

Customer Experience as Segmentation Basis: The 'Luxury' in Question

Perched in one of the bustling corners of the campus, flanked on one side by canopy of trees and on the other by the basketball court – always crammed with participants (MBAs, Executive MBAs and the Research Scholars), the cafeteria at KVJ School of Business, Hyderabad was the favorite joint for the students to take a break. Seated at a far corner, looking at the message on his phone intently was Anshuman Rai, (Anshu) holding a stack of reading material (set of assorted articles). He was ruminating over the previous day's logjam in the case discussion on Segmentation in Strategic Marketing course.

After his stint as an Assistant Marketing Manager with one of the leading FMCG companies (with an annual turnover of ₹125 crore), he had enrolled for an Executive MBA course to fast track his career with a good lateral placement. Fondly called Anshu, he was pragmatic, industrious, ambitious and easily figured amongst the top percentile of the class. His marketing acumen during the case discussions and other debates was very well-appreciated. Everyone from junior MBAs to his peers at Executive MBA held him in high esteem due to his breadth and depth of knowledge and unusual maturity.

Manav Gupta (Manav), his batch-mate in Executive MBA program, carrying two case studies that were scheduled for discussion for post-noon's sessions, joined Anshu

Manav: Hi, Anshu, good to see you in canteen...Rare sight. How come you are here? Lost your way?

Anshu: No, I am in the process of preparing a class note that I want to circulate for tomorrow's Strategic Marketing class

Manav: Oh! You are referring to yesterday's animated case discussion

Anshu: Yes.

Manav: You were unusually vociferous and seemed quite adamant to get your point across

Anshu: No. Not at all. It was to make a case for an alternative segmentation basis. The concept of market segmentation was propounded by Wendell Smith in 1956 although the history of Market Segmentation can be dated back to 1930s when the theories of perfect competition and pure monopoly did not correspond to the market situation any longer. The point was to highlight the need to revisit and review the relevance of traditional segmentation bases.

This Case Study was written by Kumar Gambhiraopet and Dr. Nagendra V. Chowdary, ET CASES. It is intended to be used as the basis for classroom discussion rather than to illustrate either effective or ineffective handling of a management situation. The case study was compiled from published sources.

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Manav: Quite interesting. I couldn't see the depth of this argument yesterday

Anshu: I was reading these articles (pointing to the stack of articles in his folder) and trying to connect the dots. Probably a leading authority in Market Segmentation is Daniel Yankelovich who wrote two brilliant articles and both of them are classics on this subject in their own way. The first article written in 1964 ("New Criteria for Market Segmentation", *Harvard Business Review*, March 1964) introduced the concept of non-demographic segmentation and the second article he co-authored with David Meer ("Rediscovering Marketing Segmentation", *Harvard Business Review*, February 2006) describes the elements of a successful segmentation strategy.

Manav: Great. I have never heard or read any of these. What's the essence of these articles?

Anshu: The key insight (pointing towards the highlighted text) is: "Traditional demographic traits as segmentation bases are obsolete and no longer influence consumer's purchasing decisions, rather non-demographic traits such as values, tastes and preferences were more likely to influence them."¹

Manav: What is the point you want to make out of it?

Anshu: Summation of all those traits boils down to 'customer experience'!

Manav: "Customer Experience" as the basis of segmentation? Seems a new term to me after taking six courses in Marketing?

Anshu: Quite a few companies have revolutionized this. Some of the companies in this league are Apple, Zappos, Nordstrom, Starbucks, Raymonds, Indigo, etc.

[Meanwhile, overhearing their conversation, another participant Harpreet Singh (Harpreet) (IV Semester MBA) joins them]

Harpreet: "I believe the think tank is up to some adventure!"... Sorry to interrupt you guys! As the conversation seemed interesting, I thought of joining you. Yes, I echo the same with Manav. I would like to point out, "we are well aware that we Indians are bargain hunters and Indian customer has been conditioned to be less demanding of the experience delivered."²

Anshu: You got it right! Therein lays the opportunity to surprise and delight prospects and customers.³

Manav retorted...such exercises and strategies fall under CRM...right? Customer Relation Management is all about that?

Anshu: No, there are many differences between the two. 'Understanding Customer Experience' an article published by *Harvard Business Review* outlines the differences between CRM and CEM (Customer Experience Management)⁴ in a meaningful way.

¹ Daniel Yankelovich and David Meer, "Rediscovering Market Segmentation", <https://hbr.org/2006/02/rediscovering-market-segmentation>, February 2006 (accessed date: January 30th 2015)

² Amrita Bhattacharyya, "Is the Indian Consumer Willing to Pay More for better Customer Experiences?", <http://www.aegisglobal.com/blog/is-the-indian-consumer-willing-to-pay-more-for-better-customer-experiences/>, December 14th 2012 (accessed date: January 30th 2015)

³ Ibid.

⁴ Christopher Meyer and Andre Schwager, "Understanding Customer Experience", <https://hbr.org/2007/02/understanding-customer-experience>, February 2007 (accessed date: January 31st 2015)

Harpreet: What are the differences?

Anshu: CRM comes after CEM, in a crude sense. While CRM attempts to foster an engaged relationship with the customer, CEM preempts all the possible blind spots of customer engagement, converts them into sweet spots to give a memorable customer experience. Very nicely portrayed in the movie *Minority Report*⁵. While CRM is largely tool-based, CEM is predominantly physical interaction-based with appropriate technology interface.

