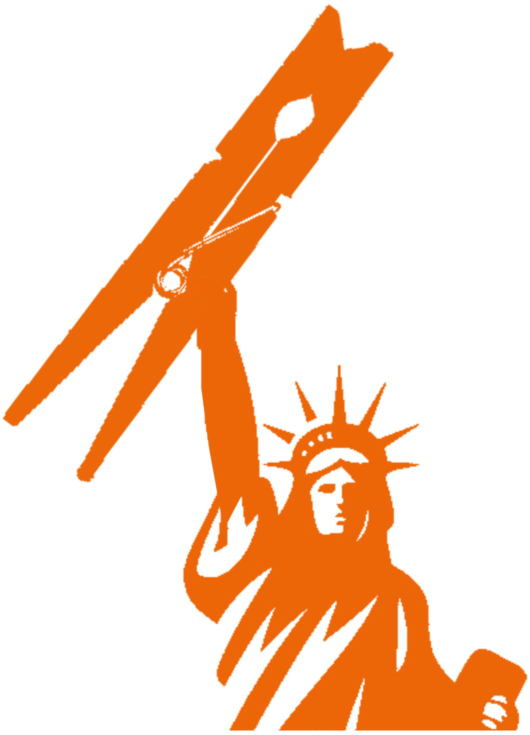
READ THE PREVIOUS EPISODE
Float past barriers to entry like 5-Hour Energy

## CHAPTER 1

# ★★★★★ STAR LAUNDRY & 180° SEGMENTATION



## Introduction

*A few years ago, I came across a truly inspiring business success story. A 27-year-old college drop-out inherits his father's failing 4 million (turnover) laundry business in an overcrowded and unprofitable industry in New York. In a matter of a few years, he turns it around into a business worth over 150 million dollars. A miracle.*

I was obsessed with trying to understand how he did it, so I sliced and diced the case in God knows how many ways to understand it. I was looking for its essence so that I could replicate it. What resulted was a segmentation method I have come to call "180° segmentation". In writing about Star Laundry and creating this episode I faced a dilemma. Explaining the case requires explaining the 180°-segmentation technique first, but doing so would turn the episode into a 25-page behemoth. Simply too much. So, what I decided to do was break the case up into bite-sized chunks, and created 4 separate chapters:

- **Chapter 1:** 180° segmentation – uncovering the sweet spots in your market
- **Chapter 2:** Star Laundry and 180° segmentation in action
- **Chapter 3:** Business process re-engineering and the Virtuous Cycle
- **Chapter 4:** Creating a Virtuous Cycle in the New York hotel laundry business.

# CHAPTER 1

## 180° Segmentation
## – Uncovering the sweet spots in your market

Segmentation has much more to offer than what people generally think. It's often seen as purely a marketer's tool with very little use in strategic planning and the creation of lasting competitive advantages.

In this article I introduce a new type of segmentation technique, that when done right, can transform your business to the core and provide powerful strategic advantages. It's strategic planning at its best.

**SWEET SPOT**

*"The particular situation, quality, combination of things, etc. that is the best or most effective possible"*

**CAMBRIDGE DICTIONARY**

# Making segmentation strategic

*When we talk about segmentation, we are normally talking about market segmentation. Demographics, geographics, psychographics…anything with the suffix "-graphics". And the context is usually that of marketing and advertising.*

*Traditional segmentation can however be turned into a much more powerful tool by overlaying it with two complementary techniques:* **(1) Industry Segmentation** *and* **(2) Jobs Theory.** *The result is a three-step segmentation process that brings to the surface the strategic* ***sweet spots*** *in your market. I call the technique 180° segmentation.*

### (1) INDUSTRY SEGMENTATION

The pioneer in making segmentation strategic is Professor Michael Porter from Harvard Business School. His 5-Forces model, Generic Strategies and the Value Chain concept are ubiquitous in management literature, but to my mind, one of his best and most powerful concepts has gone all but unnoticed – strategic industry segmentation. In his 1985 book Competitive Advantage Michael Porter writes about industry segmentation and how instead of focusing on the various "–graphics", you focus on structural differences between customer groups. What you look for is differences that have a direct impact on the costs your company incurs in serving one group of customers versus another. If the differences are significant, you might be looking at separate segments the way Porter means it.

