

Malcolm McDonald International

www.malcolm-mcdonald.com

Malcolm McDonald International

International representation:

USA, Middle East, South Africa and Australia

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Market/Segment attractiveness

Make an objective assessment of each segment's attractiveness to your company based on criteria relevant to what the organisation is trying to achieve

1. list the factors you would consider when comparing the attractiveness of segments

These generally fall under the headings of 'growth rate', 'accessible segment size' and 'profit potential';

for example growth rate per year
size (money, units or both)
available profit (or a proxy for profit potential)
lock-in potential
pull-through potential

Keep it simple – ideally 6 factors or less.

Make sure your key colleagues are in agreement.

Market/Segment attractiveness

Make an objective assessment of each segment's attractiveness to your company based on criteria relevant to what the organisation is trying to achieve

1. list the factors you would consider when comparing the attractiveness of segments
2. for each of the factors, weight their relative importance to each other by distributing 100 points between them

This is their relative importance to your company according to your own particular requirements;

for example	growth rate per year	40
	size (money, units or both)	35
	available profit	25
	Total	100

Make sure your key colleagues are in agreement.

Market/Segment attractiveness

Make an objective assessment of each segment's attractiveness to your company based on criteria relevant to what the organisation is trying to achieve

1. list the factors you would consider when comparing the attractiveness of segments
2. for each of the factors, weight their relative importance to each other by distributing 100 points between them
3. define high, medium and low parameters for each factor, where very high scores 10 and very low scores 0

for example	High (10-7)	Med (6-4)	Low (3-0)
growth	>10%	5-9%	<5%
size	>£250m	£50-£250m	<£50m
profit	>15%	10-15%	<10%

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Market/Segment attractiveness

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2. for each of the factors, weight their relative importance to each other by distributing 100 points between them
3. define high, medium and low parameters for each factor, where very high scores 10 and very low scores 0
4. work out the attractiveness score for each segment using the above to arrive at a total between 0 and 10

Take one segment at a time and, based on the parameters (see 3), determine its score for each factor (using data external to the company), multiply these individual scores by the weight given to its respective factor (see 2) and divide by 100, then add all these together to arrive at a total between 0 and 10.

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Factor	Parameters			Weighting	Segment 1	
	10-7	6-4	3-0		Score	Total
1. Segment profitability	>15%	10-15%	<10%	60	6	3.6
2. Cyclicity	Low	Medium	High	40	8	3.2
			Total	100		6.8

