

Spot the opportunities like Madison Reed

By: *Robert Eden*

Introduction

The more I have studied business success stories the clearer a certain pattern has started to appear. There is a cycle that repeats itself over and over;

Opportunity -> Action -> Change -> **Opportunity** -> Action -> Change, etc.

The cycle begins with an opportunity appearing which someone notices and seizes. Action is taken and a new business model is created that matches the newly found “space” in the market. A new status quo is created until another change event happens that creates an opportunity, and the cycle starts again.

Madison Reed is an interesting case since the cycle is repeated twice in rapid succession. It illustrates the phenomenon perhaps better than any other case I have found so far, and because of this, it’s also the best case for introducing the concept of the “opportunity space”.

The “opportunity space”

Just like an industry, a chessboard is not static. The chess pieces are constantly moving and opportunities to “strike” come and go. In chess the opportunity is normally a result of (1) a mistake by the opposition,

(2) a series of smart moves by the players themselves, or (3) already existing but still unspotted.

The same applies to business but with one key additional source; (4) the chess board itself (= the business environment) can change so that new paths arise and old ones close. One good example of this is the Covid-19 pandemic.

The table below illustrates the 4 sources of opportunities. Please note that the examples in the table are by no means exhaustive and give just a flavor of what I mean by each opportunity type. Also, every opportunity will have elements of more than one type, and it’s where the types intersect that the “space” is created. Finally, the “space” can be thought of as taking on a “shape” influenced and molded by the elements brought in from each of the opportunity sources. That same shape is then reflected in the choice of the most appropriate business model to fill the space.

The 4 sources of opportunities

Situations where the industry incumbents leave the door open for challengers by:

- abusing monopoly or market leader position
- creating one-sided relationships with customers
- neglecting R&D and product development
- Delivering bad service or old fashioned products

1
Competitor oversight

Situations where the company has created an advantage for itself through:

- Innovation & know how
- First mover advantage
- Superior brand building & market positioning
- Proprietary technology and core competence
- Creation of new customer needs & preferences

2
Smart move

Situations where looking at the industry from a new perspective reveals customer segments, solutions or value propositions not previously seen

- Re-purposing existing things into new value propositions
- Finding customer segments that “make do” with current market offerings, but want more
- Uncovering “customer jobs” currently unmet
- Providing access to something to segments to whom that something is currently out of reach

3
Seeing things differently

A change in the environment can play out favourably for a company by:

- making supporting resources, processes or relationships critical competitive advantages because others lack them
- Mainstream products & services are no longer available or become too expensive due to shock or crisis event
- Change in environment produces new unforeseen customer needs or “jobs” to do

4
Change in environment

Case madison reed – shaking the incumbent tree

Even before the Covid-19 crisis hit, Madison Reed was an innovative hair color company carving out a niche in the US “DIY” hair color market. Founded in 2013, the company disrupted a complacent industry of generic products with harsh chemicals, non-existent customer service, and poor user experience. These are all hallmarks of an industry resting on its laurels and leaving the door open for a newcomer. Perfect example of opportunity type 1.

Complacent competition was not however the only type of opportunity to be found. Amy Errett also spot the opportunity to think differently about the industry as a whole and founded Madison Reed on a new value proposition, bringing the hair salon home. Positioned as a higher-end offering, they provided a superior customer experience with their proprietary color-matching technology that limited the use of harmful chemicals. To top it up, the company had on-call professional colorists that guided customers to the perfect color, completing the “hair salon at home” experience.

Madison Reed sources of opportunities

Opportunity type 1

- Generic products
- No customer assistance
- Harsh chemicals
- Poor customer experience

1
Competitor oversight

2
Smart move

Opportunity type 3

- Blur strict industry boundaries by bringing the salon experience home

3
Seeing things differently

4
Change in environment

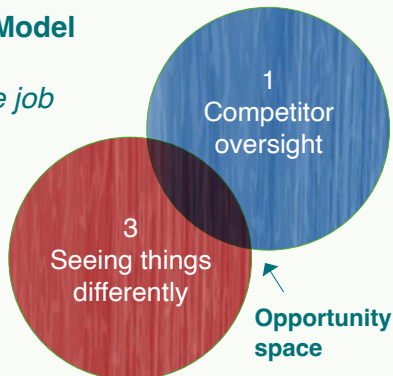
In many ways, the company crossed industry boundaries and placed itself somewhere between its own industry (the DIY hair-color market) and a substitute industry; brick-and-mortar hair salons. With Madison Reed, you got the hair salon experience in the comfort of your own home minus the 200 USD cost and the mandatory 3-hour sit at the salon.

From a business “chess” point of view, this is an example of opportunity types 1 & 3 coming together

and creating a unique opportunity space at the intersection. The industry incumbents were acting complacently in addition to which there existed an opportunity to blur industry lines and create a new type of an offering.

