Consultancy project:

# Evaluation & Priorities Setting

By Jakub Čech & Andrej Šišolák

# Our Agenda

Consultancy Project | Evaluation & Priorities Setting

10 min —————— **01**    Segmentation

20 min —————— **02**    BCG Matrix

20 min —————— **03**    GE McKinsey Matrix

10 min —————— **04**    The Hedgehog Concept

Evaluation & Priorities Setting

# Segmentation

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# Targets of Segmentation

## Definition

To split all the potential customers on the market into homogeneous groups, which could be identified with the same or similar needs and buying behavior.

Customers within selected segments should have as much as possible similar needs and buying behavior.

On the other hand, the needs and buying behavior of the customers across the selected segments should be different as much as possible.

## B2C Segmentation Criteria

There can be countless criteria found for the business-to-customer markets. Nevertheless, the most frequent ones are:

- Geographic (continents, countries, regions etc.)
- Demographic (age, sex, ethnicity, religion, marital status etc.)
- Socioeconomic (education, employment, income etc.)
- Psychologic (personal values etc.)
- Buying behavior (frequency and volume of purchase, brand loyalty etc.)
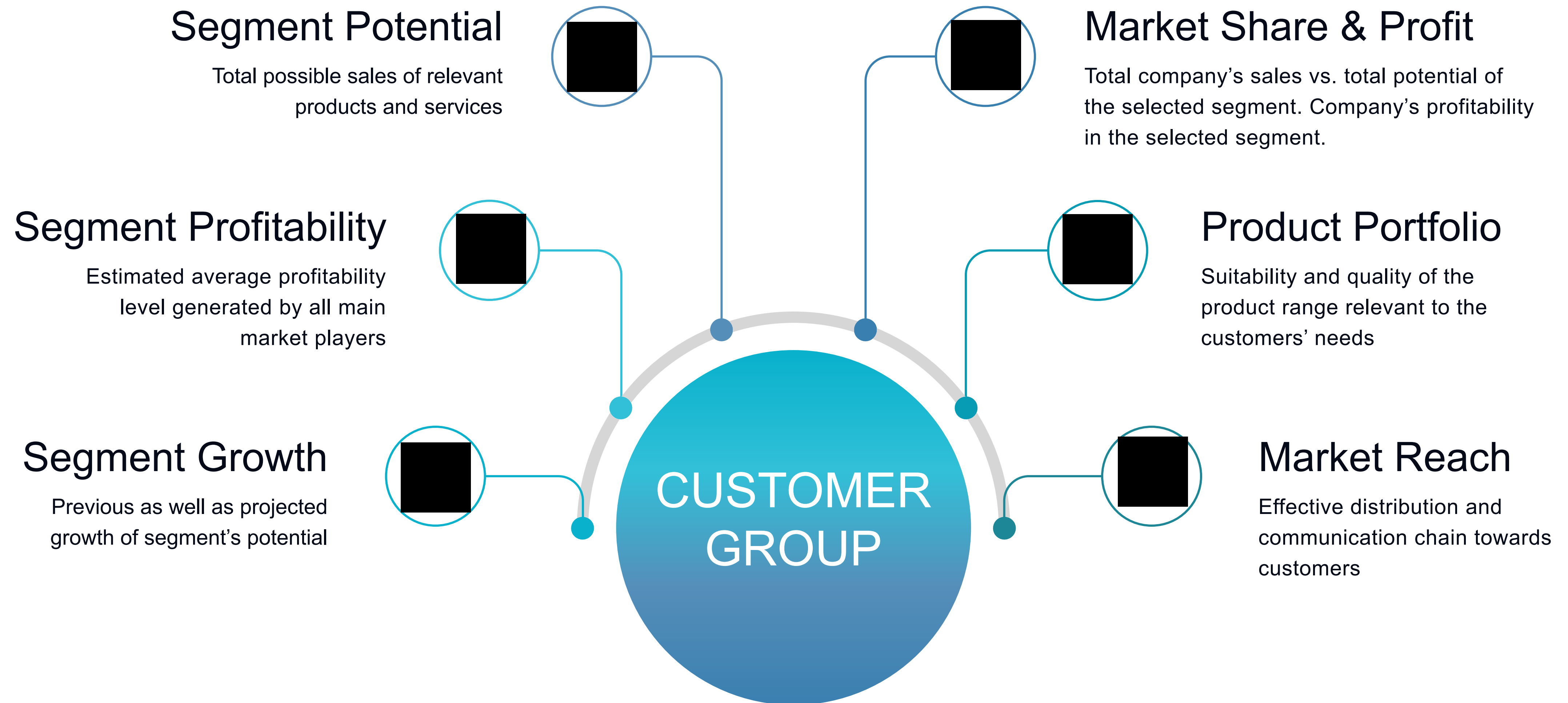
## B2B Segmentation Criteria

