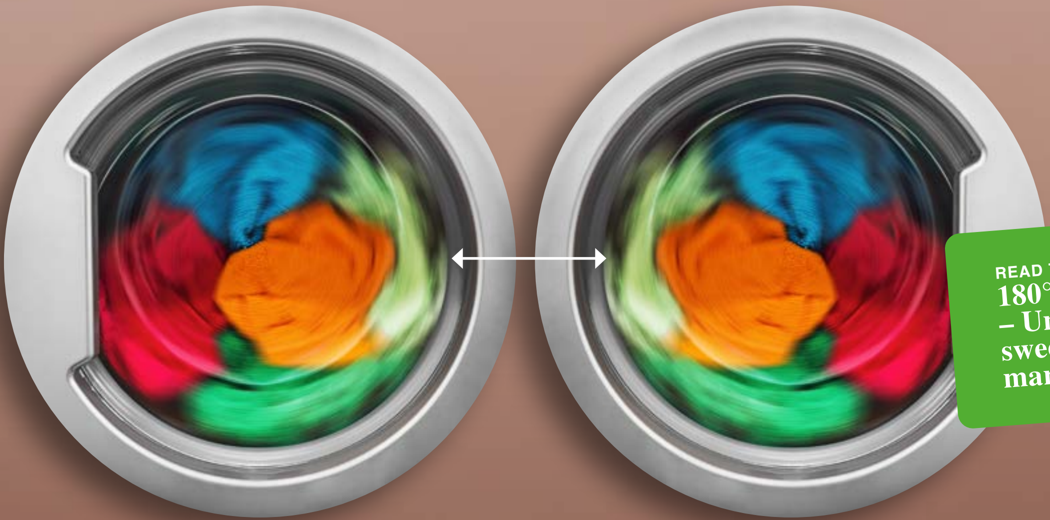


READ THE PREVIOUS CHAPTER
180° Segmentation – Uncovering the sweet spots in your market

CHAPTER 2

180°

SEGMENTATION

IN ACTION

STAR LAUNDRY INC.

★ ★ ★ ★ ★

BY: ROBERT EDEN

Introduction to chapter 2

Episode 4 is a case study on one of my favorite miracle business turnaround stories of all time: Star Laundry. To my mind, the key to unlocking this case lies in segmentation, and especially in finding those "sweet spot" customer groups that are more attractive to the company than any other.

The Episode is arranged into 4 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.

In Chapter 1 I introduced a method I developed for identifying the sweet spot customer groups in any market, 180° segmentation, and it's a necessary tool for understanding this case. In Chapter 2 we go ahead and apply it to Star Laundry.

CHAPTER 2

180° segmentation in action – Star Laundry Inc.

In the Forbes article titled *"Cleaning up: How a 27-year-old College Dropout Turned His Late Dad's Business into A Laundry Service Worth $150 Million"*, we are introduced to Yaakoub Hijazi. We are told how he inherited his father's failing $4 million (sales) laundry service in New Jersey and went on to transform it into a powerhouse with an annual turnover of more than $70 million a year and a market share of over 40%. How did he do it?

Star laundry & the New York hotel laundry market

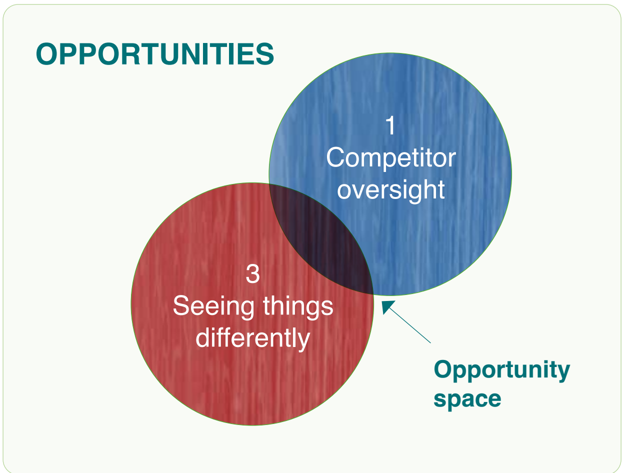
Even though the article is very short, one page, the reader is given a good description of the B2B laundry business in New York and on how difficult it was:
(1) It was a cutthroat business, with a pound of laundry priced at 30 cents to 45 cents.
(2) Price cutting to gain market share was rampant.
(3) Every company in the business was suffering and at the brink of collapse.
(4) According to the CEO of one of the biggest compa nies in the market "the entire market is fighting over the same 200 hotels".