Market/Segment attractiveness

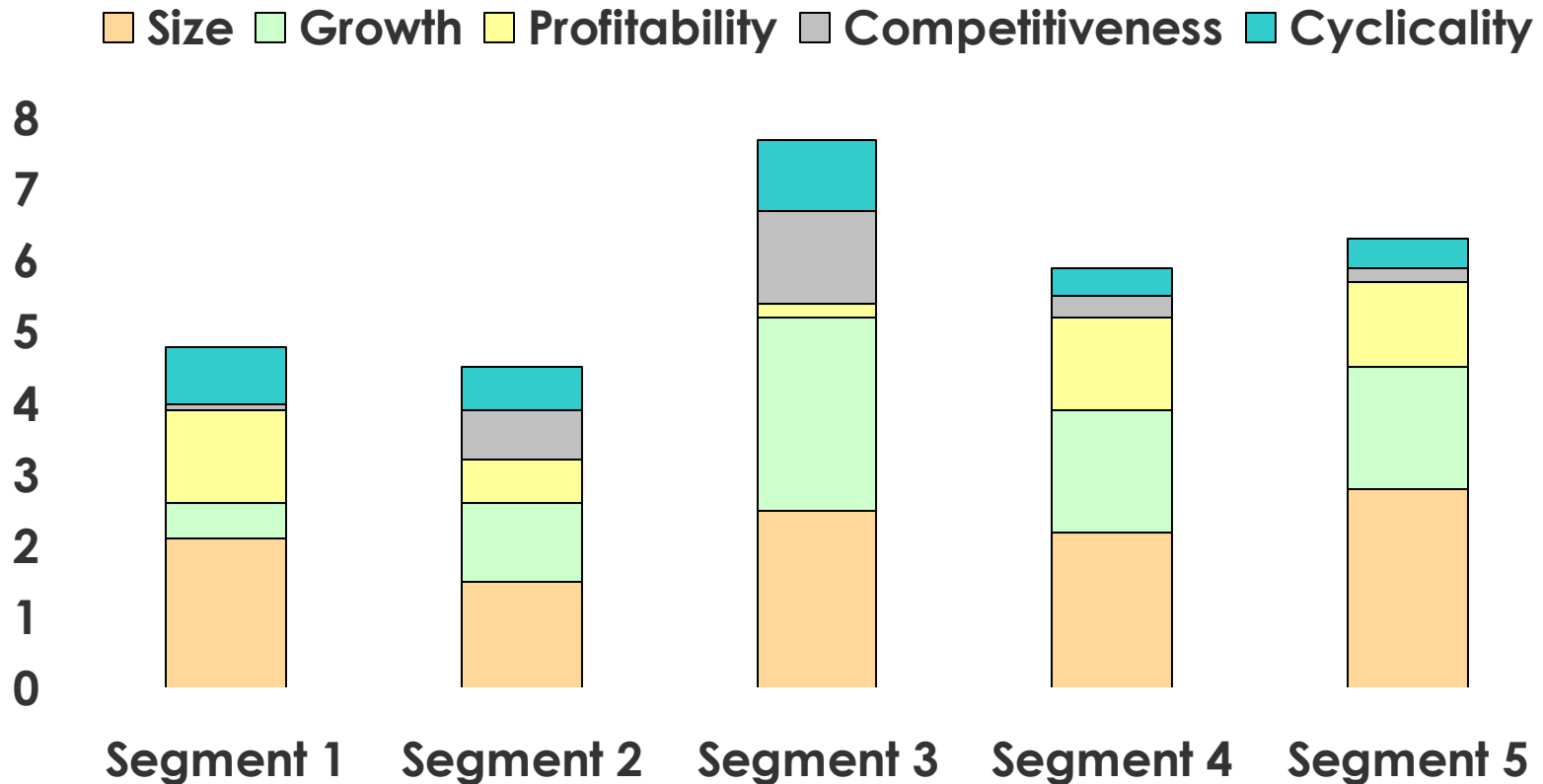
Make an objective assessment of each segment's attractiveness to your company based on criteria relevant to what the organisation is trying to achieve

Factor	Parameters			Weighting	Segment 1	
	10-7	6-4	3-0		Score	Total
1. Segment size (millions)	>£250	£50-250	<£50	15	5	0.75
2. Segment growth	>10%	5-9%	<5%	25	10	2.5
3. Competitive intensity	Low	Medium	High	10	6	0.6
4. Segment profitability	>15%	10-15%	<10%	25	8	2.0
5. Vulnerability	Low	Medium	High	15	6	0.9
6. Cyclicity	Low	Medium	High	10	2.5	0.25
Total				100		7.0

