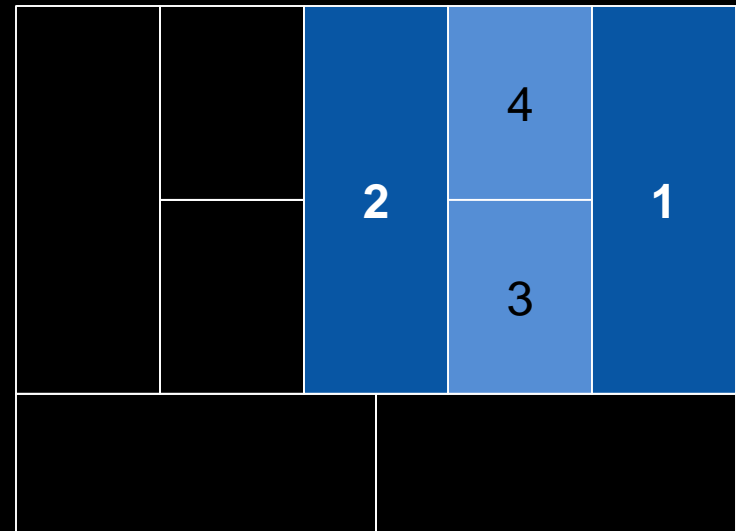
5. Revenue Streams

6. Key Resources

7. Key Activities

8. Key Partnerships

9. Cost Structure



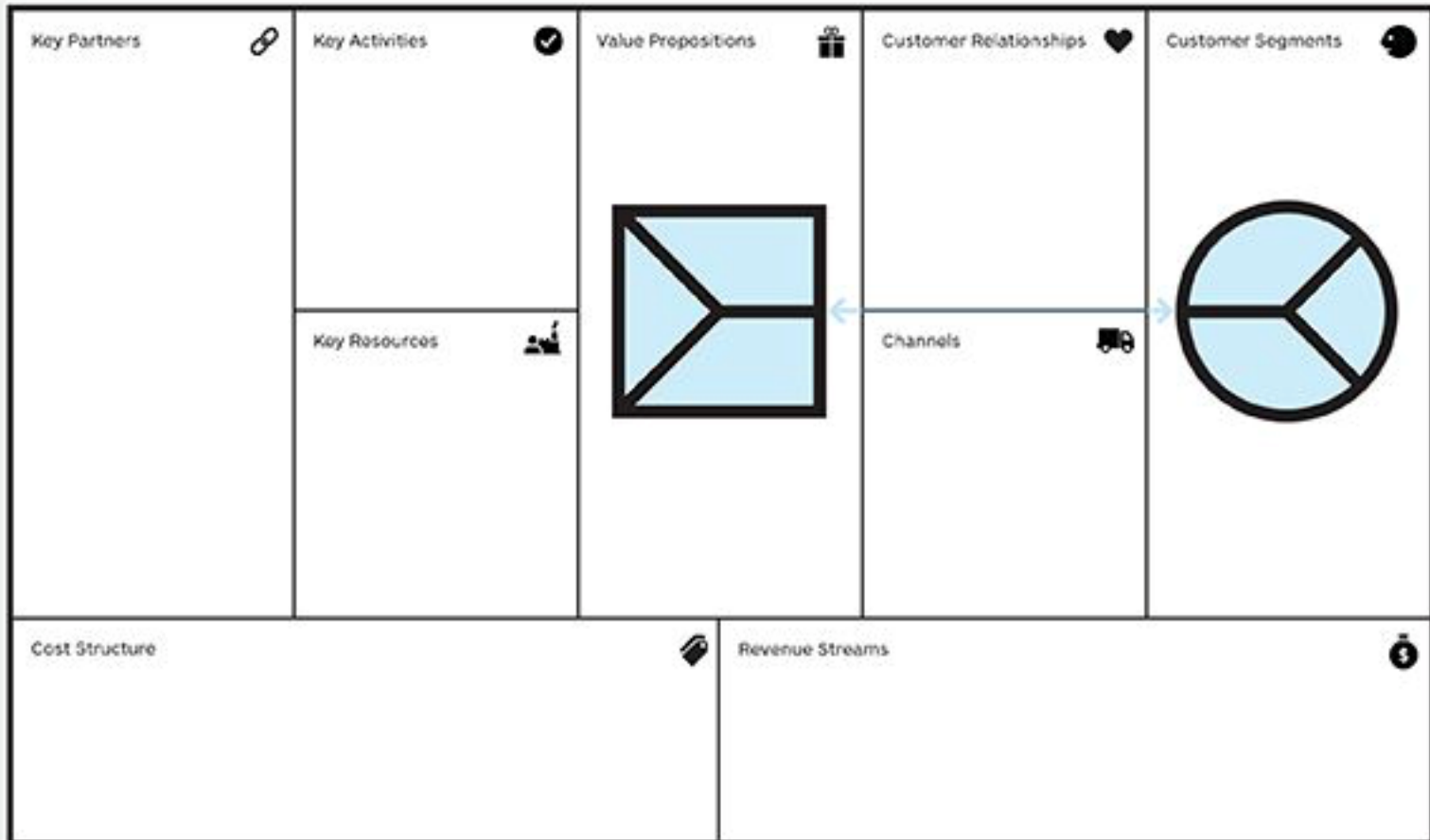
The Business Model Canvas

Designed for:

Designed by:

Date:

Version:



DESIGNED BY: Business Model Foundry AG
The history of Business Model Canvas and Strategyzer

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Big Question: **What do customers want?**

- On whom should we focus?
- What will they value (and what won't they)?
- How should we communicate with them?

- What should we develop?

Usual Approaches to Segmentation

Demographics

- Age
- Gender
- Income
- Home ownership status
- Profession
- Education
- Location
- Etc.

**Are traditional segmentation
strategies successful?**

Hey! Why did you buy that cool thing?

Because I'm between the ages of 18 and 34.



Said no one, ever.

Perils of Demographic Segmentation



What is your impression of
Cadillac?

Cadillac History

- Founded from the remains of the The Henry Ford Company in 1902
- Named after the founder of the city of Detroit
- First perfected the assembly line and interchangeable parts
 - Dramatically improved reliability
 - Known as “The Standard of the World”
- Known for quality, reliability, innovation, and luxury
- Bought by GM in 1909
- Pioneer of many automotive innovations in the first half of the 20th century
- Became an **aspirational brand** by the 1940’s and 1950’s

What did the typical
Cadillac customer
look like in the 1960's?

Typical Cadillac Buyer 1960

Old

Successful

Male

Married with grown children

Sole breadwinner

Saved money (few financial instruments available)

Typical Cadillac Buyer 1960

Old

Which of these is more significant?

Successful

Male

Married with grown children

Sole breadwinner

Saved money (few financial

Cadillac Product

From 60's into the '80's, Cadillac sales held steady or grew, peaking in the late '70's

GM assumed demand would always be there, and switched focus to maximizing revenue and minimizing cost

