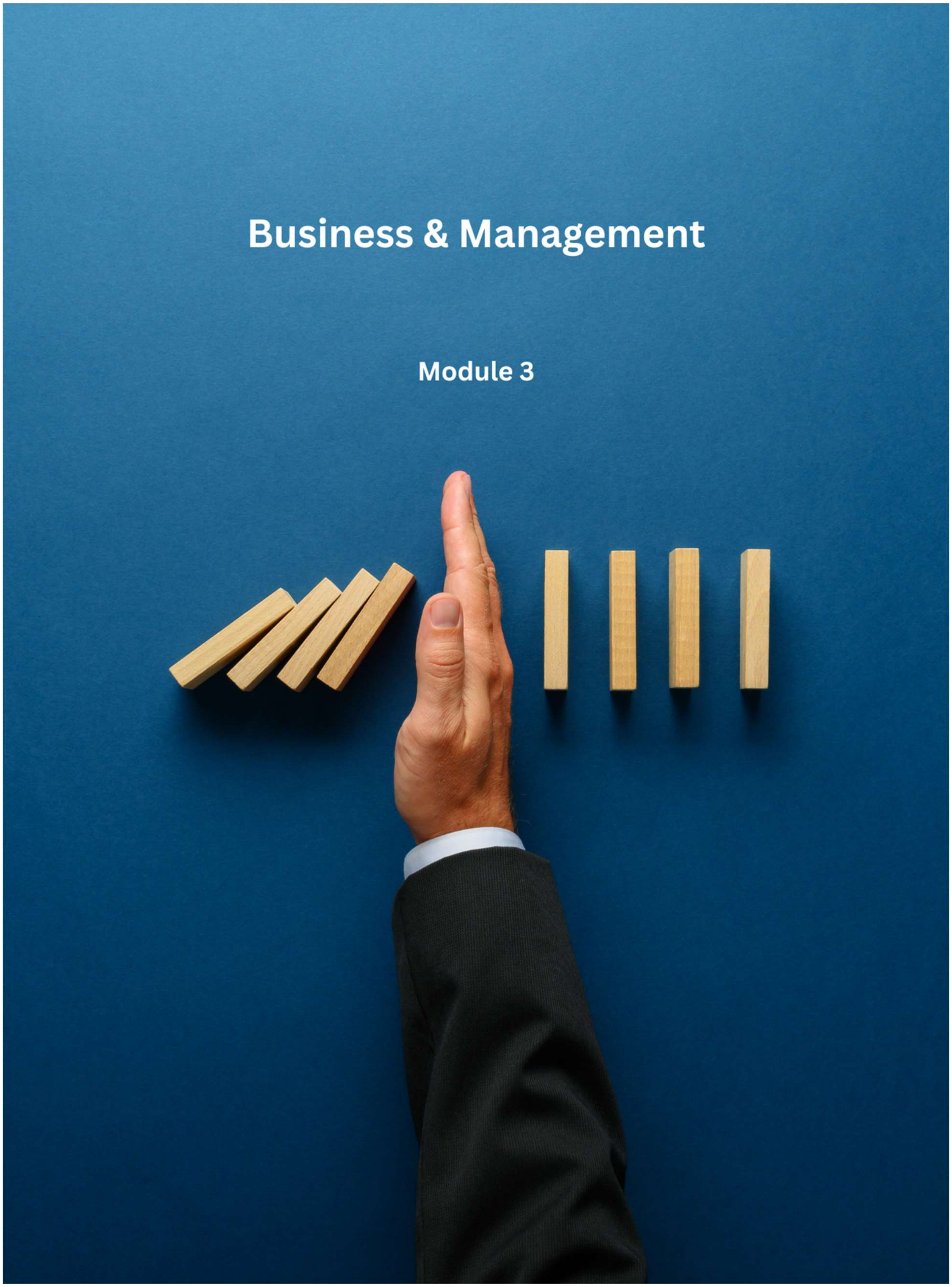
Business & Management

Module 3



Module 3: Marketing Strategy and Consumer Insights

3.1 The Marketing Concept, Customer Lifetime Value (CLV), and Market Research

The Evolution of Marketing Philosophy

Marketing management has evolved from a transactional focus on physical product throughput to a strategic emphasis on relationship management and co-creation of value. This transition is historically mapped across four major operational philosophies:

- **The Production Orientation:** Prevalent during the Industrial Revolution, focusing on operational efficiencies, high manufacturing volumes, and cost reduction based on the assumption that consumers favour readily available and affordable products.