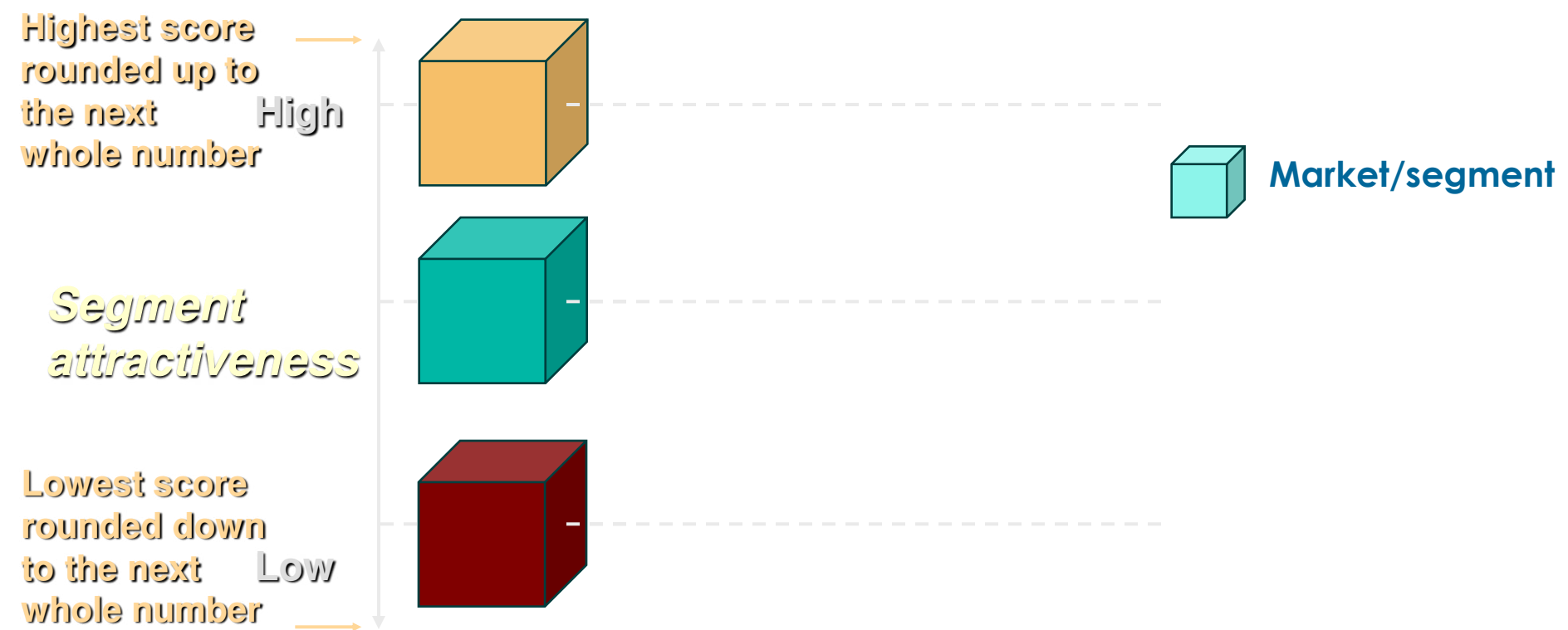
A score of 7.0 would generally position a segment as 'highly attractive'.

Market/Segment attractiveness

Make an objective assessment of each segment's attractiveness to your company based on criteria relevant to what the organisation is trying to achieve



Plotting the position of segments on the Portfolio Matrix



Phase 2 of the Segmentation Process

Company competitiveness

Establish your company's competitiveness in each segment based on how the segment perceives your ability to satisfy their needs relative to the competition

1. for each segment, list the needs they are seeking to satisfy and note the constituents of the offer required to deliver each need successfully (Critical Success Factors, CSFs)

For example

Need

CSFs

delivery reliability

≥95% as specified

leading edge image

e-business; new products

price (cheapest)

energy and material costs;
efficient production

Company competitiveness

Establish your company's competitiveness in each segment based on how the segment perceives your ability to satisfy their needs relative to the competition

1. for each segment, list the needs they are seeking to satisfy and note the constituents of the offer required to deliver each need successfully (Critical Success Factors, CSFs)
2. associate a weight with each need that reflects its relative importance to the segment by distributing 100 points between them

for example	Need	weight
	delivery	56
	leading edge	33
	price	11
	Total	100

Company competitiveness

Establish your company's competitiveness in each segment based on how the segment perceives your ability to satisfy their needs relative to the competition

1. for each segment, list the needs they are seeking to satisfy and note the constituents of the offer required to deliver each need successfully (Critical Success Factors, CSFs)
2. associate a weight with each need that reflects its relative importance to the segment by distributing 100 points between them
3. set the parameters for competitiveness, where very competitive scores 10 and very uncompetitive scores 0

for example

highly competitive	(10-7)
competitive	(6-4)
uncompetitive	(3-0)

