

Session 5

CUSTOMER IDENTIFICATION

1. Incomes risen and lifestyles diversified, the mass market is less effective.
2. Market segmentation responds to diversity in buyer behaviour.
3. Segments must fulfil the criteria of measurability, accessibility and viability.
4. Simple segmentation based on a factor such as age lacks accuracy.
5. Socio-demographic segmentation involving a combination of factors such as income, age and social class permits is more accurate.

6. Enhanced accuracy can also be achieved by using geodemographics.
7. Changing spending patterns means life stage segmentation is an effective tool for segmentation.
8. Targeting accuracy for older consumers can be made more precise using gerontodemographics.
9. Moving from transactional to a relationship marketing philosophy is an effective strategy for enhancing customer satisfaction.
10. Customer Relationship Marketing (CRM) exploits customer purchase data to permit precise targeting.

Phases of Marketing

- Tedlow's theory of marketing theory development:
 - Phase I Fragmentation due to poor transport infrastructure favouring local suppliers
 - Phase II Unification as infrastructure improves permitting national firms emerging building large factories
- Phase II permits Economies of Scale to supply standard product at more affordable prices.

- Phase II example of Henry Ford's vision of the affordable car.
- Merging mass production with national marketing programmes creates "Mass Marketing" philosophy.
- Tedlow perceives successful mass marketing requires fulfilment of 4 criteria.

- Criteria 1 to be able to exploit Economies of Scale.
- Criteria 2 that high profits re-invested in promotional activity to build both generic and brand demand.
- Criteria 3 create vertical supply chains to achieve market stability.
- Criteria 4 of having achieved market leadership create barriers to entry against potential competitors.

- Mass marketing requires majority of population can afford product.
- 19th and early 20th Century majority of Western national consumers lived at or below poverty line.
- Early mass market products tended to be staples (e.g. soap) or perceived occasionally affordable luxuries (e.g. chocolate).

- Post World War II saw huge rise in average incomes in USA, followed by other Western nations.
- Purchasing power enhanced by Welfare State offering free or subsidised services.
- Economic growth also gave rise to low unemployment which further raised consumer confidence.

Segmentation

- Tedlow's Phase III of Segmentation as consumers begin to exhibit desire for variety in product benefits offered.
- Can segment markets more closely target product benefit to specific consumer group.
- Rising consumer income permits ability to afford greater product variety offered.

- Mass marketers can remain offering standard goods and/or move to offering greater consumer choice.
- Segmentation success requires segments offering measurability accessibility and viability.
- Initially many large firms could not achieve sufficient cost savings to make product line expansion a profitable proposition.

- Emergence of automation and more flexible processes to reduce production costs (e.g. factory robots).
- Computer technology improved data acquisition and segment identification capability.
- Even greater cost savings as companies exploit real time consumer purchase (e.g. from internet, loyalty cards etc.).

Judgment Can Mislead

- Segmentation may be based on erroneous assumptions.
- Norfolk Island, South Pacific local tourist managers assumed:
 - Visitors mainly pensioners, retired couples
 - Visitors have low incomes
 - Attracted by environment
 - Shopping main attraction
 - Attracted by Island heritage

- Researchers actually surveyed visitors to find:
 - Primary age group 50-64
 - 72% first time visitors
 - Only 32% of visitors retired couples
 - 47% of visitors enjoy above average income
 - Heritage more important than environment
- Conclusion that “unsubstantiated perceptions/assumptions have serious consequences in relation to marketing actions”.

Simple Segmentation

- Influence of ease to acquire data.
- Gender easy to obtain, but age probably better basis for segmentation.
- Can classify visually (e.g. child, teenager etc.).
- But age alone can be misleading.
- Need to consider influence of health and mobility.

Errors with Age

- Study of purchase behaviour of older gamblers visiting casino resorts.
- Age as only segmentation variable examined.
- Conclusion from survey:
 - Elderly and younger exhibit similar behaviour
 - Elderly travel mainly by bus in groups
 - Prefer to visit during week when casinos less busy
- Not sufficiently detailed to permit accurate targeted marketing.

- Another simple variable is location.
- Used by retailers to identify customer catchment area.
- Advent of postal (zip) codes from public sector + public sector address data (e.g. electoral roles) provides low cost source.
- Can use existing customer data analysis to identify greatest concentrations of potential customers.

