



## Could Your Company Benefit From Verticalization?

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There are two main approaches your business can take when it comes to segmenting markets: You can either go deep or go wide. Going wide is sometimes referred to as a horizontal segmentation strategy, while going deep is sometimes referred to as a vertical segmentation strategy.

An example of horizontal segmentation would be a mass-market retailer like Wal-Mart that stocks thousands of products that could appeal to almost anyone. Conversely, an example of vertical segmentation would be a golf pro shop that only stocks golf clubs, equipment, apparel and other merchandise that would appeal to a very niche customer segment: golfers.

While a golfer might look for some clubs or golf balls at Wal-Mart, he won't expect a lot of product knowledge from a salesperson. If a golfer wants to be educated on the best set of clubs for his swing and style of play, he'll be much better off going to a pro shop than Wal-Mart, or even a sporting goods superstore like Academy Sports or Dick's Sporting Goods.

### Going Deep with Verticalization

The same concepts hold true in non-retail industries, including manufacturing. In fact, many manufacturing firms are discovering that they can reap big benefits by adopting a strategy of "verticalization." Doing so enables them to create unique products that are tailored to the specific needs of niche customers who value the company's niche focus and subsequent expertise in a particular industry or segment.

When you verticalize, your company and your salespeople become the go-to experts in the minds of many customers and prospects. This enables you to stand apart from a sea of other vendors and suppliers who are producing similar products to yours. A recent CFO.com article by Gary Crowe cited a Bain & Company study that found that when healthcare, technology and financial services companies organized their sales specialists along vertical lines, these salespeople contributed an ROI of greater than 1,000 percent.

The Bain & Company study also found that in higher-performing companies, sales resources were differentiated along vertical lines to make it easier for salespeople to reach unique customer segment niches.

In addition, a Harris Poll study cited by the CFO.com article identified a number of "top driver" attributes that customers want from vendors and suppliers in order to take their relationship to a more strategic level. One of these attributes is a better understanding of business processes across business lines and verticals, as well as having expertise in the nuances of their industry. This is best accomplished by adopting a strategy of verticalization.

When you verticalize in a specific industry or segment, you can focus more resources (including research and development dollars) on issues and customer needs that are unique to that segment. Just as important, you and your company become known as the experts and trusted authority in this niche — you are the first resource they'll turn to when they need advice and recommendations.

Another benefit of verticalization is that it can significantly limit your competition. The more micro and specialized you get in your verticalization, the fewer competitors you typically have. This, combined with your specialized knowledge about this industry niche, may enable you to charge a premium for your products, thus boosting your profit margins.

### **How Do You Verticalize?**

So how do you go about verticalizing your company? First, you should realize that adopting a strategy of verticalization will require commitment, diligence, collaboration and a willingness on the part of all stakeholders who are involved to embrace change. This is especially true if you have worked with a horizontal customer segmentation strategy for a long time.

Start with your data — or more accurately, your company's access to the detailed historical data you'll need to verticalize. This data will provide you with critical insights you need to analyze your customers' buying characteristics and predict their preferences in a vertical market going forward. It will also enable you to examine the characteristics of prospective customers so you can engage with them in a meaningful way and deliver a proposal to them that adds real value.

Access to data is also critical to gauging the profitability of your verticalization strategy. Verticalizing may require a substantial investment in research and development, as well as the acquisition of new and more costly raw materials and rigorous certification testing. You'll need to determine how additional costs like these could impact your bottom line.

An outsourced CFO services provider can help your company move from a horizontal to a vertical customer segmentation strategy. This professional will analyze the strengths and weaknesses of your current strategy and explain all the different ways your company could benefit by adopting a strategy of verticalization.

### **Concluding Thoughts**

Many manufacturing firms are discovering that they can reap big benefits by adopting a strategy of "verticalization." Doing so enables you to create unique products that are tailored to the specific needs of niche customers who value your niche focus and expertise in their industry. When you verticalize, you become known as a trusted authority in a niche — you are the first resource customers turn to when they need advice and recommendations. An outsourced CFO services provider can help you adopt a verticalization strategy.

*1 How Verticalization Cuts Costs, Boosts Customer Value; Gary Crowe; CFO.com; July 22, 2016  
[ww2.cfo.com/operations/2016/07/verticalization-cuts-costs-boosts-customer-value/](http://ww2.cfo.com/operations/2016/07/verticalization-cuts-costs-boosts-customer-value/)*

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