The most useful criteria for the business-to-business market are:

- Organization status (industry sector, size, culture etc.)
- Operation status (production, purchasing process and frequency, quality requirements etc.)
- Buying behavior (purchasing policy, decision making process etc.)

# Segments' Key Performance Indicators

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## Segment Potential

Total possible sales of relevant products and services

## Market Share & Profit

Total company's sales vs. total potential of the selected segment. Company's profitability in the selected segment.

## Segment Profitability

Estimated average profitability level generated by all main market players

## Product Portfolio

Suitability and quality of the product range relevant to the customers' needs

## Segment Growth

Previous as well as projected growth of segment's potential

## Market Reach

Effective distribution and communication chain towards customers

CUSTOMER GROUP

# Segments Evaluation

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| KPI's | Weight | Segment 1 | Segment 2 | Segment 3 | Segment 4 |
|---|---|---|---|---|---|
| **Market Segment Evaluation** | | | | | |
| Market Potential | 35% | ★★★ | ★★★ | ★★ | ★ |
| Market Profitability | 35% | ★★ | ★★★ | ★ | ★★ |
| Market Growth | 30% | ★ | ★★ | ★★★ | ★ |
| Total | 100% | ★★ | ★★★ | ★★ | ★ |
| **Company's Market Position Evaluation** | | | | | |
| Sales | 20% | ★★ | ★ | ★★ | ★★★ |
| Profitability | 30% | ★ | ★★ | ★ | ★★★ |
| Product Portfolio | 20% | ★★ | ★★★ | ★ | ★★★ |
| Market Reach | 30% | ★★★ | ★ | ★ | ★★ |
| Total | 100% | ★★ | ★★ | ★ | ★★★ |

★★★ High     ★★ Mid     ★ Low

# Segments Evaluation

## Market Segment Evaluation

To differentiate one or more market segments from each other and recognize the level of attractiveness in all of them, we need to compare each one's KPIs:

1. Set up the thresholds to define the difference in between the low, mid, and high level of attractiveness
2. Set the importance of each KPI by the weight in performance
3. Compare each KPI individually between the segments
4. The total evaluation of the segments is based on the weighted average of each KPI score and importance

## Sales and Profitability Evaluation

Evaluation of the sales between the individual segments is based on comparing the company's market share in every one of them. Market share is calculated as a quotient between the company's sales and total market potential.

Evaluation of the profitability of the individual market segment is based on comparing the company's profit in each segment as well as the average profitability level achieved by the leading competitors.

Process is the same like for the Market Segment Evaluation

## Product Range & Market Reach Evaluation

Evaluation of the relevancy and quality of the product range is based on comparing the company's actual product and service range with the existing and future customer needs and competitors' offers.

Evaluation of market reach is based on comparing the availability of the company's distribution network with customers' needs in selected segment and the competitors' offers.