#### Example of structural Cost differences: The turbine industry

In explaining the mechanism though which differences in customer groups affect cost structure, Porter looks to the Five Forces framework. One example he gives comes from the large turbine generator industry where there are two types of customers; (1) investor-owned utilities and, (2) municipality owned utilities. According to Porter's approach, differences between these two groups can be partly explained through the differences in bargaining power (one of the five forces).

He explains that investor-owned utilities tend to be more technologically sophisticated and purchase through a negotiation process, while municipal utilities are less sophisticated and purchase through public bidding. The book goes on to say that "this creates differences in price sensitivity and in the ability of a firm to create mobility barriers in selling to the two types of utilities…". Because of the **differences in bargaining power**, the two groups are considered separate segments.

### (2) JOBS THEORY

With his 2016 **HBR article titled Know Your Customers "Jobs to Be Done",** Professor Clayton M Christensen introduces us to "Jobs Theory" where the central theme is that people don't buy products or services but buy solutions instead. According to the theory "When we buy a product, we essentially "hire" it to help us do a job. If it does the job well,we'll hire it again. If it does a crummy job, we "fire" it and look for something else to solve the problem.

The article gives multiple examples of the concept, but here is one I picked out: Hershey's, and the invention of the Reese's Mini. Hershey's achieved a breakout success with what might seem to be just another version of the decades-old peanut butter cup, but the article tells us how they did it.

" Researchers began by exploring the circumstances in which Reese's enthusiasts were "firing" the current product formats. They discovered an array of situations – driving the car, standing in a crowded subway, playing a video game – in which the original large format was too big and messy, while the smaller, individually wrapped cups were a hassle (opening them required two hands). In addition, the accumulation of the cups' foil wrappers created a guilt-inducing tally of consumption: I had that many?

When the company focused on the job that smaller versions of Reese's were being hired to do, it created Reese's Minis. They have no foil wrapping to leave a telltale trail, and they come in a resealable flat-bottom bag that a consumer can easily dip a single hand into. The results were astounding: $235 million in the first two years' sales and the birth of a breakthrough category extension."

https://hbr.org/2016/09/know-your-customers-jobs-to-be-done

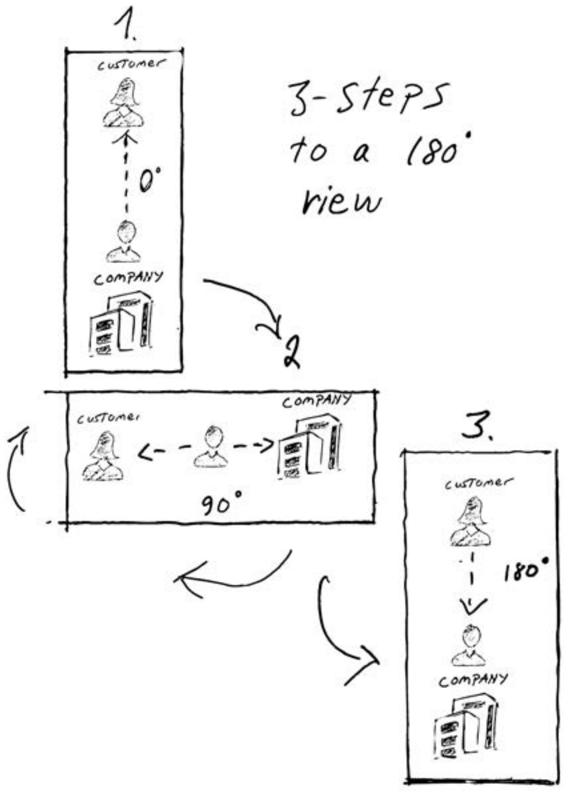
## 180° Segmentation

*The three different techniques outlined above can be thought of as looking at the market from three different angles:*

**1.** In **market segmentation** the company is looking directly at the customer. The focus is on finding discernible differences between groups and correlations between factors to explain and predict consumption behavior. I call this the **0-degree angle**.