Company competitiveness

Establish your company's competitiveness in each segment based on how the segment perceives your ability to satisfy their needs relative to the competition

1. for each segment, list the needs they are seeking to satisfy and note the constituents of the offer required to deliver each need successfully (Critical Success Factors, CSFs)
2. associate a weight with each need that reflects its relative importance to the segment (identified in Step 5) by distributing 100 points between them
3. set the parameters for competitiveness, where very competitive scores 10 and very uncompetitive scores 0
4. work out the competitiveness score for your company and for your main competitors for each segment using the above to arrive at a total between 0 and 10

It's the same procedure as that used for working out a segment attractiveness score, though the individual competitiveness scores for each CSF are as perceived by the customer.

Company competitiveness

Establish your company's competitiveness in each segment based on how the segment perceives your ability to satisfy their needs relative to the competition

Segment 1: Needs and their associated Critical Success Factors		Your company		Competitor A		Competitor B	
	Weighting	Score	Total	Score	Total	Score	Total
1. Product	50	6	3.0	9	4.5	4	2.0
2. Image	25	8	2.0	6	1.5	10	2.5
3. Service	15	8	1.2	8	1.2	6	0.9
4. Price	10	5	0.5	6	0.6	3	0.3
Total		100	6.7		7.8		5.7

Based on the parameters, determine competitiveness scores for each need as perceived by the customer, multiply these individual scores by the weight and divide by 100, then add all these together to arrive at a total between 0 and 10.

Company competitiveness

Establish your company's competitiveness in each segment based on how the segment perceives your ability to satisfy their needs relative to the competition

1. for each segment, list the needs they are seeking to satisfy and note the constituents of the offer required to deliver each need successfully (Critical Success Factors, CSFs)
2. associate a weight with each need that reflects its relative importance to the segment (identified in Step 5) by distributing 100 points between them
3. set the parameters for competitiveness, where very competitive scores 10 and very uncompetitive scores 0
4. work out the competitiveness score for your company and for your main competitors for each segment using the above to arrive at a total between 0 and 10
5. assess for each segment your own company's competitiveness relative to the best performing competitor