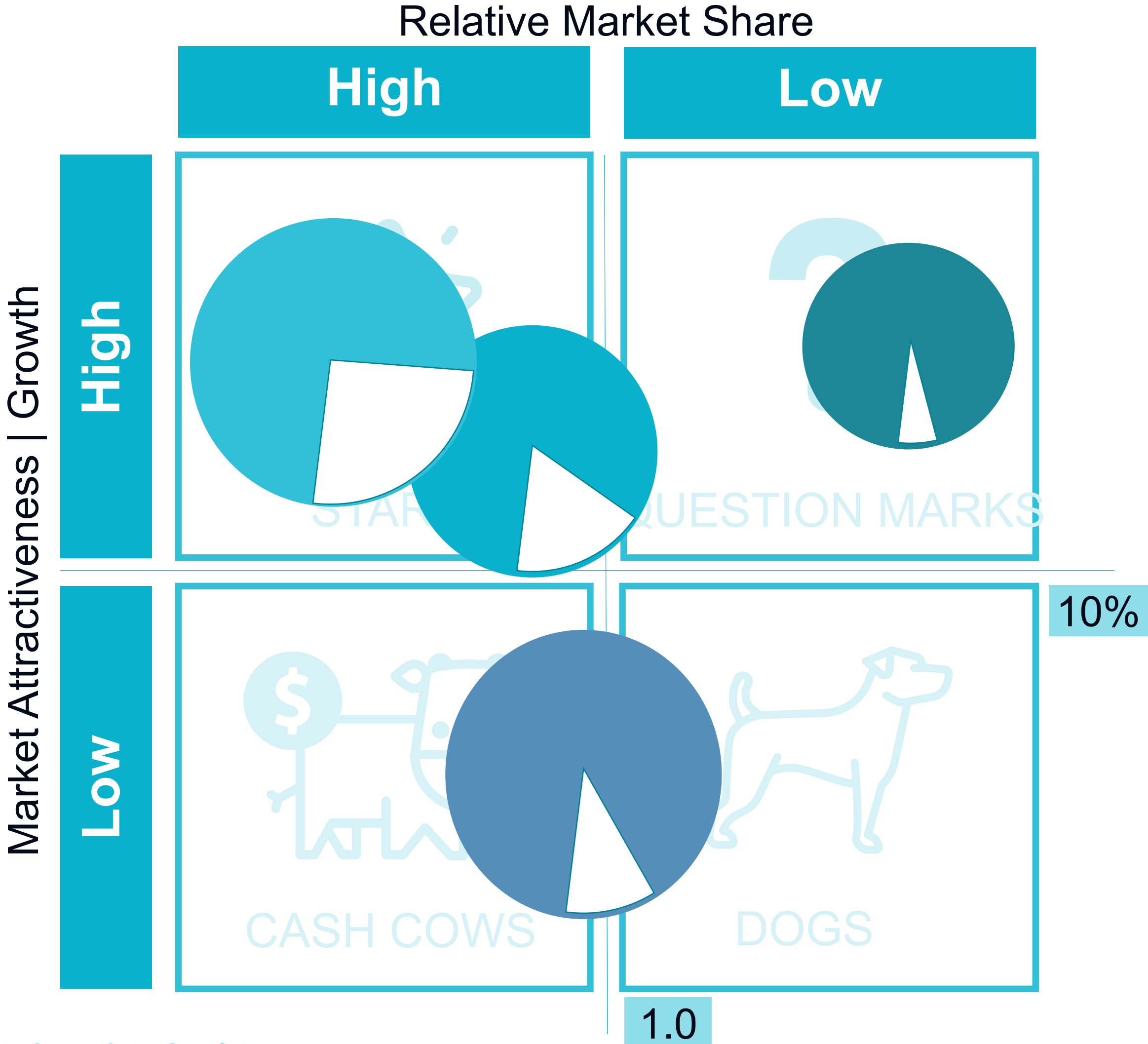Same process as for the Market Segment Evaluation could be used.