**2.** In **industry segmentation** the company is still looking at the customer, but also simultaneously looking at itself. The focus is on finding structural differences between groups of customers that affect costs. This I call the **90-degree angle**.

**3.** Finally, in **Jobs Theory** the situation is viewed from the customer's perspective. The objective is to understand the "job" the customer is trying to get done and the different alternatives available for "hire" to do the job. I've called this step the **180-degree view** because here the table is turned on the company and it's the customer doing the viewing.




## Layered Matrix

*By going through the three steps, you gather segmentation criteria from each of the viewpoints. Next, the criteria are combined to create a layered segmentation matrix, which ultimately yields the benefit of the whole exercise. It does so by bringing to the surface the one or two segments where all the positive factors intersect. It's in this sense the reverse of the famous Swiss cheese model of hazard prevention. Let's look at building a matrix with a hypothetical example.*

### Step 1:

Create a matrix based on market segmentation criteria. For the sake of demonstrating the idea, I have arbitrarily chosen a set of hypothetical segmentation criteria to build the base of the matrix. The criteria and range of values are:

**1. Geography:** with two values (East & West)
**2. Demographics:** income level with three values (Low, Medium & High)
**3. Psychographics:** lifestyle with two values (Traditional & Liberal)

**MARKET SEGMENTATION CRITERIA** (Hypothetical examples)

| | Geographics: EAST<br>Demographics: income level | | | Geographics: WEST<br>Demographics: income level | | |
|---|---|---|---|---|---|---|
| Psychographics: Lifestyle | LOW | MEDIUM | HIGH | LOW | MEDIUM | HIGH |
| Traditional | | | | | | |
| Liberal | | | | | | |

*The matrix above shows the resulting 12 combinations, or segments.*

**Step 2:**

The next step is to overlay each of the 12 segments with industry segmentation criteria. Again, to make things as simple as possible I have arbitrarily chosen “cost implications” as the criteria and “Good/Bad” as possible values. It is however very important to understand that the devil is in the details and the value of the 180°-segmentation exercise is in discovering those criteria that make a real difference. Moreover, the strategic advantage comes from finding meaningful criteria that others have not thought of. The objective is to look at the industry with fresh eyes and discover something new. What you find will vary from industry to industry, and for example in the large turbine industry example the critical criterion was bargaining power with “low/high” as possible values.

## OVERLAY 1: OPERATIONAL IMPLICATIONS

| | Geographics: EAST<br>Demographics: income level | | | Geographics: WEST<br>Demographics: income level | | |
|---|---|---|---|---|---|---|
| **Psychographics: Lifestyle** | LOW | MEDIUM | HIGH | LOW | MEDIUM | HIGH |
| Traditional | GOOD | GOOD | BAD | BAD | GOOD | GOOD |
| Liberal | BAD | GOOD | BAD | BAD | BAD | BAD |

**Factor with cost implications** Good Bad

**Step 3:**

Indicate which customer segments have “jobs” that match your value proposition the closest. Alternatively, indicate those segments whose “job” is currently not being taken care of, and which your company could do.

