Emergent Layers, Chapter 2: Overserved and Underserved Customers

Alex Danco Follow
Mar 31, 2016 · 11 min read

Hello! If you're coming here for the first time, thanks for checking out my writing on Medium. I don't publish much here anymore — I've switched over to publishing entirely on my own website, alexdanco.com. I also write a weekly newsletter which comes out on Sundays, you can sign up at danco.substack.com. I write a lot, and I don't want you to miss it! So please head over there and subscribe.

• • •

This is part 2 of a four-part series. If you haven't done so already, we invite you to begin with the Introduction, which can be found here, and Chapter 1 here.

In Chapter 1, we focused on the macro-level transition from scarcity through abstraction to abundance, and how this creates conditions of explosive supply. In this section, we're going micro to look at the interplay between two kinds of customer pain — being overserved and being underserved — and how their interaction creates conditions of explosive demand at the level of the individual user.

One useful framework for understanding market entry in the tech world is Disruption Theory, as articulated in The Innovator's Dilemma by Clay Christensen. Within disruption theory, one of the least appreciated but most important parts of the framework is the idea of who the *overserved customer* is — the customer for whom existing solutions exceed their needs.

An important concept to grasp here is the notion of a "job-to-be-done": the fundamental need for which a customer "hires" a product. If I'm hungry for lunch, I might hire a sandwich to fill that need. If I'm throwing a dinner party, on the other hand, I may hire a fancier meal in order to also perform the job of impressing my guests. If you buy a $20 Timex watch, you're hiring it for the job of "tell me the time". If you buy a $20,000 luxury piece, you're hiring it for a very different job: "make me feel rich and awesome while signalling my wealth to others". And so forth.

One place where the job-to-be-done framework is particularly valuable is in helping you discover a product's true competitors. The famous Milkshake Story is a good example: to summarize, a fast food company wanted to increase its sales of milkshakes, and theorized various marketing strategies and improvements on the notion that customers considered milkshakes to be a dessert, a reward, a treat, and so forth. However, on the subsequent observation that a large proportion of milkshakes were being sold between 6 and 8 AM, the company realized something profound: these milkshakes were being purchased ("hired") by people who were bored during their morning commutes, and wanted something to help pass the time. The job being performed by the milkshake was actually quite different from the one they had previously believed, and a subsequent shift in product and marketing strategy based on this new understanding proved to be quite successful.

Returning to disruption theory, the critical element we're going to use from that framework is the idea of the overserved customer: the customer who is being served *too much* by incumbents. In mature industries, where everybody agrees what the scarce resource is and the core constraints are well understood and organized around, we see this happen a lot. As incumbent companies compete with each other for business, and customers are all being served adequately (for the understood job at hand), competition becomes a feature race where products improve or expand at a greater rate than customers' capacity to use them. There's a misalignment between what the customer needs and is getting, with that misalignment falling onto the side of "I'm spending way too much of my money or time for this." Crucially, when customers are overserved for a particular job, it introduces the critical space and oxygen required for a new competitor with some sort of scalable, technological advantage to enter the market at the low end. The nature of over-service creates powerful incentives for incumbents to *not* engage with disruptive entrants, but rather to retreat upmarket towards higher profit margins.

Let's work through a few examples. Consider the steel mill story in the Innovator's Dilemma: how the large, integrated steel mills were ultimately disrupted by the lower-cost mini-mills. In this story, the mini-mills originally got a foothold into the market by producing extremely cheap and low-grade steel — for use in rebar and other applications with very low requirements. Their profit margins were very small — much lower than the incumbents were used to — so it didn't make any strategic sense for the incumbents to spend resources going after them. Of course, the mini-mills had one key advantage — a new technology that allowed them to ship and scale up with a fundamentally lower cost structure — and by providing the mini-mills with the critical oxygen (non-discerning customer dollars) to get started at the bottom of the market, the large incumbents were committing a grave mistake. The most critical element of this story to understand is: the key ingredient to this occurrence was the existence of a set of customers who were being overserved by the incumbents — all they needed was cheap rebar, after all.