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# BCG Matrix

By Jakub Čech & Andrej Šišolák

# BCG Matrix Introduction

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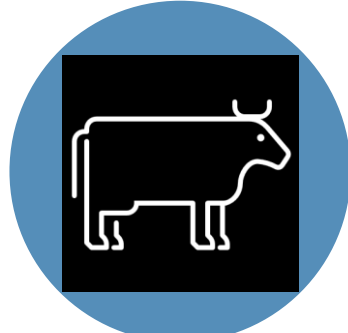
Relative Market Share



## Question Marks

Segments with high market growth rate but low relative market share. Require lot of investments to be develop to the stars (typically new products)

## Stars

Segments with high market growth rate in which company has a leading position. Generates lot of profit but requires a lot of investments to protect the position

## Cash Cows

Segments with low market growth rate in which company has a leading position. Does not require a lot of investments and should generates high profits
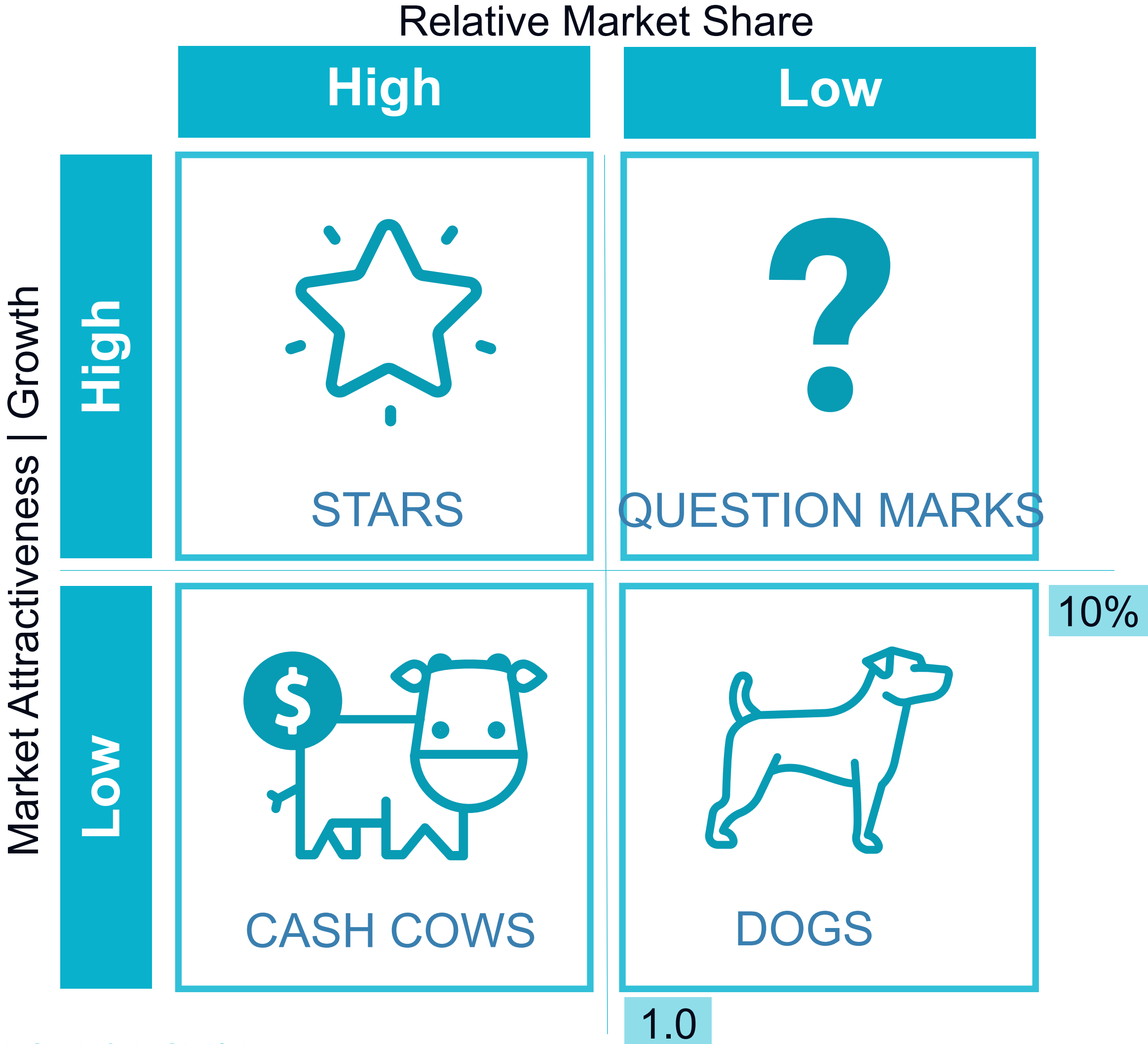
## Dogs