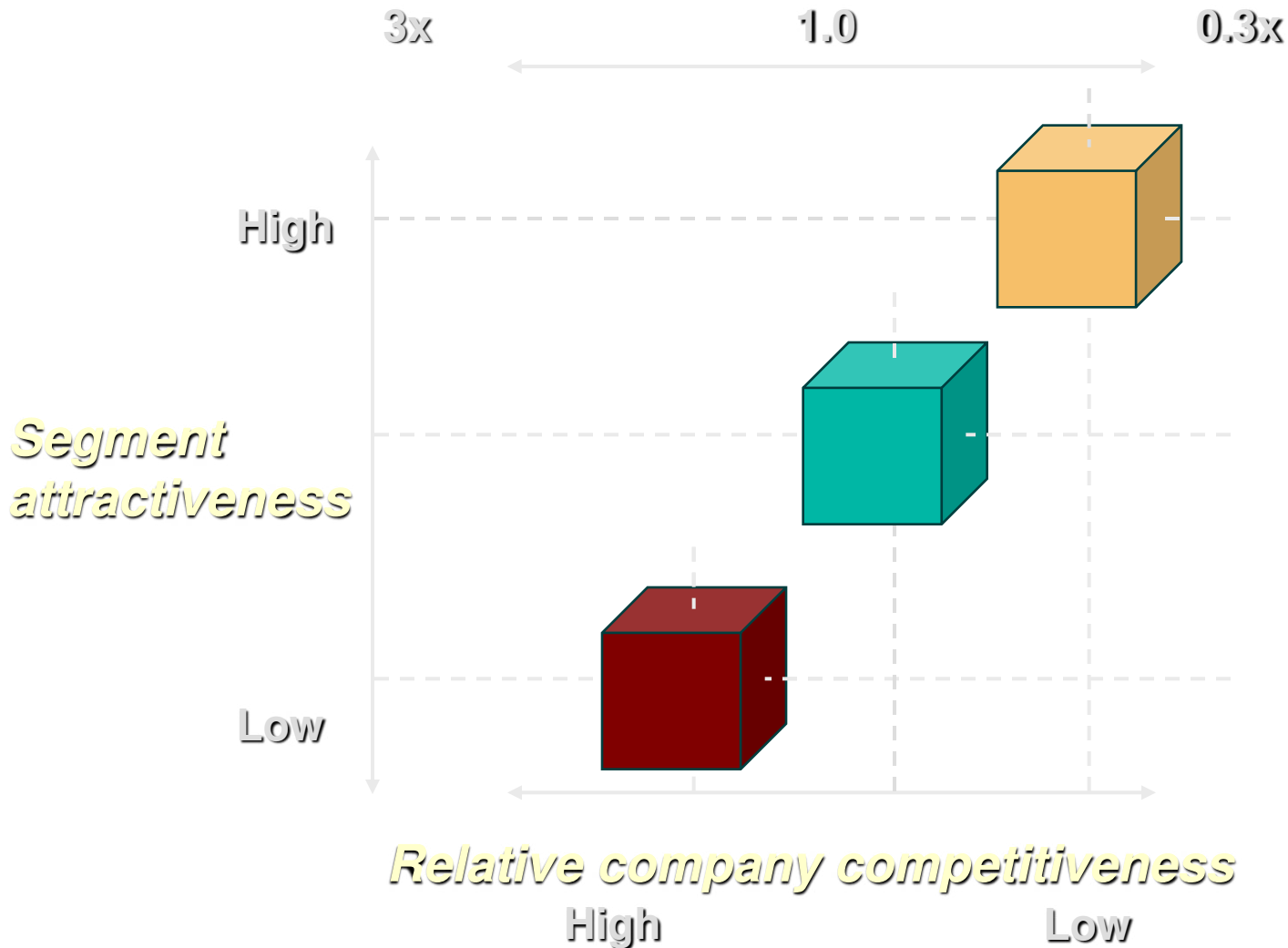
Company competitiveness

Establish your company's competitiveness in each segment based on how the segment perceives your ability to satisfy their needs relative to the competition

Segment 1: Needs and their associated Critical Success Factors		Your company		Competitor A		Competitor B	
	Weighting	Score	Total	Score	Total	Score	Total
1. Product	50	6	3.0	9	4.5	4	2.0
2. Image	25	8	2.0	6	1.5	10	2.5
3. Service	15	8	1.2	8	1.2	6	0.9
4. Price	10	5	0.5	6	0.6	3	0.3
Total		100	6.7		7.8		5.7

Your company's relative competitive strength is your company's **Total** divided by the highest **Total** of the competitors expressed as a ratio: **6.7:7.8 = 0.86:1.0**