- **The Product Orientation:** Rooted in the assumption that consumers prefer products offering superior quality, performance, and innovative features, which often leads to "marketing myopia"—an inward-looking focus on the product rather than the underlying consumer need.

- **The Selling Orientation:** Driven by aggressive promotion, sales volume targets, and transactional metrics, typically applied to unsought goods where supply exceeds demand.

- **The Marketing Concept (Customer Orientation):** A modern philosophy stating that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfaction more effectively than competitors.

The Value-Driven Paradigm and Customer Relations

In modern marketing strategy, value is defined from the perspective of the customer. It is conceptualised as the customer's subjective assessment of all utility received versus the total costs incurred:

$$\text{Perceived\ Customer\ Value}=\frac{\text{Total\ Customer\ Benefits\ (Functional\ +\ Psychological)}}{\text{Total\ Customer\ Costs\ (Monetary\ +\ Time\ +\ Energy\ +\ Psychic)}}$$

Building on this, **Customer Relationship Management (CRM)** shifts focus from maximizing single transaction margins to cultivating long-term customer equity.

Customer Lifetime Value (CLV)

Customer Lifetime Value (CLV) is the metric that measures this long-term relationship. It calculates the present value of the net profit contribution expected from a customer over their entire relationship with the firm.

Mathematical Formulation

In its fundamental form, assuming an infinite horizon, a constant retention rate, and a fixed discount rate, CLV is calculated as follows:

$$\text{CLV}=\sum _{t=0}^{\infty }\frac{(M_{t}-C_{t})\cdot R^{t}}{(1+d)^{t}}$$

For simplified predictive modeling with constant annual parameters, the formula is:

$$\text{CLV}=M\times \left(\frac{r}{1+d-r}\right)-\text{CAC}$$

- Where:
  - M = Average annual margin contribution per customer.
  - r = Annual customer retention rate (expressed as a decimal).
  - d = Annual corporate discount rate / cost of capital.
  - CAC = Customer Acquisition Cost (Total marketing and sales spend divided by the number of new customers acquired).

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                      |  Customer Acquisition Cost  |
                      |           (CAC)              |
                      +------------------------------+
                                    |
                                    v
+------------------------+     +------------------------------+     +-------
----------------+

|  Annual Net Margin     | --> |    Predictive CLV Engine     | <-- | Annual
Retention Rate |
|    Contribution (M)    |     |                              |     |
(r)           |
+------------------------+     +------------------------------+     +-------
----------------+
                                    ^
                                    |
                      +------------------------------+