Segments with low market growth and low relative market share. Does not generate sufficient level of profits. Very often considers for divestment or cancellation

# BCG Matrix Introduction

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**Relative Market Share**

| | High | Low |
|---|---|---|
| **High** | STARS | QUESTION MARKS |
| **Low** | CASH COWS | DOGS |

Market Attractiveness | Growth

10%

1.0

## Question Marks

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# GE McKinsey Matrix

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# GE McKinsey Model

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## Business Unit Strength

| | High | Medium | Low |
|---|---|---|---|
| **High** | Grow | Grow | Hold |
| **Medium** | Grow | Hold | Harvest |
| **Low** | Hold | Harvest | Harvest |

Market Attractiveness

### Grow
Segments with the leadership position in the attractive market segments. Needs investments to grow or protect the position.

### Hold
Selectivity | earnings segments. Invest into the business with the low position in the attractive markets or harvest the business with the strong position in not attractive market.
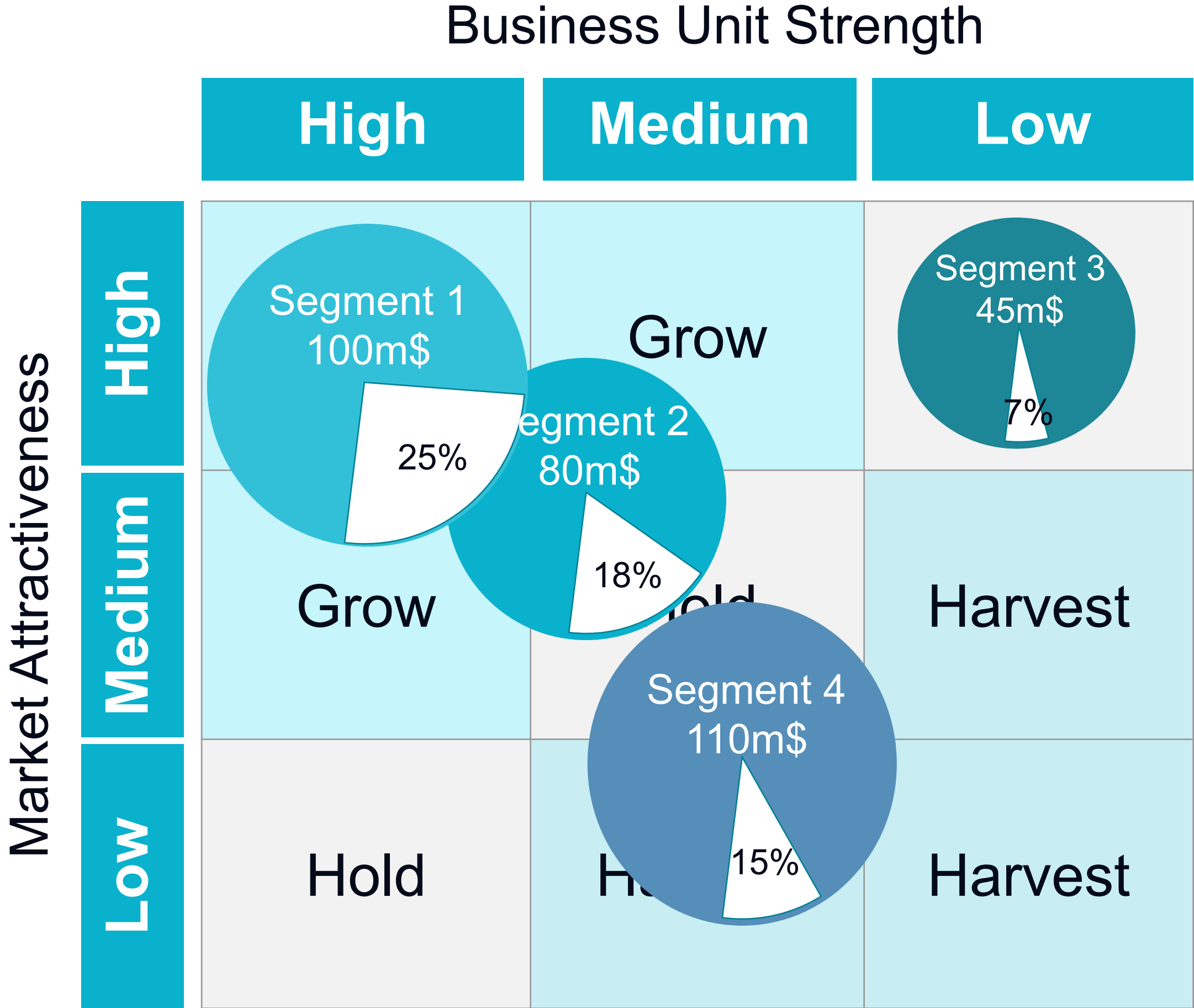
### Harvest
Segments with weak position in the unattractive markets. Go for divestments of maximize the profit.

