



Insights from The Clarion Institute

Making Market Segmentation Work

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Market-Focused Strategy and Structure

The ability to anticipate changes in the market and competitive landscape is crucial to effective long-term strategic planning. Changes in the contextual environment must be balanced with long-term objectives and internal capabilities to determine new areas of investment for the business. Many companies currently refreshing their strategic plans anticipate important changes to the market and competitive landscape ahead. This expectation is forcing renewed emphasis on the stage of the strategic planning process that we call “Strategic Choices” – those choices about how to achieve the large Strategic Objectives. One such choice that is rising to the top, in some sectors, is the decision to migrate toward market-segment focused strategies and structures.

The Clarion Group has identified four inputs that are critical to such transformations. Many businesses neglect one or more of these inputs, producing either outright failure or unnecessary delay in their evolution to the new strategy and structure. These roadblocks can be anticipated and avoided by deploying a systematic planning approach at the outset of the effort.

Opportunity and Challenge

The cross-industry trend toward tighter alignment with market segments is especially evident in the insurance business. Traditional insurance products have become commodities while new products are quickly and readily replicated by others. Constrained growth opportunities and squeezed margins have forced many insurance companies to consider new approaches to gaining market share and growing shareholder value.

One such approach is to differentiate on the basis of customer experience. In a commoditized product environment, such things as ease of access, customer friendly billing, and timeliness of commission payments become important levers in acquiring new customers and channel partners. Close strategic and structural alignment with specific market segments is the means to build those levers in the business. That focus also drives diversification of the total book, enabling the enterprise to absorb the business cycles that may vary by segment.

The challenge in all this is finding the right balance between offering a differentiated value proposition (by investing in internal competencies from product creation to pre-sale service to post-sale service to ongoing retention) and maintaining a cost-to-value equation that fits the markets being served. Finding that balance requires careful consideration of a broad set of variables. Companies that understand which variables are most critical to their own transition will be first to capitalize on the opportunities posed by a market-focused strategy and structure. That’s where the Migrating to Market Segments framework comes in.

Making the Move

In our work with insurance clients, we have encountered a number of efforts to migrate to a more market-focused strategy and structure. In most cases, the conversation among top executives focuses on one area or another of the total work that must be done. One company, as noted above, started with the notion of differentiating around the customer experience. Another started with the idea of restructuring business lines around the fastest-growing market segments.

Still another started with an internal focus; the executive team asked the question, “with which of our customer segments can we differentiate ourselves, given our internal resources and capabilities?”

Each of these companies has invested significant time and resources in becoming more customer and market focused. While none of them to date would describe themselves as “fully successful” in achieving their objectives, it is a relatively straightforward matter to predict which of them will most fully realize the goal of a market-segment focused strategy and structure. The key will be the extent to which they have considered

and satisfied four essential inputs to the transformation. The four inputs include 1) Define the Segments 2) Design the Customer Experience 3) Create the Brand Army and 4) Create the Enabling Structures.

The framework below shows these inputs and the architecture of each. Each input contributes to the goal of aligning strategy and structure with targeted market segments. Each of the inputs also faces challenges which, if left unaddressed, can cause that input to be overlooked or under-utilized. Below we will describe each input, illustrate a challenge associated with it and describe one client’s successful experience.

Migrating to Market Segments

What structure and process will best align to target market?

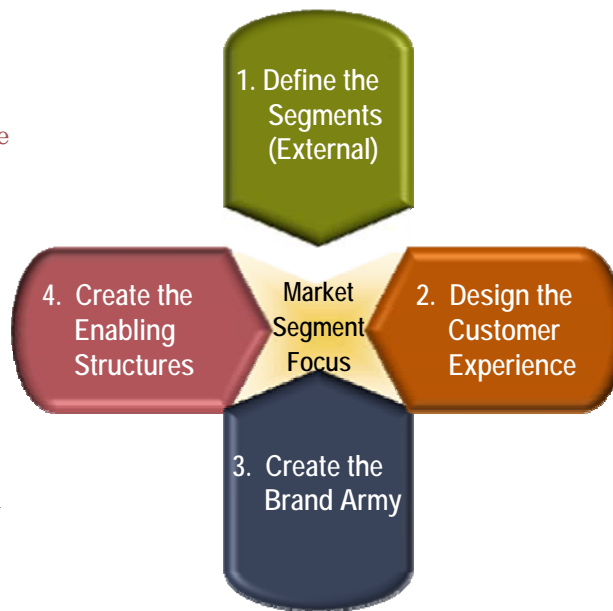
- Evaluate correct organization structure and key management processes
- Evaluate the impact of these on employee behavior

Outcome: Realigned management information systems

Is our employee experience aligned with desired customer experience?

- Evaluate employee’s experience and manifestation of the brand today
- Evaluate match to desired brand experience

Outcome: Our brand intention



How do we segment the market and where should we focus?