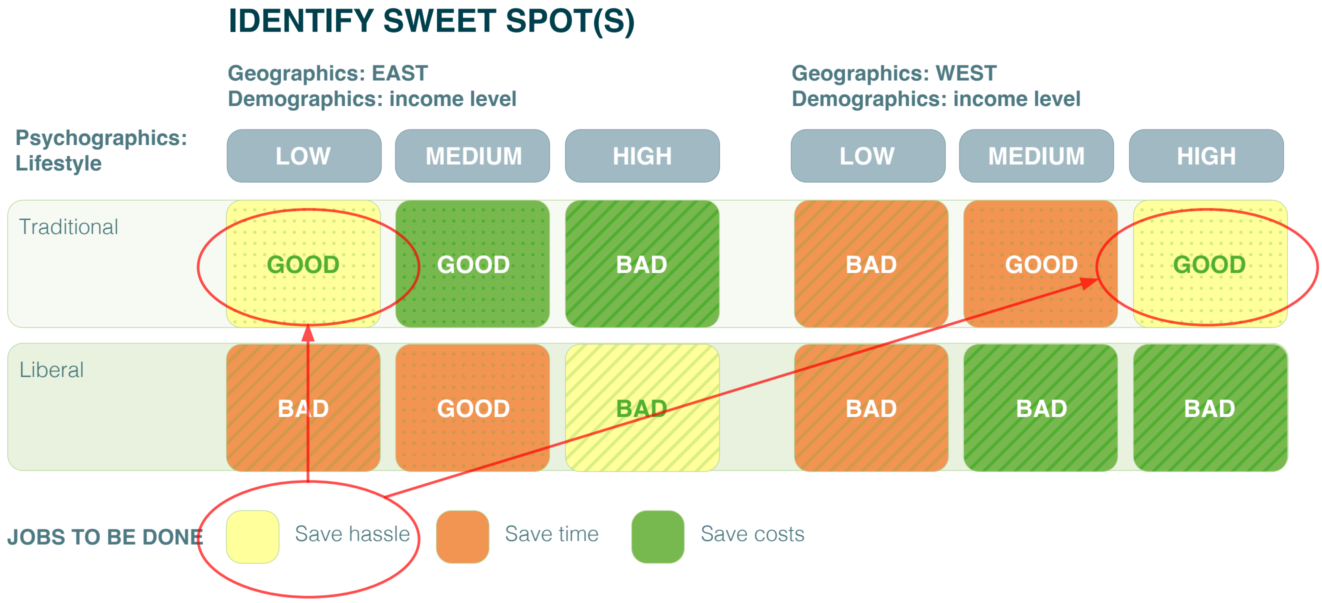
However, before you can start overlaying the matrix with this information, you must first perform the critical task of discovering what the customer “jobs” are in the first place. Christensen’s original article explains various ways of doing that, so I highly recommend reading it. Once again, to make things simple I have created three arbitrary hypothetical “jobs”: saving hassle, saving time, or saving costs.

## OVERLAY 2: ”JOB TO BE DONE”

| | Geographics: EAST<br>Demographics: income level | | | Geographics: WEST<br>Demographics: income level | | |
|---|---|---|---|---|---|---|
| **Psychographics: Lifestyle** | LOW | MEDIUM | HIGH | LOW | MEDIUM | HIGH |
| Traditional | GOOD | GOOD | BAD | BAD | GOOD | GOOD |
| Liberal | BAD | GOOD | BAD | BAD | BAD | BAD |

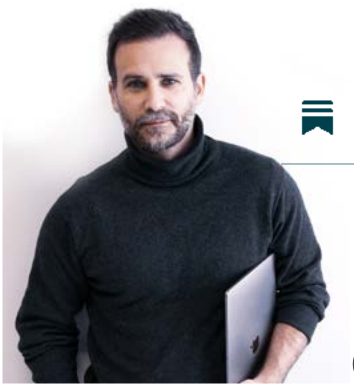
**JOBS TO BE DONE** Save hassle Save time Save costs

**Step 4:**
The final step is to find the sweet spots, which are the segments where each of the overlayed criteria come out as positive from the company's point of view. For example, a company that sees its value proposition as being about "saving hassle", the sweet spots in the market would be the ones indicated below.




## In the next chapter

Now that you know how the technique works, it's time to see it in action. In Chapter 2 we will pick the Star Laundry case apart using the 180° segmentation technique and see how the miracle turnaround starts to make complete logical sense.



https://www.linkedin.com/in/robert-eden-acca-4522a812/

***Robert Eden*** is an ACCA Charted Accountant and a start-up entrepreneur dedicated to bridging the gap between accounting and strategy. A graduate from the Helsinki School of Economics as well as London School of Economics, Robert has spent the past 15 years working with SMEs with Strategic Management Accounting as his area of expertise.

edenaccounts.com robert.eden@edenaccounts.com +358 50-382 0281