# GE McKinsey Model

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## Business Unit Strength



Market Attractiveness

|  | High | Medium | Low |
|---|---|---|---|
| **High** | Segment 1 100m$ — 25%<br>Grow | Segment 2 80m$ — 18%<br>Grow | Segment 3 45m$ — 7% |
| **Medium** | Grow | Hold | Harvest |
| **Low** | Hold | Segment 4 110m$ — 15%<br>Harvest | Harvest |

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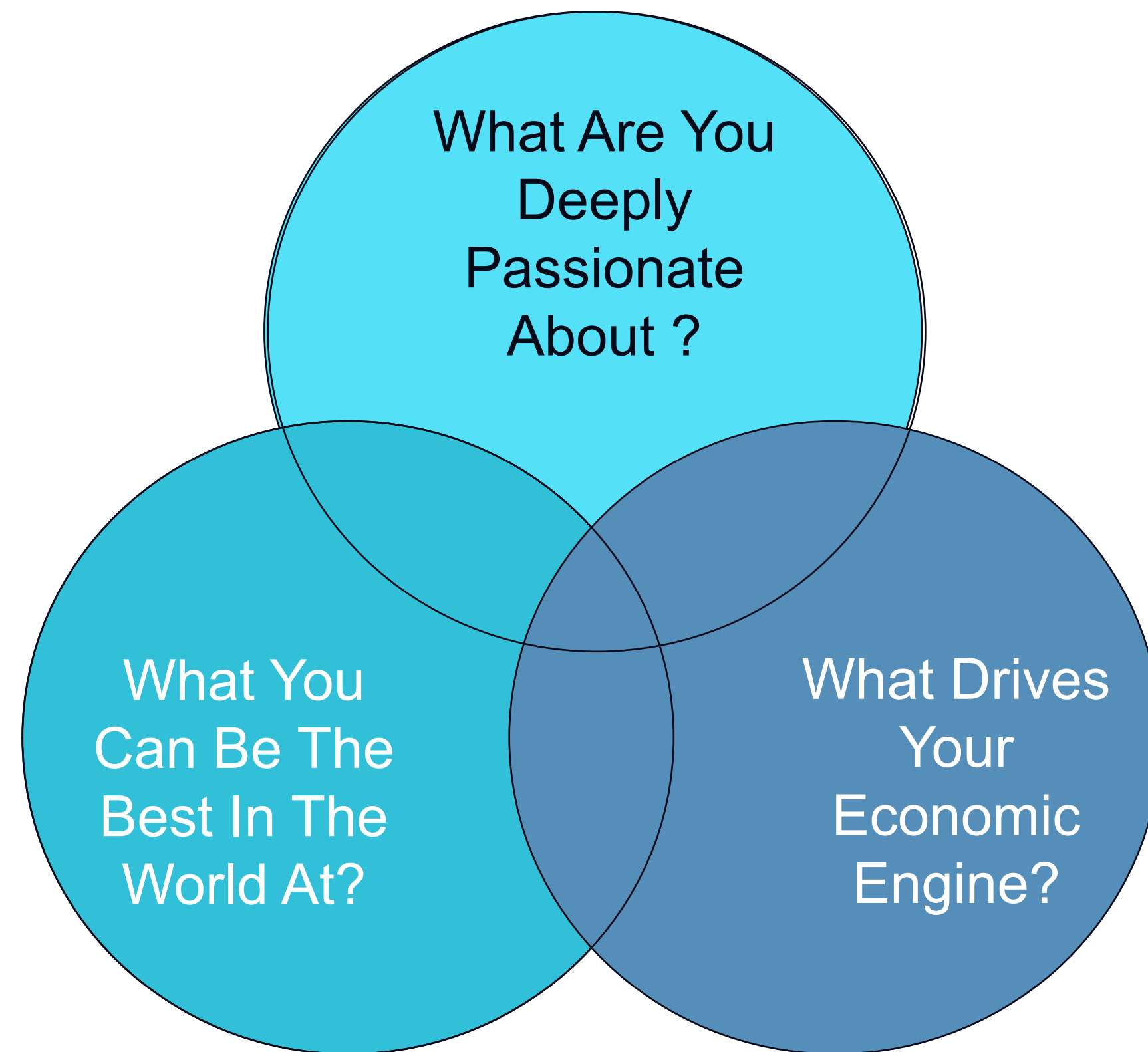
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# The Hedgehog Concept

