Focusing Strategy on Fulfilling Customer Needs | By Mark L. Frigo

Successful companies target the right market segments with the right offerings at the right time, and they also know which ones to avoid. The Segments, Offerings, Needs Matrix presented last month (see next page) makes a clear connection between the intersection of market segments and potential offerings by focusing on customers' unmet needs. In this column, I'll explore a few examples of how well some companies have succeeded in fulfilling otherwise unmet customer needs in targeted market segments.

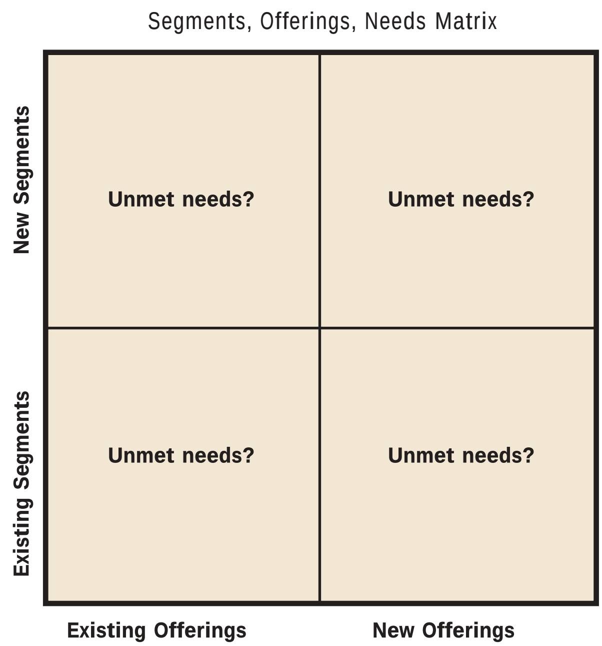
Targeting the Right Customer Needs Drives Growth AND Economic Returns

To achieve both growth and superior returns on invested capital, the powerful one-two combination that drives shareholder returns, companies must successfully move beyond fulfilling existing customer needs. How? By targeting existing segments with new offerings, targeting new segments with existing offerings, or addressing new segments and new offerings, but doing so only if supported by the tenets and foundations of Return Driven Strategy. For any growth strategy, this means understanding the unmet customer need, understanding the size and changes expected in the market segments, and confronting the difficult issue of whether the company has the right unique Genuine Assets to execute on the strategy better than other companies. To be most useful, the Segments, Offerings, Needs Matrix should not be used in a vacuum but should be considered in light of the strategy tenets and foundations of Return Driven Strategy.

Let's look at two companies that have achieved both growth and returns by fulfilling customer needs and by dominating market segments they have targeted. Harley-Davidson produces heavyweight motorcycles under the Harley-Davidson name and sport and sport-touring motorcycles under the Buell name. Did Harley Davidson target and dominate increasing market segments by fulfilling otherwise unmet customer needs? Between 1991 and 2002, the U.S. heavyweight motorcycle market grew at a compound annual rate of about 15%. Within this market, Harley had a market share of 48% by 2002. The company dominated the market segment of U.S. heavyweight motorcycles but continued to innovate its offerings to fulfill unmet customer needs. For example, Harley-Davidson Financial Services offers wholesale and retail financing for Harley-Davidson products. Harley also leveraged a Genuine Asset, its powerful brand, by offering a complete line of accessories, clothing, and collectibles. The Buell line of sport and sport-touring motorcycles is geared toward the younger rider, a relatively "new" market segment for Harley.

Dell Computer Corporation is another company that has achieved both returns and growth by fulfilling customer needs in increasing market segments. Dell began by directly selling customized PCs. The company contin-

Segments, Offerings, Needs: The Pathway to Financial Value



ued to innovate its offerings through the key areas of service/support and sales/distribution. Dell now provides a variety of offerings, including designing, building, and customizing personal computers, servers, and peripherals as well as offering systems-building consultation services. It has targeted market segments ranging from large global corporations to individual consumers. Dell has fulfilled otherwise unmet customer needs and dominated targeted market segments through constant innovation of offerings, superior operations, and a strong branding of its offerings. This has allowed Dell to continually produce solid returns and growth even in tough economic times.

Returns without Growth, Growth without Returns

When looking at growth and economic returns, some companies seem to get one major factor of financial performance right while missing another. Some companies have very high returns on investment but relatively low growth, while other companies have low returns but show massive growth. Each of these scenarios delivers valuation levels much lower than at firms where all pistons seem to be firing.

WD40 is a company with exceptionally high returns, but until recently it has experienced relatively low growth. It's an example of a company that has successfully dominated a market segment without achieving further significant growth. WD40 is viewed as a specialist in niche market segments (lubricants and household products) and a company of very strong brands. Indeed, WD40 has dominated the market segment for household lubricants with a market share of 80% in the U.S. Both of its lubricant brands—WD40 in the spray lubricant market and 3-IN-ONE in the drip oil market—are No. 1 brands. Yet the company has not generated significant growth until recently. Shareholder returns have been dampened…despite an average cash flow ROI well above 30% over the past 20 years. Seeking growth, WD40 has embarked on a strategy involving new products, new customers, new channels, and new geographic markets. If returns similar to those of its core businesses are sustained in the new market segments and offerings, the company could create increased value for its stakeholders.

Managing Forces of Change

Management teams must carefully watch how significant forces of change affect customer needs, market segments, and each of the other tenets and foundations in Return Driven Strategy. They must then follow up that vigilance with actions to adjust how they perform each of the tenets of strategy and carefully target market segments with offerings by focusing attention and strategy on customer need. ■

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