What we can gather from the description is that the dominant dimension for competition was price and the hotels held all the bargaining power. What's more, it's apparent that the market was perceived as homogenic. Everyone was targeting everyone.

We already know the outcome of this story, but we need to get into the specifics on how Hijazi broke out of a bad situation. We can do that by (1) identifying the opportunity space, and (2), seeing how the 180° segmentation technique can uncover the exact point, the sweet spot, in the space with the most potential for a turnaround strategy.

STEP 1: IDENTIFYING THE OPPORTUNITY SPACE

Very few markets or industries are homogenic, and neither is the New York B2B laundry industry. The fact that every company is chasing after the same clients is a big "look here" sign for discovering opportunities.



We could go so far as to say that a market perceived as homogenic is immediately a recognizable generic opportunity space. Moreover, it falls under opportunity pattern type 3, seeing things differently, since you disagree with the notion that the market is homogenic.

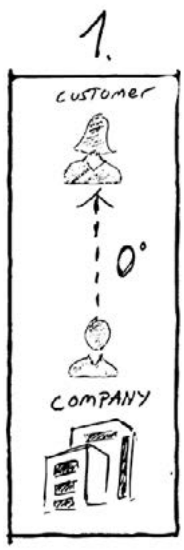
That is not however the end of the story as far as the opportunity space goes. As we will later see, it was partly created by the poor service quality companies had resorted to providing when faced with competition based mainly on price cutting. This presented someone with the opportunity of stepping up when everyone else was stooping low. This is opportunity type 1: competitor oversight.

STEP 2: IDENTIFYING THE SWEET SPOTS

Now that we have described the origins of the opportunity space, we can move on to slicing it using the 180° segmentation technique. We begin by segmenting the market the traditional way.

The 0° view: Market segmentation

We can identify a handful of market segmentation criteria just from the information we are given in the article. For example, we learn that:
(1) the market is in fact geographically split between New Jersey and Manhattan.
(2) hotels come in different sizes: small, medium, large.
(3) they are categorized differently based on their service level: budget, mid-tier, luxury.



These are traditional market segmentation criteria, and they provide us with a good start to segmenting the market, but they don't take us very far. The problem with them is that they are obvious to everyone, and there is no competitive advantage to be found in segmenting the market purely on them. To understand this case better, we need to view the market through the industry segmentation and Jobs Theory lenses.

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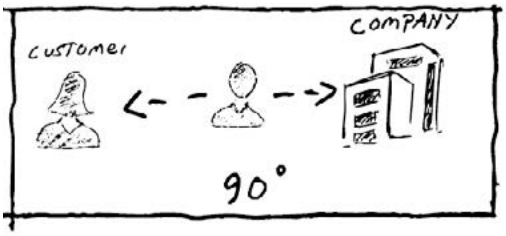


The 90° view: look for operational cost implications
The point here is to look at the customer while at the same time look at yourself and discover differences between customers that have operational cost implications for you.

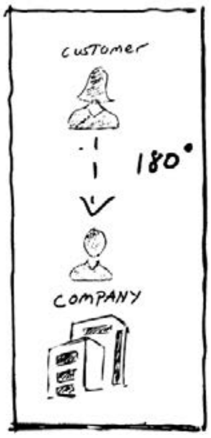
Here the article gives us some more clues:
(1) Occupancy rates in Manhattan hotels, especially in large and luxury hotels, were higher and steadier than in New Jersey.
(2) Resulting from the higher and steadier occupancy rates the volume of laundry produced in Manhattan hotels were also higher and steadier. This was espe cially so with luxury hotels.
(3) Manhattan has a higher concentration of large and luxury hotels, and they are situated closer to each other than in New Jersey.

Look closely and you will see that all three points have operational cost implications. Firstly, steadier volumes of laundry make route planning and operations planning easier and more cost efficient. When loads are steady and predictable, equipment utilization rates are higher and idle time is lower.

Secondly, higher volumes of laundry introduce economies of scale. The flip side of the coin is that higher loads from multiple hotels will most likely require bigger and more sophisticated machinery. But, the more sophisticated machinery ensures better service quality, which in turn keeps customers happy and the flow of laundry steady. Moreover, once everything is up and running with the new machinery, their high purchase cost will work as a moat around the company's business driving out competitors.

Lastly, the closer proximity of hotels has implications for logistics. Having many hotels situated close to each other enables more efficient route planning, quicker turnaround times and tighter service intervals. All contributing towards offering a better service to customers at a lower operational cost to the company.