Cars became more generic

- “Living rooms on wheels”
- Soft ride
- Plush, cushiony leather seats
- Lots of chrome
- BIG cars
- **No emphasis on performance, technology, or reliability**

The Situation of the '60s



The Situation of the '70s



From Bob Lutz' book*

Locked into battle with Lincoln to become “America’s No. 1 Luxury Brand” measured by *unit sales*

Oxymoron: “Aspirational and exclusive” **AND** “most popular in its class”

Massive deliveries to rental car companies

“Lincoln Town Car: Only \$24.99 per Day!”

* Car Guys vs. Bean Counters: The Battle for the Soul of American Business

Rental fleet dynamics

Buy cars in bulk at massive discounts

Rent while still new-ish

Unload at wholesale prices with low mileage

Result?

- A huge glut of *very* affordable Lincolns and Caddies
- “Working class families” could own one → loss of exclusivity
- Low prices → Lousy resale value

The Situation of the '80s



What does a typical BMW
customer look like?

Typical Import Buyer 2000

Young-to-middle aged

Successful

Male and female

Two incomes

Don't save money

Technology-savvy

Typical Import Buyer 2000

Young-to-middle aged

Successful

Which of these is more significant?

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Demographic Downfall

Cadillac owners were older, but ***that is not why they bought Cadillacs***

Cadillac's mistake was confusing "**older**" with "**successful**", which is why they lost the lead to Lexus/BMW/Mercedes, who catered to **successful** people, not **older** people.

Cadillac kept catering to their core **demographic**, who cared about a "living room on wheels" rather than a performance luxury automobile. So they wound up building lousy cars.

Discuss Cadillac's prospects.

How should Cadillac
segment the market?

Traditional Segmentation

Defined by **attributes** of product and/or customer

Based upon a **correlation** between **attribute** and **outcome** (i.e. purchase and use)

Is this enough to base a strategy on?

Short Answer: No.

