

TATA STRATEGIC MANAGEMENT GROUP

Tracking the customer's needs

In order to achieve higher profitability and market share, companies should adopt a needs-centric marketing approach and design marketing initiatives, product offerings and services around customer needs, say **Harsha Kapoor**, practice head, analytics, and **Rituparna Dasgupta**, associate consultant, of Tata Strategic Management Group

The market place evolves constantly and keeping abreast of changes and pleasing the customer becomes a huge challenge for companies. Add to this the fact that customers today are more knowledgeable, conscious and demanding, and it is easy to see why traditional marketing approaches centered around products, campaigns and a supply chain are proving to be inadequate in achieving the strategic goals of companies.

In today's market, a 'one size fits all' approach will show considerable shortfalls. When products are not aligned to customer needs, it results in wasteful marketing expenditure, accompanied by low conversions and early attrition, due to incorrect targeting.

Companies would do much better to use a needs-centric marketing approach (NCMA) that helps in increasing market share and revenue. NCMA involves deriving customer insights, identifying customer segments, prioritisation and selection of customer segments, and identifying the right marketing mix to meet their needs to enhance business performance and the company's objectives.

Identify customer needs

The first step is to segment customers into homogeneous groups based on their needs and buying behaviour. A myth in the mindset of most Indian companies is that demographic data is a necessity for meaningful segmentation. In fact, demographic segmentation might be misleading at times as it could

be possible that the needs of a 25-year-old customer are the same as that of a 50-year-old. By using NCMA, all customers with similar needs and buying behaviour would belong to the same group. This would enable companies to first identify varying clusters of needs and then address them differently.

Example 1: A leading provider of telecom services in India wanted to increase revenues by launching a new range of value-added services. They deployed a product-centric marketing approach wherein they targeted subscribers in the age group of 25-35 years. However, response rates were much lower than expected. To the company's surprise, there was a sizeable number of enquiries from subscribers who were not in the target age group. The management was quick to realise that they were selling the product to the wrong subscribers and thereby missing out a large number of potential customers.

A careful analysis of their customer call database revealed the distinct calling patterns of subscribers. Now, the company has segmented their subscribers into different groups based on their calling patterns and needs, rather than demographics. Each segment represents unique calling behaviour and subscriber preferences. Coupled with external data, segment insights help the company identify subscribers who actually have a need for the new product.

Example 2: A financial services provider in India wanted to increase market share by improving its renewal business and cross-selling strategy. Analysis of historical transactional data helped identify investors'

behavioural patterns and financial needs. Focus group discussions with relationship managers and intermediaries further strengthened the results of the analysis. The company segmented its investors on the basis of their needs rather than on demographic criteria like geography and age profile. Each investor segment represented a preferred investment portfolio along with a set of expectations from the financial services provider. Such investor insights served as building blocks for a strong needs-centric marketing strategy. Thereafter, the company was able to target the right investors with the right product offering through the right intermediaries. It achieved a competitive advantage over other players by adopting NCMA rather than the traditional demography-based targeting approaches.

Assess potential and choose segments

Once customers are segmented and their needs identified, the next step is to assess their growth potential. A particular segment might be currently small in size, but might have immense growth potential depending on the influence of mega trends like digitisation, globalisation, etc. Evolution of new technologies might radically alter the growth of certain segments. Based on the growth potential, customer segments can be evaluated and prioritised so that a selection can be made for focused attention.

Example: A European food and grocery retailer studied the impact of market and macro-economic trends on its customer segments. It broke the mega trends in consumer trends and derived the implications for each segment. New living conditions and technology developments were expected to influence customer buying behaviour and preferences, leading to new needs. With trends towards a more demanding work environment and a stressful lifestyle, the health-conscious segment and the easy usage and convenience segments were expected to witness sizeable growth. The retailer took into consideration the growth potential, competitive intensity, strategic fit, feasibility to serve and profitability to prioritise and choose segments for core and secondary focus.

Meeting customer needs

Once target groups have been identified, meeting their needs effectively becomes the challenge. Segment-specific initiatives or actions need to be designed as customer needs are different for different segments. A particular segment might be price-sensitive whereas another might be willing to pay for quality. Identifying the right marketing mix for each segment becomes

crucial. The marketing mix would spell out the right pricing, the right product, the right place and the right promotion strategy that would optimise the return on marketing investment.

Example 1: A leading Indian automobile manufacturer aiming to increase market share identified its customer needs and growth potential. However, the challenge was to target them effectively. A thorough diagnosis of the company's marketing and selling processes revealed that the dealers were not communicating to the customers correctly. Often the product met customers' needs but this was not conveyed effectively by the dealer. The company worked on the communication aspect and organised an extensive training programme for dealers. Communication improved significantly and so did the results.

Example 2: A European retailer had developed a unique customer segment — one that bought pet food and accessories along with party / festival items. They noticed that purchase of disposable plates, glasses and decorative items for Christmas / Halloween parties drove the sales of pet accessories and pet food. This implied that customers belonging to this particular segment would generally pick up an item for their pets as and when they shopped for a party. This insight helped the retailer redesign its store planogram and it reported increased revenue by displaying pet accessories and pet food near party items.

Benefits of NCMA

NCMA's numerous benefits, in itself as well as compared to other traditional marketing approaches, are outlined below:

- ▶ Creates better understanding of customer needs, preferences and factors influencing customer purchase decisions.
- ▶ Establishes a one-to-one relationship with the customer for a more personalised customer experience.
- ▶ Enables development of products or service offerings that the customer needs or prefers to buy.
- ▶ Increases market share and revenue by serving customers with products aligned to their needs.
- ▶ Saves wasteful marketing expenditure on customers who don't have a need for certain products.

A needs-centric marketing approach is feasible in the Indian context. It enables a company to use customer insights to identify and effectively target segments based on needs. This can enhance market share and / or lower spending and potentially redefine market leadership rankings. In the current competitive climate, NCMA can provide the crucial edge to outperform other players. ●