Plotting the position of segments on the Portfolio Matrix



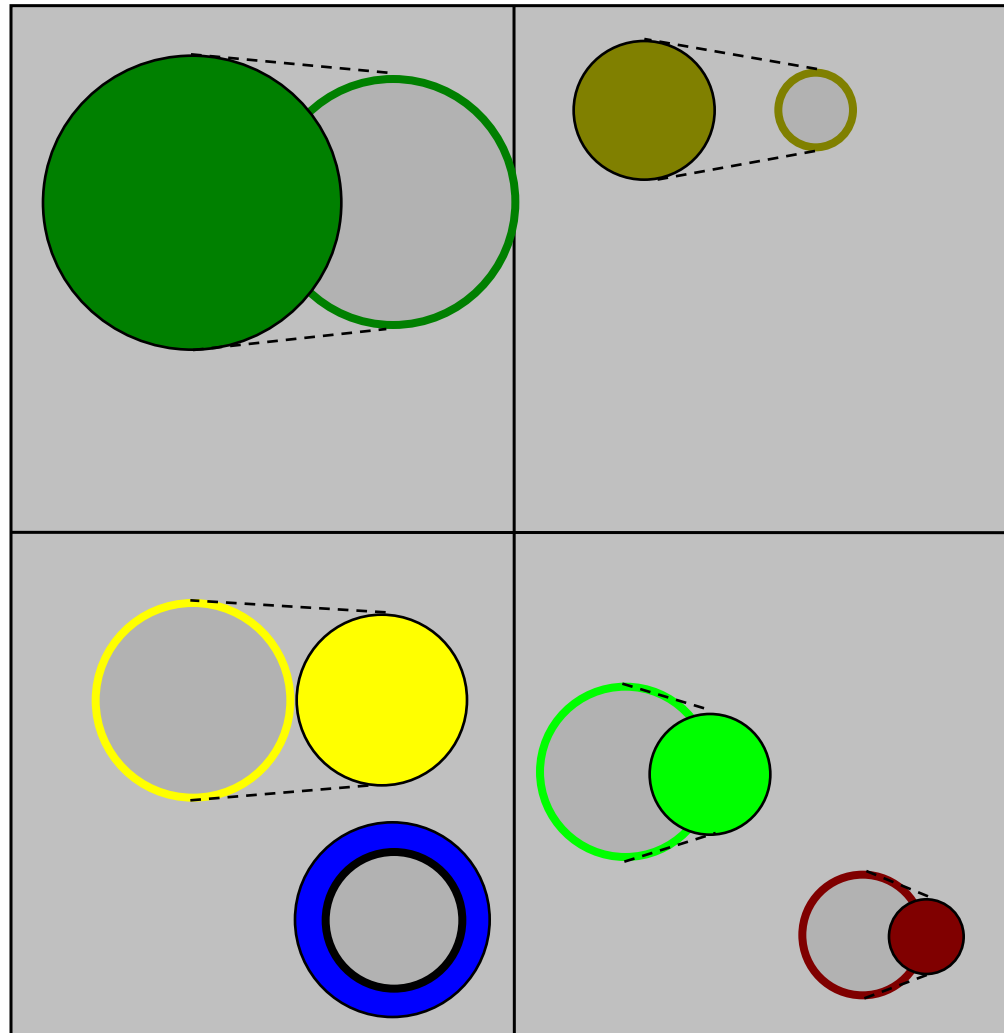
Directional Policy Matrix (DPM)

Relative company competitiveness

High

Low

High



*Segment
attractiveness*

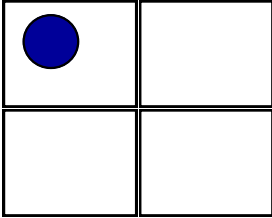
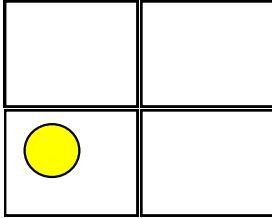
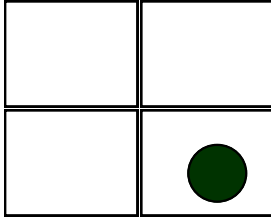
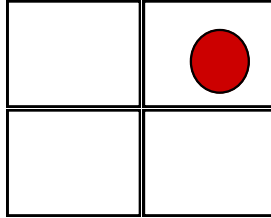


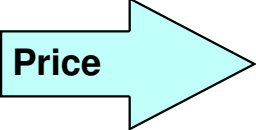


Low



Current
position



Forecast
position

				
	Invest for Growth	Maintain	Manage for Cash	Opportunistic Development
 Market Share	Maintain or Increase Dominance	Maintain or slightly milk for earnings	Forego share for profit	Invest selectively in share
 Products	Differentiation	Prune less successful differentiate for key segments	Aggressively prune	Differentiation line expansion
 Price	Lead - aggressive pricing for share	Hold prices or raise if possible	Raise	Aggressive - price for share
 Promotion	Aggressive marketing	Limit	Minimize	Aggressive marketing
 Distribution	Broaden distribution	Hold wide distribution pattern	Gradually withdraw distribution	Limited coverage