IF you know *why* they buy

THEN

you can predict what will

***CAUSE* customers to buy your product.**

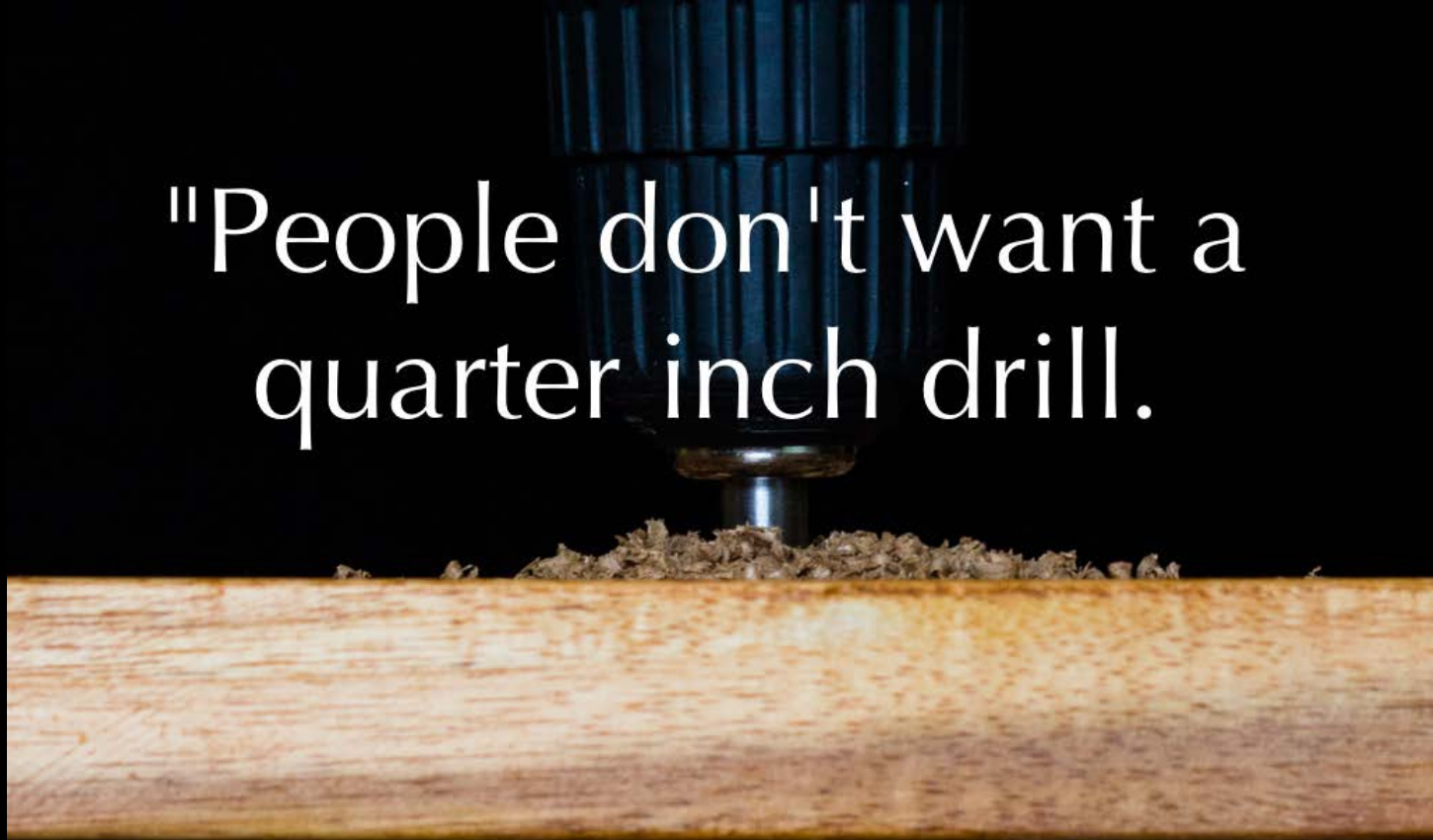
Key Insight

Customers are people or companies that have “jobs” to do.

They “hire” people – and products or services – to do those jobs.

**Job-
to-
be-
done**

"People don't want a
quarter inch drill.



They want a quarter inch
hole."

- Ted Levitt

Comparison



What “job” does a **consumer**
“hire” a window to do?

What “job” does an **installer**
“hire” a window to do?

Teamwork: At your tables?

**How can the Browns
define their customer segments?**

What is the "job-to-be-done"?

Consider all the entities!

Learning Objectives

1. Introduce the concept of customer segmentation as a means of delivering more value to customers.
2. Understand how customer-centric business strategies always begin with a deep understanding of customers' wants and needs.