                      |   Corporate Discount Rate   |
                      |            (d)               |
                      +------------------------------+
```

Strategic Market Research Architecture

To capture the insights needed to fuel these value engines, managers design a systematic market research process. This distinguishes between two data sourcing structures:

Primary Research

Data collected firsthand for the specific research problem at hand.

- *Qualitative Tools:* Focus groups, projective techniques, and semi-structured in-depth interviews. These explore underlying motivations, emotional barriers, and brand perceptions.
- *Quantitative Tools:* Structured surveys, field experiments, and A/B testing. These measure statistical significance and establish causal relationships between marketing variables.

Secondary Research

Analyzing existing data collected by external entities for other purposes.

- *Sources:* Commercial databases (e.g., Mintel, Euromonitor), academic journals, government censuses, and internal historical sales ledgers. This offers a cost-effective way to assess baseline market sizes and broad macro-trends.

3.2 Segmentation, Targeting, and Positioning (STP Framework)

The STP Process

The STP framework is the core of strategic marketing. It shifts an organization away from mass marketing toward targeted resource allocation.

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|           SEGMENTATION             | -> Group the market based on shared
characteristics.
+------------------------------------+
                  |
                  v
+------------------------------------+

|            TARGETING               | -> Evaluate segment attractiveness
and select targets.
+------------------------------------+
                  |
                  v
+------------------------------------+

|           POSITIONING              | -> Formulate the unique value
proposition for minds.
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```

1. Market Segmentation

Segmentation is the process of dividing a broad, heterogeneous consumer market into distinct, homogeneous sub-groups of consumers who exhibit similar needs, behaviors, or characteristics.

- **Geographic Segmentation:** Dividing markets by regional boundaries, climate conditions, urbanisation levels, or country classifications.
- **Demographic Segmentation:** Categorizing by measurable variables such as age, gender, income tier, educational attainment, occupation, and family life-cycle stage.
- **Psychographic Segmentation:** Grouping based on psychological profiles, including social class, lifestyle matrices, personality traits, personal values, and core motivations (e.g., using frameworks like VALS).
- **Behavioural Segmentation:** Segmenting by actual consumer actions, including purchase frequency, loyalty status, user readiness stage, usage rate, and benefits sought during product interactions.

Criteria for Effective Segmentation

To ensure financial viability, a chosen market segment must meet five strict statistical and operational criteria:

- *Measurable:* The size, purchasing power, and demographic profile of the segment can be calculated with reliable accuracy.

- *Substantial:* The segment is large or profitable enough to justify a tailored marketing mix.
- *Accessible:* The segment can be reached and served through existing distribution and communication channels.
- *Differentiable:* The segment responds conceptually differently to different marketing mix elements compared to other segments.
- *Actionable:* Effective marketing programs can be formulated and executed to attract and serve the segment within the firm's resource constraints.

2. Market Targeting

Once the segments are isolated, management evaluates their relative structural attractiveness and determines how many and which specific niches to pursue.

```
[ Undifferentiated ]       [ Differentiated ]       [ Concentrated ]
[ Micromarketing ]
  (Mass Marketing)          (Multi-Segment)            (Niche)
(1-to-1 Custom)
```

- **Undifferentiated (Mass Marketing):** The firm ignores segment differences and targets the entire market with a single, standardised offering, focusing on economies of scale.
- **Differentiated (Multi-Segment Strategy):** The firm targets several distinct market segments, designing separate, tailored marketing mixes for each, aimed at capturing higher total market share.
- **Concentrated (Niche Marketing):** The firm focuses its limited resources on capturing a dominant share of one or two small, specialized sub-segments.
- **Micromarketing (Local/Individual Marketing):** Tailoring products and marketing campaigns to the precise tastes of specific individuals or localized consumer groups.

3. Brand Positioning

Positioning is the act of designing the firm’s offering and image so that it occupies a distinctive, valued place in the mind of the target customer relative to competitors.

- **Perceptual Mapping:** A visual tool used by strategists to plot consumer perceptions of various brands across two critical purchase dimensions (e.g., price versus quality or functionality versus luxury), identifying open gaps in the market.

- **Points-of-Parity (POPs):** Attribute or benefit associations that are not necessarily unique to the brand but are viewed by consumers as essential, mandatory baselines within a specific product category to be considered credible.
- **Points-of-Difference (PODs):** Attributes or benefits that consumers strongly associate with a specific brand, evaluate positively, and believe they cannot find to the same extent with a competitive alternative. These drive the brand's unique selling proposition (USP).

3.3 The Marketing Mix: Advanced Application of the 4Ps and 7Ps

From the 4Ps to the 7Ps Framework

The classic 4Ps framework (Product, Price, Place, Promotion) was originally designed for physical goods manufacturing. To account for the unique characteristics of the service economy—including **Intangibility** (cannot be seen or touched before purchase), **Inseparability** (simultaneous production and consumption), **Heterogeneity** (variability in quality), and **Perishability** (cannot be stored for future sale)—the model was expanded to the **7Ps Services Marketing Mix**.

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                            |   THE 7Ps EXTENSION  |
                            +----------------------+
                                       |
       +-------------------------------+-------------------------------+

       |                               |                               |
       v                               v                               v
+---------------+              +---------------+              +-----------
---+

|   PEOPLE      |              |   PROCESS     |              | PHYSICAL
EVID|
+---------------+              +---------------+              +-----------
---+
 - Frontline Staff              - Workflow Design              -
Facilities & Decor
 - Cultural Alignment           - Service Blueprints           - Tangible
Cues
```