Socio-Demographics

- Utilise combined data on income, age, occupation and social class.
- Can be used to identify lifestyle and also determination of influence of social class.
- Geodemographics use expenditure surveys and socio-demographics to create more accurate lifestyle identification.

- In UK, Acorn System evolved over time.
- System goes much further than basic social class classifiers.
- 5 major groups, then further 18 sub-groups.
- Now used in other developed nation economies.

Building Geodemographic Data

- Aim for more accurate marketing of eye laser surgery.
- Limited data and also spread across numerous healthcare databases.
- Stage 1 research existing customer profile using age, income, location.
- Stage 2 random mailing to zip codes dominant in clinic records.
- Applied results to modelling system to identify lifestyle/geodemographic profiles.

Other Approaches

- Segment by level of usage or by purchase frequency.
- Differences in benefit sought (e.g. what sought from investment strategy).
- Really effective where organisation is full product/service range provider because can analyse data to develop customer profile by product types.

Life Stage Segmentation

- Composite data of age, marital status, size of family.
- Life stage models, such as system classifying older people:
 - Empty Nester I (working, children gone)
 - Empty Nester II (retired, children gone)
 - Working Survivor (partner died or departed)
 - Retired Survivor (partner died or departed)
- Can target specific type based on knowledge of income and buyer behaviour.

- Hopkins proposes adding role and coping theory.
- Role is self definition of person's lifestyle.
- Coping is ability to handle life issues.
- Role transition and coping ability will effect lifestyle/buyer behaviour.
- Example widowed individual may seek to rebuild social life, or may become recluse.

- Cluster analysis revealed older people segments:
 - New start posture, retirement means new life
 - Continuation posture sustaining lifestyle started before retirement
 - Disruption posture committed to work, find retirement is negative experience
 - Old age posture where perceive life is over, reclusive and inactive

Gerontographics

- Link different lifestyles + different activities + social interaction to classify respondents into segments.
- Use large scale surveys to develop identifiable clusters.
- Study by Moschis identified 4 older groups:
 - Healthy Indulgers
 - Healthy Hermits
 - Ailing Outgoers
 - Frail Recluse

- Dr. Dychtwald advisor on older consumers provides similar classification:
 - Ageless Explorers (27% of retirees)
 - Comfortable Contents (19% of retirees)
 - Live for Today (22% of retirees)
 - Sick and Tireds (32% of retirees)
- First two groups more likely to spend on enjoying social/leisure activities.
- Second group activities limited by low income and/or poor health hence poor customer prospects.

Relationship Marketing

- Early service marketing tended to use mass marketing approach (McDonalds; KFC).
- Gronroos/Gummerson proposed need to focus on building long term loyalty based on close relationships.
- Move from transactional unidirectional promotion to relationship inter-actional promotion.

- Start exploiting customer databases to identify customers with whom to build relationships.
- Evolved into Customer Relationship Management (“CRM”).
- Assisted by declining IT operating costs and sophisticated statistical tools.
- Apply to customer data to identify different consumer clusters.

- Use classifiers:
 - Affinity = prior purchases and relationship to new products
 - Frequency is how often purchase/use service
 - Recency in terms of last contact with supplier
 - Transaction scale is size of purchase/value of service
- Can identify consumers who fit cluster but still not buying all products/services common to group.

- Initial focus on selling more to existing customers.
- Move to exploit CRM to identify new customer prospects.
- Required CRM analysis plus surveys to identify reasons for not purchasing even though fitted customer profile.
- Initial users were banks, CRM now spread into other consumer markets.

- Potential risk that CRM analysis based on historic data.
- Advent of E-commerce has generated wealth of real-time up-to-date customer data.
- CRM evolved to undertake rapid identification of new trends and implementing revised marketing programmes.

U.S. Banks and Older Consumers

- Early service marketing focus on standardised product and “ageless” promotional orientation.
- Smaller local banks recognised that relationship marketing could be used to develop older consumer business.
- Attraction is older consumers more loyal and use more bank services.

- Santa Barbara Bank launched “Our Gang” offering free services to older consumers if keep minimum balance in savings accounts.
- Provides seminars and services (e.g. vacation packages) targeted at members.
- Premier Bank Baton Rouge similar proposition plus reduced fees for investment/trust management services.
- Also discount on other services (e.g. healthcare, vacations).