For a more recent but still "classic" example, let's look at Airbnb. Airbnb was able to get off the ground because there was a critical subset of customers in the hospitality industry — initially young people, although not exclusively so — who were overserved by many aspects of the hotel industry. Hotels were serving customers along many axes of performance — comfort, privacy, loyalty reward programs, and so forth — that just weren't very important to a specific subset of customers who didn't care too much about all that stuff; they just want a place to stay. This gave Airbnb the critical oxygen necessary to get a foot in the door, and then expand upwards from a dramatically cheaper cost structure than Marriott can possibly compete with. *The overserved customer is a very potent and dangerous one:* they know what they're looking for, and they don't need to be educated when a new entrant comes along with the right proposition. If that new entrant gets a few critical things right, they're looking at a large group of early adopters that need little prodding, little education and little advance notice. That's a great basis to start a company.

Let's now consider another kind of pain: underserved customers. Their pain appears to be more straightforward: they have some fundamental need that isn't being met. But this situation is trickier than it seems: if a group of customers have a genuine need, then why aren't companies stepping in to offer solutions? What's the catch? It could be because the solutions are genuinely too hard, or face technical or feasibility obstacles. It could also be that customers aren't *aware* they have the problem. Either way, that's tough: from a new entrant's perspective, you're dealing with one of two nasty situations. Either you have a significant technical, regulatory or other barrier to entry (which makes things hard) or you're dealing with a set of customers that aren't aware they have the problem you're trying to solve (which, truth be told, often means your market may not in fact exist). The book of failed startups and doomed initiatives is littered with examples like these.

Now let's put these two types of customer pain together. What would happen if a customer were both overserved and underserved at the same time? Is this possible?

As it turns out, this situation is not only possible, but occurs regularly. And it's highly volatile. The trick to figuring out how this works requires venturing one step beyond disruption theory, and recasting the job-to-be-done as a stack itself with a hierarchy of low-level to high-level needs. In the same way that we talked about the layers of the technology stack in Chapter 1, we can describe customer needs or jobs-to-be-done as stacks of their own. If we recast the milkshake example in this way, we can pick apart the various (and delicious) components of what the customer is really looking for. As the customer, in this case, I care about the “thick and textured” element of performance of the milkshake. Why? Because, one level up, I want something that’s distracting and interesting. Why? Because I want a way to keep me placated and happy during my commute. Why? Because I have to get to work in the morning. Why? Because I have to earn a salary.

Ultimately, this is a more complete way of looking at the job-to-be-done framework, and one that I feel gives a better sense of how different products and services can compete with each other by moving up and down the value stack, so to speak. It’s how we can see that, in this case, the milkshake’s competition isn’t just other kinds of portable food — it’s also talk radio, Uber, and unemployment. (Of course, many of the other reasons to purchase a milkshake — the unhealthy delicious taste, for instance — compete along different elements of performance. Plenty of unemployed people still drink milkshakes.)

Now, consider potential sets of customers who are being overserved for a particular aspect of a job-to-be-done that they have, while simultaneously being underserved for a higher-order aspect of that job: the reason why they have that need in the first place. It’s a potent mix: a set of customers who know what they want and don’t need to be educated about it, and who have a compelling and urgent reason to abandon their existing solution to adopt a new one beyond just price. This is an explosive combination.

We can characterize the initial job where customers are being served as being at level j, where incumbents vie for customer dollars and products will inevitably trend towards over-service. Meanwhile, we can characterize the higher-order job as being at level j+1, which encompass the customer’s higher level objectives, and where companies are *not*, for whatever reason, currently serving anyone:

Let’s run through a bunch of examples.

Consider Uber: you have a large group of customers (myself included) who are overserved by owning their own vehicle. If your car sits idle & parked more than 95% of the time (which is about average in North America), you are clearly overserved by owning this car! Yet at the same time, that same set of customers is underserved at level j+1, or the reason *why* they own a car in the first place — “I need to get to specific places at specific times”. You have a schedule to keep, and it’s hard.

