



Demand Profitable Growth

“The Age of Precision”

How to Make Your Business Thrive in a Recession

The current global recession has drastically reduced the margin for error for every business. While poor alignment with the most profitable demand in the market is never optimal, most businesses can afford these inefficiencies in a strong economy. In a weak economy however, the need to understand precisely where the most profitable growth opportunities are, and how to win them, is critical.

In today’s economy managers face two fundamental choices: *gain efficiencies through supply-focused cost cutting, or determine precisely where the most profitable market demand is and align more effectively with it.*

Thoughts and Comments on Growth

**While potentially attractive, the cost cutting approach has several significant limitations:**

- **It is unlikely to be rewarded.** Wall Street consistently rewards demonstrated profitable growth much more than it does cost cutting.
- **It may not be realistic.** The vast majority of businesses have aggressively attacked their cost base in recent years, so most will have relatively little, if any, cost left to be eliminated.
- **It’s not sustainable.** The reality is there is only so much cost that can be taken out of any business; unfortunately you can’t just keep going back to that same well.
- **It could be highly detrimental to the business.** Without precise knowledge of the most profitable demand in the market — and what it values — reducing costs could unintentionally make offers less attractive to key customers or even alienate them.

vs.

**Developing new insights into demand can drive dramatic improvements in a company’s cost and revenue positions:**

**Improving Cost Position:**

- **Reduce production costs.** Lacking insights into demand, businesses tend to develop offers that under-deliver on the key benefits that profitable customers value most, while adding costly ‘bells and whistles’ that don’t add value.
- **Improve sales and marketing ROI.** Without a precise understanding of demand, businesses tend to chase any and all customers with communications and positioning strategies that rarely hit the mark.

**Improving Revenue Position:**

- **Volume expansion.** An improved understanding of demand brings new customers to the brand while simultaneously cementing relationships with existing customers, both of which drive volume improvements.
- **Increased pricing power.** New insights into demand ensures development of products which deliver against the key needs of target consumers, and for which consumers are willing to pay a premium.

Does your business have the characteristics of precise alignment with profitable demand?

Characteristics of Precise Alignment with Demand	
Target Consumer Understanding	Deep, proprietary knowledge of what motivates and is valued by the most profitable consumers
Need State Understanding	Actionable insights into the need states experienced by consumers, including key benefits target consumers seek in high value need states
Product Offerings	Specifically designed to deliver against target consumer demand, by need state, in the most effective manner
Pricing Power	Offers command significant price premiums
Message/Communications	Motivating and compelling to target consumers

In our experience, leveraging insights into the most profitable market demand enhances alignment and improves efficiencies. Businesses that do not have a precise understanding of demand have fundamentally weaker economics.

The brief financial services case example that follows demonstrates the critical benefits gained from a precise understanding of profitable demand. Precision that begins with an understanding of the most profitable demand to target, what they value most in potential offers, what messages are most compelling to them and what ways are most effective to reach them.

**For a major insurance company**, a much more precise understanding of demand led to its most successful new product launch and significant double-digit growth at a time when the company was about ready to accept commodity product pricing as the best it could realize.

### **Client Situation**

- Leading insurance company experiencing flat to declining growth for car insurance offers
- Direct to consumer car insurers (e.g. Geico) offer much lower costs than are possible with agent network and are taking significant share
- Management believes that car insurance has become a commodity and that price is all that matters to consumers
- High customer churn creates a “leaky bucket” with high acquisition costs and low retention rates

### **Demand Strategy Approach**

- Built Demand Landscape™ to identify the most valuable consumer segments who are highly motivated by features rather than price
- Developed new insights into key need states and what is most valuable and motivating to targets
- Used Customer Demand Analysis™ (CDA) to determine exactly which features are most valuable to target consumers and most profitable to offer
- Identified significant opportunities to differentiate offers and leverage agent network, making it a strength again

### **Results One Year After Completing the Strategy**

- Added ~ \$2 billion in incremental car insurance premiums
- Customized premium policies estimated at almost 40% of sales
- Take rates among customers in test states at levels significantly higher than initially estimated
- Significantly growing share and improving agent “win rate”
- Exploring customized policies in other “commodity” lines of insurance

Even in the current recession, this new offer continues to pay dividends. Acquisition and retention rates continue to be much higher than before, costs are much lower and these offers continue to command a price premium. In retrospect, the management team realized that if they had taken the cost cutting approach to the car insurance business, they would very likely have cut benefits that the most profitable customers valued without being able to beat the low prices of their competitors with direct to consumer business models.

To learn more, please visit:  
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