Business Model

Do more to address the job



Description

Look beyond your typical offering and address other jobs your customers are trying to get done

Core nodes:

- 1) Value Proposition: create a value proposition that better matches customer jobs
- 2) Customer Segments: target those customers whose “jobs” are taken care of poorly or not at all

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NUMBER	NAME & (SOURCE)	DESCRIPTION	EXAMPLE	CORE CODES
12	MARKET EXPANSION (Demographic Change)	MARKET EXPANSION: Demographic Change Expanding into new or underserved segments, primarily based on the identification of a new customer.	Delta, Apple, Netflix, Uber	1 Customer Segments 2 Market Structure
23	ACTION DIFFERENTIATION (Process Change)	ACT: Action Differentiation: New way to do an activity or process New competitive advantage by focusing on only one or a few activities, or by doing them differently.	Netflix	1 Key Activities 2 Key Resources
44	NEW CORE FUNCTIONS (New Products)	NEW CORE FUNCTIONS: New or enhanced core functions Expanding into new or underserved segments and/or providing new or enhanced core functions to existing customers.	Netflix	1 Customer Segments 2 Key Resources
45	SECTORARY REORGANIZATION (Business Model)	COMPANIES REORGANIZE: A range of changes beyond what is normally considered the boundaries of the organization, such as “horizontal” reorganization.	Netflix	1 Channels 2 Key Resources 3 Key Activities

Moving into this opportunity space, Madison Reed followed a business model pattern called “do more to address the job”. The pattern emphasizes companies who “Look beyond the typical offering and address other jobs customers are trying to get done” and relies on two cores (1) the value proposition and (2) customer segments. The idea is to create a better offering focused on the neglected needs of an already existing but underserved customer segment. Madison Reed played the pattern to its fullest by designing an offering responding to the specific needs of a premium customer segment.

Mark W Johnson "Reinvent Your Business Model: How to Seize the White Space for Transformative Growth"

Responding to covid – becoming agile

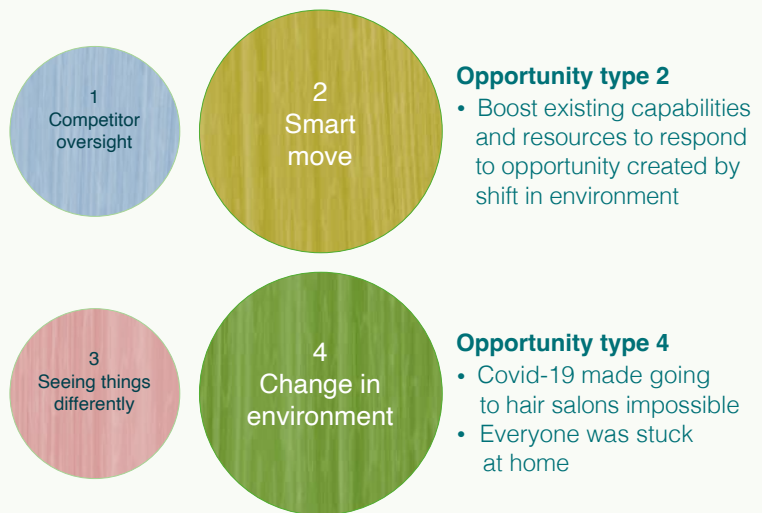
Then Covid hit and “In the first few weeks of March, the number of contacts through Madison Reed customer service went from 700 to 4,500 each day.” Amy Errett’s respons illustrates beautifully the idea of spotting an opportunity and taking quick action. She tripled the number of online colorists, started organizing customer-facing “Color Together” parties on Facebook Live, and invested in TV ads. The move paid off with the number of customers grew 12-fold and the company doubled its sales from 50 to over 100 MUSD in less than 4 months.

So, what does this shift look like from the “business chess” point of view? The key “pattern” to spot in this scenario is the Market Opportunity vs. Business Model -match. New opportunity, new business model. Let’s look at this step by step.

Firstly, Madison Reed realized the world was changing very rapidly and new opportunities were opening whilst others were closing. This is the opportunity source type 4 as described above. **Secondly**, it responded fast to a changing market by building a new business model on its existing key leverage; technology, resources, and processes.

Embedded in the do-more-pattern is the hint that to deliver on the value proposition, the company must do something extra. For Madison Reed, this meant investing in technology and professional color technicians and educating them to provide customer service remotely.

Madison Reed opportunity space – Covid-19



Before the pandemic, these were supporting elements in the model. During Covid, they provided the heels to pivot on into a new business model where they became core.