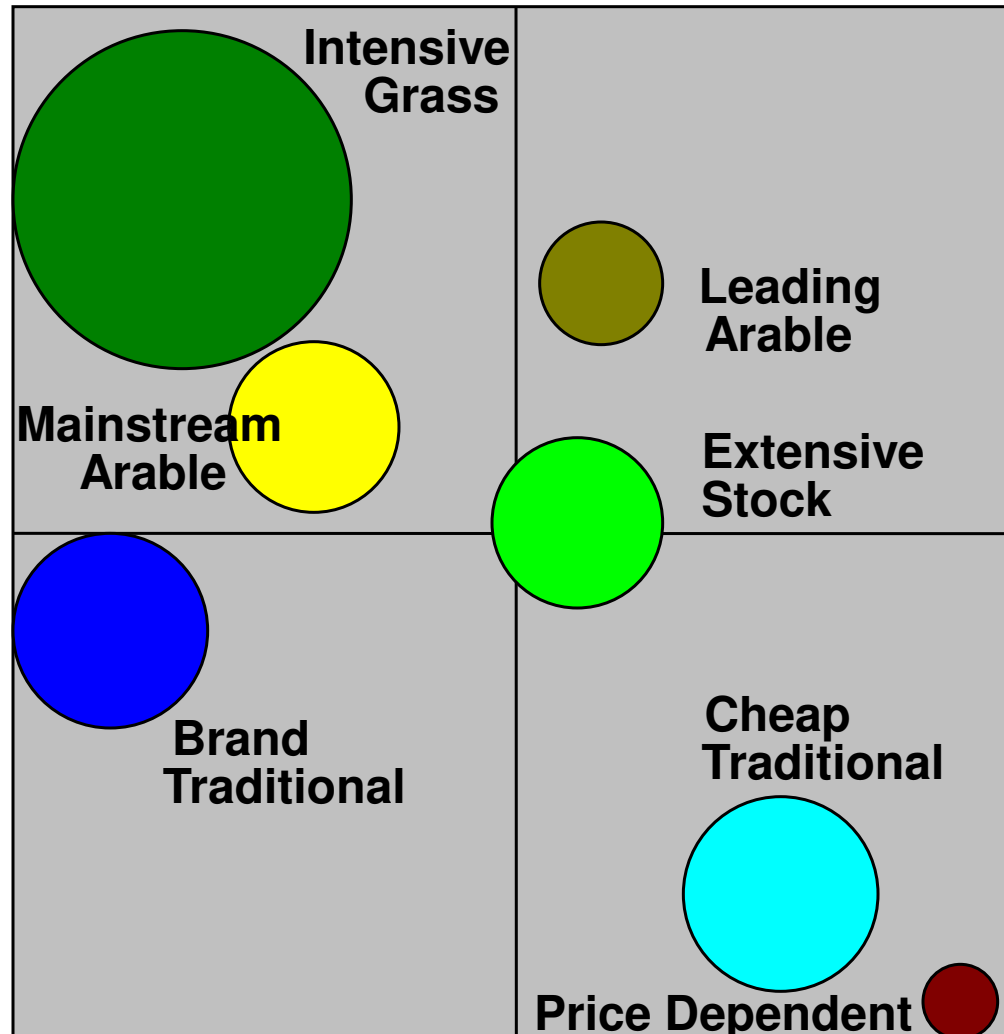
Portfolio Matrix for ICI Fertilizers

Relative company competitiveness

High

Low

High



Segment attractiveness

Low

Market – commercial crop nutrition.

Company – ICI Fertilizers

Product – Fertilisers (chemical manure!) and supporting services.

The winners for ICI Fertilizers

Price Dependent

Mainstream
Arable

Cheap
Traditional

Extensive Stock

Brand
Traditional

Intensive Grass

Leading Arable



Which led to a marketing strategy focused on the most appropriate segments with . . .

- The old product range extensively trimmed and new products launched
- Services cut, and those remaining simplified
- R&D re-directed into grassland
- Pricing aligned to segments (and not driven by the lowest common denominator)
- Promotional activity highlighting real benefits
- Distribution logistics streamlined
- A sense of direction for the company

And they became the most profitable fertiliser manufacturer in the world!