

TAKEAWAYS: MARKETING PRINCIPLE #1

Source: Palmatier, R.W. & Sridhar, S. (2017): Marketing Strategy - Based on First Principles and Data Analytics, Palgrave, London, pp. 64-65.

ALL CUSTOMERS DIFFER → MANAGING CUSTOMER HETEROGENEITY

- ▶ A foundational assumption in marketing strategy is that all customers differ in their needs and preferences. A successful marketing strategy must manage and exploit customer heterogeneity, because if competitors identify niches of customers whose needs are poorly served and target them with a better offering, the incumbent firm risks losing its best customers.
- ▶ Sources of customer heterogeneity include customers' individual differences, life experiences, functional needs, and self-identity or image, as well as persuasion through marketing. These factors work together to create divergent preferences.
- ▶ The STP approach allows a firm to manage customer heterogeneity by segmenting potential customers into relatively homogenous groups, based on individual preferences and needs. Then the firm selects attractive segment(s) in which it can build a strong position. Finally, the firm develops and executes a positioning strategy that aligns all marketing activities to move the offering such that it can match customers' preferences.
- ▶ The evolution of approaches to managing customer heterogeneity indicates that firms have targeted smaller and smaller customer segments over time (mass marketing → niche marketing → one-to-one marketing).
- ▶ Company and competitor strengths and weaknesses are collected in conjunction with opportunities and threats in a classic SWOT analysis; all four factors can inform a firm's targeting and positioning efforts.
- ▶ A customer-centric approach to managing customer heterogeneity is more continuous and ongoing. This approach implies a company-wide philosophy that places customers' needs at the center of an organization's strategic process and uses the related insights to make decisions. The customer-centric approach promotes internal alignment; an STP approach promotes external alignment. Firms with customer-centric organizations develop richer customer knowledge and greater commitment to each targeted customer segment.
- ▶ Factor analysis groups similar questions (purchase attributes) together to avoid biasing further analyses; cluster analysis groups similar customers together into segments; and classification analysis used discriminate models to predict segment membership using only demographic variables.
- ▶ There are three key inputs and three key outputs of the framework for managing customer heterogeneity. The three inputs reflect the 3Cs of a situation analysis: customers (needs and desires), company, and competitors (strengths and weaknesses). The outputs are industry segmentation, target segments, and a positioning statement.