3.



The 180° view: look for customer "jobs"
For a hotel, laundry is a hygiene factor. It's something no-one notices when taken care of well but will be the talk of the town if done badly. Therefore, hotels "hire" a laundry company to take the problem off their hand.

The "job" sounds simple enough, but the article gives us one final clue that reveals not everyone was happy. According to the article, hotels had realized the laundry companies were price cutting and because of this were delivering "crap". Clean laundry is important for every hotel, but for some groups, they play a more vital role than for others. Luxury hotels virtually ride on the idea of crisp white and perfectly ironed bedsheet and are therefore willing to pay a premium for premium service. Looking at the issue from a "jobs" point of view we might therefore produce a list of "job descriptions" like this:

Type of hotel	Budget	Mid-Tier	Luxury
Job to be done	We want clean laundry at the cheapest possible price. ***Help us offer our customers the basics.***	We want clean laundry to a good level of quality, at a competitive price. ***Help us keep our customers satisfied.***	Our customers come to us for that very special luxury hotel experience. ***Be part of our team and help us delight our customers.***

Layered Matrix

The next step in the 180° segmentation technique is to layer the gathered segmentation criteria to reveal the sweet spots. This is done in 4 steps.

STEP 1: Create the base

Combine market segmentation criteria into a matrix. For Star Laundry the matrix would look like the one below with 18 distinct segments identified.

MARKET SEGMENTATION CRITERIA

	Manhattan			New Jersey		
	SMALL	MEDIUM	LARGE	SMALL	MEDIUM	LARGE
Budget						
Mid-Tier						
Luxury						

STEP 2: Overlay the base with industry segmentation criteria

Above we had identified two key differences between types of hotels that had operational cost implications: (1) the volume and steadiness of laundry, and (2) the geographical proximity of hotels to each other. Both can used to "rate" each of the 18 segments in the matrix with values "high/low".

	Manhattan						New Jersey					
	SMALL		MEDIUM		LARGE		SMALL		MEDIUM		LARGE	
Budget	Low	High	Low	Low	Low	Low	High	Low	High	Low	Low	Low
Mid-Tier	Low	Low	High	High	High	High	High	Low	High	Low	Low	Low
Luxury	High	Low	High	High	High	High	Low	Low	Low	Low	Low	Low

Occupancy rates, laundry volume & steadlines High Low

Number of hotels & proximity to each other High Low

The rating is based on my own estimations and not on empirical market data

STEP 3: Overlay with "jobs"

Indicate for each of the segments what "job" they most likely expect a laundry company to perform. Here we identified three types of "jobs": (1) provide the basics, (2) Help keep customers satisfied, and (3) help delight customers. The resulting matrix is below.

	Manhattan						New Jersey					
	SMALL		MEDIUM		LARGE		SMALL		MEDIUM		LARGE	
Budget	Low	High	Low	Low	Low	Low	High	Low	High	Low	Low	Low
Mid-Tier	Low	Low	High	High	High	High	High	Low	High	Low	Low	Low
Luxury	High	Low	High	High	High	High	Low	Low	Low	Low	Low	Low

Basic service | Help keep customers satisfied | Help delight customers

STEP 4: identify sweet spot segments

The final step is to identify those segments where all the positive factors intersect. What is important to understand is that what is positive and what is negative is a matter of perspective and depends on the company. The segmentation exercise in this case has highlighted "sweet spots" for a company who wants to go after a better price through better service quality and therefore perform the jobs of (1) helping to keep customers satisfied, and (2) help delight the customer. That was Star Laundry.

	Manhattan						New Jersey					
	SMALL		MEDIUM		LARGE		SMALL		MEDIUM		LARGE	
Budget	Low	High	Low	Low	Low	Low	High	Low	High	Low	Low	Low
Mid-Tier	Low	Low	High	High	High	High	High	Low	High	Low	Low	Low
Luxury	High	Low	High	High	High	High	Low	Low	Low	Low	Low	Low

SWEET SPOT

Basic service / Not critical | Hygienie factor / Out sight out of mind | Critical / Be part of the team delighting customers

If you read the article, you will find that the segments highlighted in the table above are EXACTLY the segments Hijazi started to vigorously target.

In the next chapter

A headline I once saw in a business magazine said: “Ideas are worth nothing, execution is everything”. In chapter 3 I will explain how the next step after discovering sweet spots is to re-engineer processes to deliver on the newly found potential. I will also explain how using a feedback loop mechanism can create Virtuous Cycles that can lead to runaway successes like Star Laundry.

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