Taking the factors above into consideration, the business model Madison Reed adopted could be best described as “Activity Differentiators: Speed Masters”. Here a “company builds radically new activity configurations focused on speed. Create new, time-critical value propositions and accelerate time to market”.

Notice how the emphasis in this business model is on “new activity configurations” opposed to “Looking beyond the typical offering” as in the previous business model. This is what pattern spotting in a business setting is about!

Business Model Activity Differentiators: Speed Masters

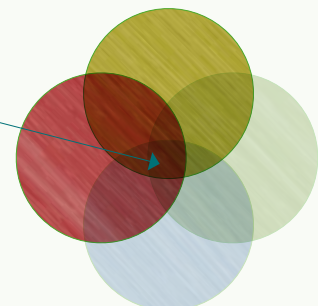
Description

Build radically new activity configurations focused on speed. Create new, time-critical value propositions and accelerate time to market.

Core nodes:

- 1) Key Activities: reconfigure for speed
- 2) Key Resources: Real-time data, trend spotting systems, communication systems, agile company structure
- 3) Value Proposition: time-critical (keeping up with trends etc.)

Opportunity space



Centre of gravity shifted to new layers: green and yellow

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NUMBER	NAME & SOURCE	DESCRIPTION	EXAMPLE	CORE CODES
10	MARKET OPPORTUNITY Demographic change	MARKET OPPORTUNITY: Demographic (age group) and geographic (location) changes create new opportunities and available to a small number of high achievers.	Uber, Airbnb	1. Customer segments 2. Value Proposition 3. Revenue Streams
11	ACTIVITY DIFFERENTIATOR Process/Model Shift	Build competitive advantage by focusing on only one and/or new steps within the value chain or completely a brand previously integrated business model.	Alibaba	1. Key Activities 2. Key Resources
12	DATA DRIVEN FEATURES Data Driven	DATA DRIVEN FEATURES: Data Driven: Targeted marketing, customer segmentation, and personalization through data analysis and performance measurement, targeting and optimization.	Netflix	1. Customer segments 2. Key Resources
13	RESOURCES RECONFIGURE Platform Shift	Companies that find a way of reusing existing and/or newly acquired resources to create value in “unique” settings.	Netflix	1. Channels 2. Key Resources 3. Key Activities

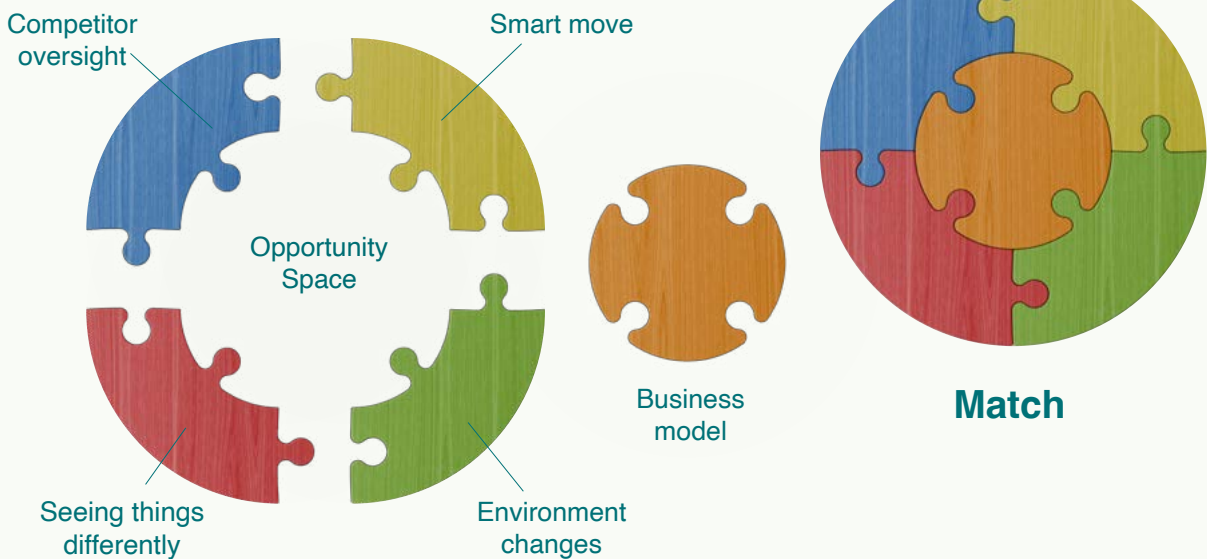
The value of pattern recognition – making winning moves

The business pattern the company first played was generic and referred to as “Do more to address the job”. It could be recognized! The second business model was also generic and recognizable as “Speed Masters”. What’s more, going from one model to another as a response to opportunities to strike also has a name. It’s called a “pattern shift”.

