Staking Your Category Claim

By Laura Patterson

Quick, what three companies come to mind when you think of marketing automation? Soft drinks? Casual dining? The list of categories are limitless and in each, there are usually only a few companies that come to mind. These companies are typically the category leaders. A number of years ago, Al Reis and Jack Trout posited that the category leader owned approximately 30% of the market, the number two player somewhere between 15-20% and the number three player somewhere between 10-12% of market share. The value of category leadership isn't just boasting rights, it's financially meaningful. This ownership relates to market momentum and product/service adoption which translates into financial prowess.

While many organizations track market share, most markets are comprised of several categories. For example, the restaurant market is very large, but you can begin to sub-segment it into more distinct categories such as fast food, casual dining, and fine dining. These sub-segments can often be even further refined into categories (e.g. bistros, grills, buffet style, and so on).

In the restaurant market there are going to be a number of customer segments as well, whether defined by demographic (college students, retirees, families) or by food preference (gluten free, vegan, etc.).

Understanding both the categories and the customer segments is important in order to participate in and claim a category. Why? Because each category and segment reflects a customer and by understanding the customers' needs, wants, and buying process in a category you can make better strategy, product, positioning, messaging, channel, and content decisions.

Once you map this and begin to implement your plan of action, a key metric of success, known as CDI, or Category Development Index can be determined. This metric can be used to measure your performance in a specific category. CDI measures your sales performance in a category of goods or services for a specific group of customers, compared with the average sales performance in that category.

CDI can then be leveraged to identify strong and weak customer segments in the category. By creating a category development index you can understand specific customer segments in relation to the category as a whole. The index can then be used to compare performance among customers segments. Precise definitions of each customer segment are crucial in designing a successful category development index.

Calculating the CDI is rather simple once you have the data in place. You will need to know three things to calculate CDI:

1. Total number of sales in units within the category

2. Sales (in units) of the category by customer segment
3. The total number of customers in each segment.

Once you have these three data points you can calculate CDI using the following equation.

CDI = (Your sales in the category/ Total number of customer in the Segment within category)/ (The total sales in the category/ total number of customers).

For example, if you've sold 100 of your widgets in the category that currently has 10000 customers in Segment A, and the total units of all widgets sold in the category is 500. Your CDI is 10%. An index is based on 100 so there's quite an uphill road to category development. On the other hand you've sold 250 of your widgets in the category that currently has 7500 customers in Segment B, and the total units of all widgets is 500. Your CDI for this segment is 55%, indicating better traction among this customer segment in the category even though there are fewer customers.

By tracking the CDI for various segments, you can calculate your relative performance within specific customer groups and tailor your marketing program and investments accordingly. This information helps crystalize your assumptions and thinking. For example, using the scenarios above you can pursue the following questions:

- Should you continue to compete for more business within this segment even though you have traction in the category and, if so, what changes are needed? If this is a growing segment, you have the runway and resources and thus can make adjustments that might make sense.

- Should you divert your efforts to the second scenario to build strong traction and potential larger ownership in the category? Depending on the competitive environment, market trends and resources, this may be the right course of action.

- Should you look for an alternative customer segment that isn't represented in either scenario? Is there research that suggests an untapped customer segment will eventually be dominant in the category?
- Should you pursue an alternative category?

We all believe in the power of segmentation. Categories provide a way to further define markets and examine customer segments with more precision. This is especially important for organizations with limited resources.

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Want to prove and improve the value of your marketing? For 20+ years, Laura has been helping CEOs and Marketing Executives at companies such as Cisco, Elsevier, ING, Intel, Kennametal, and Southwest Airlines do just that. She was an early advocate of using marketing data, processes, automation, metrics, and dashboards to link marketing initiatives and investments to business outcomes. She's an experience practitioner with an extensive marketing and sales career in the financial services and technology industries. Laura has authored three books on marketing performance management, including the most recent: Metrics in Action: Creating a Performance Driven Marketing Organization. You can see Laura in action online at Marketing Made Simple, MarketingProfs, and Software Advice.

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Abstract: Customer Segmentation is not as easy as it once was. Each category and segment reflects a customer and by understanding the customers' needs, wants, and buying process in a category you can make better strategy, product, positioning, messaging, channel, and content decisions.