Notice that both of these conditions must hold true in order for Uber to work. If customers were not overserved, it would be difficult for them to abandon their current solution. (Consider someone who drives their vehicle for a living, many hours per day. They are significantly less overserved by their vehicle, and quite unlikely to switch to using Uber for the equivalent job.) At the same time, if they weren’t underserved for a higher-level job (get me places at a certain time), then the only way for a new solution to be truly compelling would be dramatically lower price — which makes for a tough business model. This is another thing outside observers get wrong about Uber when they exclaim, “I don’t see how this is cheaper than owning a car!” Well, here’s the thing — Uber doesn’t *have* to be cheaper than driving, because it’s superior to driving your own vehicle in many ways! You don’t have to worry about parking, insurance, drinking, maintenance, gas, or anything else. The simultaneous condition of being overserved *and* underserved by existing solutions is what made Uber so compelling, in a way that other ride-sharing services or carpooling didn't quite get right. Uber works because it's cheap, but its appeal is because it's *better*.

Let's look at another company that has recently gotten both ingredients just right: Slack. Many SMBs found themselves simultaneously overserved by the Microsoft Enterprise stack and other large, feature-laden team platforms, yet underserved for the job at level j+1: "Help me understand what's going on in my company, right now, in real time." Slack hit that nail right on the head, and now they're off to the races.

Airbnb? As mentioned before, there is a subset of travellers who are overserved by the hotel industry at level j — they don't need the comfort, privacy, and loyalty reward programs of the hotel chains. And yet they're also being underserved for a higher-order element — the reason *why* they might be traveling in the first place — which could be is to experience a new culture and feel at home there. Airbnb is superior to a hotel along this element of performance at level j+1. As such, not only is Airbnb typically cheaper than staying in a hotel chain, but there's also a compelling reason to use it beyond price — that feeling of belonging anywhere.

What about online file-sharing companies like Dropbox and Box? Many customers and businesses found themselves tediously overserved at level j by old file management services, FTP servers, on-premise nightly backups, and so forth. Meanwhile, they were underserved at level j+1: they simply want the benefits of everyone having seamless, simultaneous access to their stuff. The Boxes provided a very compelling reason to switch: not only are they cheaper than doing everything on-premise yourself, but they're also better in nearly every way!

How about Snapchat? Many consumers — teenagers in particular — found themselves overserved by the amount of media, content, photos, etc streaming into our phones at any given minute. Simultaneously, it was easy to feel underserved by a higher-level, j+1 reason why we'd *want* to be entertained in the first place — to feel authentically present and connected to one another in the moment. Snapchat served these users brilliantly, disproving the "we don't need another photo sharing app" crowd with a product that solved those users' two pain points exactly right.

In some ways, Snapchat's perfectly placed entry is reminiscent of what Facebook accomplished during its explosive early years. In 2004, the internet was awash in spammy content — there were more pages to read, games to play, and content to consume than anyone could possibly work through. And yet, it could be a pretty lonely place — it was hard to share that content with someone, make authentic connections, and enjoy these experiences together. The higher level job — human connection — was significantly underserved. Facebook got it exactly right, and we've seen what's happened since.

. . .

In summary, let's go over one last time, precisely why this overserved / underserved combination is so potent:

If customers only check off the "underserved" box, then it seems likely you're dealing with a problem that's a. very hard, or b. the customer isn't aware they have. This isn't a great position to be in — it'll be very hard to build an initial solution and attract early adopters.

If they only check off the "overserved" box, then customers know what they want — but it may be that they're only motivated by price. And that's also not a great position to be in: you may get lots of adopters really quickly, but find it very difficult to extract any profit from them.

When this combination lines up, an opportunity appears for a set of customers to make a jump one level higher up the j+n job-to-be-done hierarchy.

Our takeaway:

The particular combination of customers overserved at level j while being underserved at level j+1, when it happens, explains how from time to time we see markets where the demand is zero and then all of a sudden a vertical line straight up.

Where and how do these markets pop up, and around what resources? We'll see this in the next section, when we plug column i (Scarcity > Abstraction > Abundance) and column j (Overserved + Underserved) together.

You can read Chapter 3 here.

Want more? Subscribe to Snippets, our editorial newsletter @ Social Capital (curated by me), and you'll be the first to find out when new chapters come out. Happy reading!

Startup Tech Technology