Every bit of the sequence in this game can be recognized, named, copied, and used to one’s advantage in other situations. Thus, the final point of this example is to highlight that acquiring the skill to recognize, and “play” business patterns can seriously pay off. It could well be the most valuable skill you could ever gain in business. I believe that the way Amy Errett played her game would have done Garry Kasparov very proud. Don’t you?

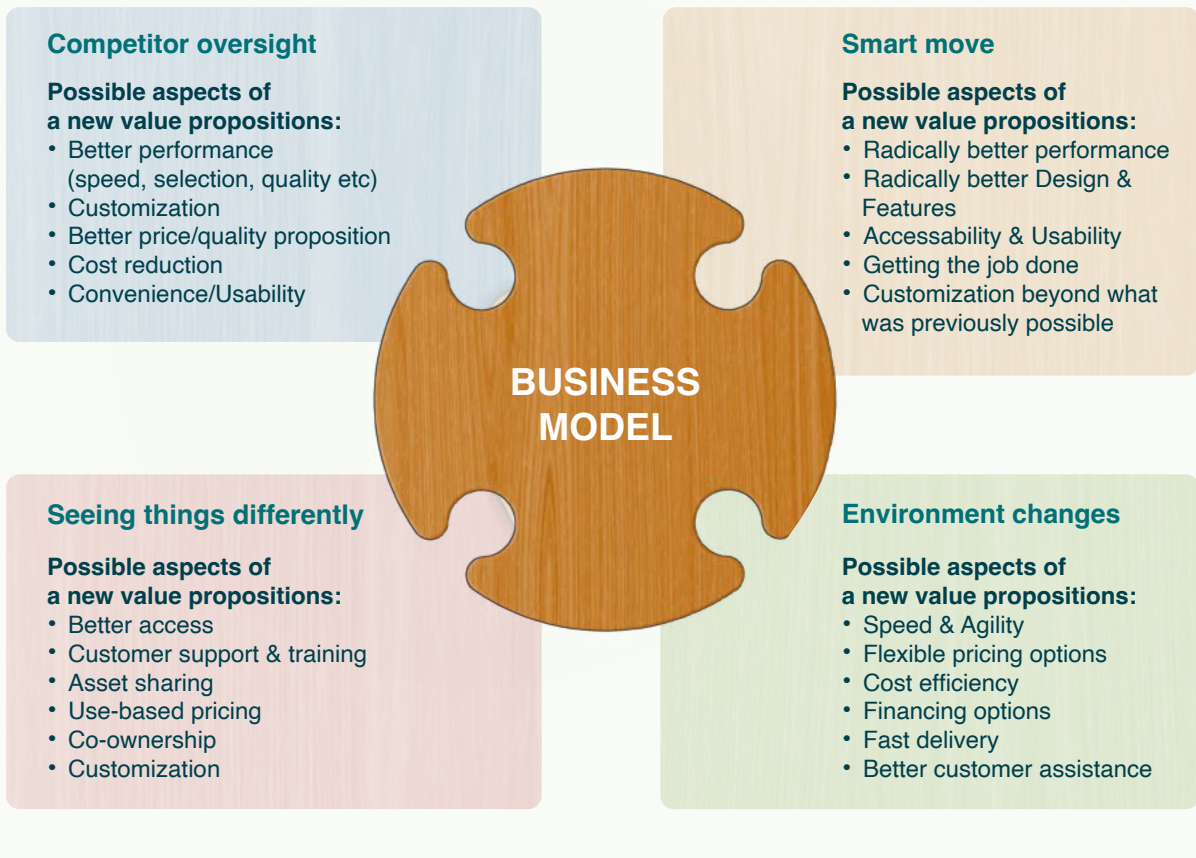
The winning move

Opportunity vs. Business Model - Fit



Business models and opportunity spaces are recognizable patterns the same way a chess pattern such as the Sicilian Defense opening is. Equally, just as each chess pattern has its time and place for using it, each business model is best suited for different types of opportunity spaces. The more business models and opportunity spaces you recognize, the closer you are to becoming the Beth Harmon of your industry.

The “shape” of the opportunity space and its corresponding business model



Similarly as in Professor Michael Porter’s 5-forces model, each opportunity type exerts a different kind of pressure on the opportunity space giving it “form”. The “pressures” are requirements the successful value proposition must have to match the opportunity space and fill the gap in the market.

Stay tuned for the next episode on business chess; how **5-hour Energy** created the energy shot industry by seeing things differently and making smart moves. Follow me on LinkedIn or on Substack to make sure you don’t miss out.

To read the original article that the case example is based on, please click the link:

<https://www.forbes.com/sites/helenpopkin/2020/07/17/how-amy-errett-made-madison-reed-the-hair-color-house-party-women-want-most/?sh=48c519a44207>



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