By Jakub Čech & Andrej Šišolák

# Jim Collins The Hedgehog Concept

The Hedgehog Concept is not a goal to be best, a strategy to be the best, an intention to be the best, a plant to be best. It is an understanding of what you can be the best at.

What Are You Deeply Passionate About ?

What You Can Be The Best In The World At?

What Drives Your Economic Engine?

## Passion about?

Try to identify areas of business for which are you passionate about. Try to find a higher meaning of your activity. Do not try make people passionate about the vison or strategy.

## Be best in the world?

And what you can not be the best in the world. Does not have to be your current core competencies. It can be something in which you are not even in yet.
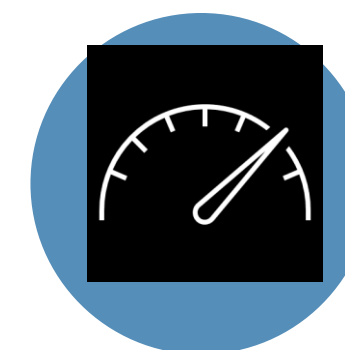
## Drivers of economic engine?

Define the most important profit denominator. Profit per customer, product, employee, customer visit, shop, sales region etc.

# Jim Collins The Hedgehog Concept

## Be best in the world?

Gillette recognized that they have an unusual combination of two unique competencies:

1) Ability to produce billions of low-cost products with high durability (shaving blades)

2) 2) Ability to build up global brands of consumable goods (Cocal Cola in shaving)

Kimberly-Clark found out that they have a talent to create special kind of paper goods which are the top in their categories (Kleenex)
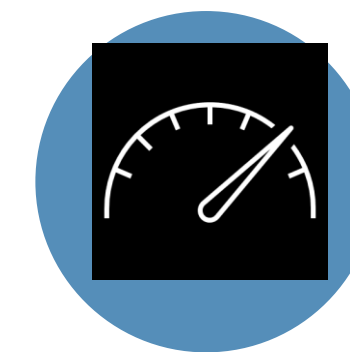
## Drivers of economic engine?

Profit per customer. Move from profit per division to profit per customer reflects the economic power of repetitive purchases (ex: shaving blades) multiply by profit per one purchase (ex: Mach3 )

Profit per product brand. Moving from profit per fixed asset (production plant) to the profit per product brand will be more resistant to economic cycles and more profitable during the bad and good times.

# Thank You
# For Your Watching

Jakub & Andrej