- Evaluate where we operate today
- Evaluate where else we might operate tomorrow

Outcome: Target markets

What experience do we want target market customers to have?

- Look at today’s work processes, customer touch points, and the impact of both
- Choose work processes and touch points that will drive desired customer experience

Outcome: Shifts in process and touch points

Input 1: The Segments

Defining the Segments is something many companies do well. Using a blend of external market data and awareness of internal capabilities, the typical company is able to make well-reasoned choices about which segments offer the best opportunity for shareholder returns. One challenge with Input 1 is that most companies underestimate the cost of re-aligning around market segments, particularly when such focus calls for new

and/or more robust internal capabilities. Our experience suggests the typical pattern is to underestimate the investment required to build these capabilities.

One contrast to that pattern is a mid-sized commercial insurance company that has embarked on a multi-year effort to transform itself along the lines of the Migrating to Market Segments framework. Early in their consideration of Input 1, the top executive team realized that the target

markets it wished to serve would call for executive capabilities that were lacking in the current organization. As a result, it embedded a robust talent identification, development and succession engine in its overall transformation plan.

Input 2: The Customer Experience

After investing time in *Designing the Customer Experience*, many of our clients describe those conversations as among the most important they have had as an executive team. Unfortunately this investment is more the exception than the rule. Due in part to underinvestment in Input 1, Input 2 is frequently overlooked or under-actualized. Anecdotes and personal persuasiveness take the place of rigorous and disciplined analysis.

However, several of our clients have broken that particular mold. One in particular has invested in:

- a) carefully evaluating the markets they are in and those they should be in (because of their potential for profitable growth),
- b) analyzing the markets' needs, wants and expectations,
- c) focusing, in especially disciplined ways, on understanding the customer experience they need to manifest at all phases of the value chain for each of their targeted markets and
- d) identifying the critical customer touch points that shape the experience.

They have reworked their business processes to better enable this customer experience.

Input 3: The Brand Army

Creating the Brand Army is about leveraging the organization's most powerful asset – its employees – to bring the customer experience to life. Employees across the enterprise are required and enabled to embody the desired customer experience, both internally and externally to the organization. The obvious challenge to this objec-

tive is that not all employees touch the ultimate end customer. It can be a challenge to articulate the importance of embodying a specific customer experience to the internal support functions of an organization. Ultimately the rationale for creating the brand army is a philosophical one. A company that embeds a specific customer experience in the company's DNA is going to be more successful in transmitting that experience to the external client.

For example, one organization offers financial planning advice as its value proposition to targeted market segments. To succeed in this effort they will need to move from a product orientation to a service orientation in the way they interact with customers. One approach they have employed is to offer the same financial planning service they sell to customers, to all of their employees. They do this because they understand that the best advocate for a particular customer experience is an employee who has had that experience him or herself.

Input 4: The Enabling Structure

Creating the Enabling Structures is where many companies start – and stop! Reconstructing organization charts is very often the centerpiece of the effort. While mapping business lines to target markets is a logical approach to market-focused strategy, changing the organizational structure alone is usually insufficient to change the fundamental behavior of the business. Established processes and relationships are slow to change, and confusion emerges. For example:

- Power is redistributed between product executives and market-facing executives. Where product leads essentially drove the business in the past, market-facing executives demand decision authority. The new structure creates the question, “who decides who decides?”
- Processes that worked in the past break under the new structure. For instance, business planning that has typically occurred from a top-down, inside-out perspective

comes under pressure to be driven from a market-in perspective.

- Industry regulations lag market realities. The industry is regulated at the product level. Profit and loss is tracked and reported at the product level. People are compensated with pay systems linked to product sales, growth and profit. These factors inhibit the transformation to a market-centric organizational structure.

To overcome these challenges and deliver on the promise of Input 4, several of our clients chose to conduct in-depth functional and organizational analyses to arrive at a set of working options. The above considerations and others were taken into account as design parameters. The working options were vetted across the executive team and other stakeholder communities until a “best” option was identified. Then and only then were charts redrawn, people assigned to new roles, and core processes reconfigured. One of our clients organized around the retail, institutional and international markets. Another organized around the high net worth, mass affluent and mass markets. The third is in the process of organizing around the distribution or intermediary

segments they serve, e.g., national wire houses, banks.

In Summary

Many insurance companies are finding it necessary to consider less-traditional strategic options to remain competitive. One of the more promising of those options is to migrate toward market-focused strategies and structures. This choice requires going well beyond defining target market segments and restructuring to focus on those targeted segments. It requires a deep commitment to understand and fulfill the needs of those segments and to produce behavior in the organization that is aligned with the intended customer experience. This is not incremental change; it is a *transformational* change. As such, it requires commitment upfront and discipline to stay the course over the months and years that may be required to complete the transformation. If our experience to date holds true, companies that take a holistic view of the transformation, attending to all four inputs, will move themselves further, faster than those who take a less comprehensive approach.

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