1. Product Strategy

A product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

- **The Core Benefit:** The fundamental problem-solving service or benefit the customer is actually buying.
- **The Actual Product:** The tangible physical components, quality level, features, design styling, brand name, and packaging design.
- **The Augmented Product:** Additional consumer services and benefits built around the core and actual product, such as warranty frameworks, delivery networks, installation services, and customer care helpdesks.
- **The Product Life Cycle (PLC):** Products pass through four structural phases: *Introduction* (low sales, high launch costs), *Growth* (rapid sales climb, rising profits), *Maturity* (peak sales volume, intense price competition), and *Decline* (falling sales and margins driven by technological shifts or changing consumer tastes).

2. Pricing Architecture

Price is the only element in the marketing mix that generates revenue; all other elements represent costs. Pricing decisions balance internal cost configurations with external consumer perceptions of value.

Pricing Strategy	Operational Mechanism	Strategic Use Case
Market Skimming	Setting a high initial price to skim maximum revenues layer-by-layer from segments willing to pay a premium.	Used for highly innovative products with high R&D costs and low initial capacity.
Market Penetration	Setting a low initial price to rapidly penetrate the market, capture high volume, and build economies of scale.	Used in price-sensitive markets to deter competitive entry.
Value-Based Pricing	Basing the price on the customer's perceived value of the product rather than the internal cost of production.	Used for differentiated premium brands with strong equity.
Cost-Plus Pricing	Adding a standard percentage markup to the total unit cost of production and distribution.	Used in stable utility industries or for baseline cost predictability.

3. Place (Distribution Channels)

Place decisions focus on designing supply chain routes that make the product or service accessible to the target customer at the right time and place.

- **Omnichannel Distribution:** Integrating a brand's offline retail stores with its digital e-commerce channels, mobile apps, and social marketplaces to provide a seamless, unified customer purchase journey.
- **Channel Conflict:** Managing tensions that arise when a manufacturer introduces direct-to-consumer (D2C) channels that compete with its established third-party wholesale or retail distributor networks.

4. Promotion (Integrated Marketing Communications - IMC)

Promotion coordinates a brand's communication channels to deliver a clear, consistent, and compelling message about the organization and its products.

- **The Promotional Mix:** Combining digital advertising, search engine optimization (SEO), public relations (PR), personal selling, sales promotions, and influencer marketing into a unified campaign architecture.

5. People

The human element involved in delivering the service experience.

- *Strategic Context:* Recruiting, training, and motivating frontline staff who interact directly with customers. Because services are inseparable from the person delivering them, employee behavior, technical competence, and emotional intelligence directly shape customer perceptions of quality.

6. Process

The actual procedures, mechanisms, and operational workflows by which the service is delivered to the customer.

- *Strategic Context:* Utilizing detailed **Service Blueprints** to map out the customer journey across visible front-stage touchpoints and invisible back-stage support operations. Optimizing these workflows minimizes operational bottlenecks, ensures service consistency, and reduces wait times.

7. Physical Evidence

The environmental setting where the service is delivered, along with any tangible elements that communicate brand capability.

- *Strategic Context:* The "servicescape," which includes interior design, lighting, staff uniforms, physical signage, and digital user interfaces. Because services are intangible, customers look to these physical cues as indicators of quality before and during the service experience.

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