Anshu: While CRM tracks customer actions after the fact, CEM plans for creating the inevitable moments (Moments of Truth) for the customer. For instance, employees accustomed to reading the marketing department's dry analyses of CRM point-of-sale data easily grasp the distinction upon hearing a frustrated customer's outburst.⁶

Harpreet: Yeah! Now I am able to connect the dots. Recently I read Oracle's white paper on "Seven Power Lessons for Customer Experience Leaders"⁷, which says – "Nowadays, customers don't keep the bad experiences to themselves; they instantly start venting on social networks and they become viral, which not only leaves a dent on the company's brand value but also influences the prospective customers"⁸

Manav: You struck the right chord, Harpreet! From customer service to service delivery to service excellence to customer relation management and now to customer experience management...quite a fascinating paradigm, indeed.

Anshu: I believe all of us are living in an 'Experience Economy'

Manav and Harpreet: Experience Economy?

Anshu: pointing to the highlighted text of one of the *Harvard Business Review* articles "Welcome to the Experience Economy" said, the authors observed that, "manufacturers must explicitly design their goods to enhance the user's experience as well – essentially *experientializing* the goods. They reiterated the fact that experiences are a distinct economic offering, as different from services as services are from goods."⁹

Manav pulled out his chair, sat beside Anshu, all ears, to discover Anshu's hypothesis on 'customer experience' as a new platform for the companies to differentiate themselves and segment their target customers.

Harpreet pulled up his chair and said, "Can you name any book on this topic?"

Anshu: If I could remember it was this book 'Experiential Marketing: How to Get Customers to Sense, Feel, Think, Act and Relate to Your Company and Brands' – by Bernd H. Schmitt (1999)', that placed the domain of marketing on a new orbit. It offered a framework for experiential marketing, saying that marketers could more effectively influence consumers by crafting messages based on five 'SEMs'.¹⁰

⁵ *Minority Report*, Twentieth Century Fox Film Corporation, 2002

⁶ "Understanding Customer Experience", op.cit.

⁷ Greg Gianforte, "Seven Power Lessons for Customer Experience Leaders", <http://www.oracle.com/us/corporate/acquisitions/rightnow/seven-power-lessons-wp-1502937.pdf>, February 2012 (accessed date: February 3rd 2015)

⁸ Ibid.

⁹ B. Joseph Pine II and James H. Gilmore, "Welcome to the Experience Economy", <https://hbr.org/1998/07/welcome-to-the-experience-economy>, July 1998 (accessed date: January 30th 2015)

¹⁰ Theodore Kinni, "What Experience Would You Like with That?", *Strategy + Business*, Booz & Co, August 24th 2010 (accessed date: January 30th 2015)

Manav: What do SEMs mean?

Anshu: They are Strategic Experiential Modules, or types of experiences that correspond to the ways that people interact with the world – sense, feel, think, act, and relate and delivering them via 'ExPros' (Experience Providers, a category that includes standard marketing vehicles, such as advertising, logos, packaging, and so on).¹¹

SEMs? Sense, feel, think, act and relate? This strategy sounds to be specific for the companies which are into service sector **Manav** mused and said, "The touch points of the customer experience (related to five senses) can be better leveraged by the companies which are into service industry.

Anshu: Well, that view sounds to be myopic... (taking out a paper and pen) he said, let us jot down ten different product categories (Exhibit I) and then analyze the same.

(Meanwhile another participant Selva Ganeshan (Selva) (IV Semester MBA) joins them, **Manav** and **Harpreet** give him a quick update of the conversation as he carefully watches **Anshu** jotting down 10 different sample product categories)

Anshu: On what basis do you think companies in these product categories have segmented their markets, targeted their customers and positioned their products?

Selva: Well, in my opinion few of them can be segmented on the functional attributes

Harpreet: A few can be segmented on conventional bases like Demographic, Geographic, Psychographic and Behavioral including VALS & PRIZM.

Manav: I am sure all of them can be segmented on conventional bases (Exhibit II).

Exhibit I: Product Categories	
Sl. No.	Product Categories
1	Two-wheelers
2	Four-wheelers
3	Airlines
4	Toothpaste
5	Soap
6	5-Star Hotels
7	Credit Cards
8	Banks
9	Higher Education/Private Universities
10	Mobile Phones
Prepared by the authors for classroom discussion	

Exhibit II: Product Categories/Segmentation Bases					
Sl. No.	Product Categories	Segmentation Bases			
		Demographic	Geographic	Psychographic	Behavioral
1	Two-wheelers	√	√	√	√
2	Four-wheelers	√	√	√	√
3	Airlines			√	√
4	Toothpaste	√	√	√	√
5	Soap	√	√	√	√
6	5-Star Hotels			√	√
7	Credit Cards	√	√	√	√
8	Banks	√	√	√	√
9	Higher Education/Private Universities	√	√	√	√
10	Mobile Phones	√	√	√	√
Prepared by the authors for classroom discussion					

¹¹ "What Experience Would You Like with That?", op.cit.

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Anshu: The conventional segmentation bases are almost the same for all the product categories. There is immense competition among them and also from the private labels and the local unorganized sector players. How do you characterize the nature of competition and the 'efficacy' of differentiation?

Manav: From one or the other front all the product categories can be segmented on the conventional bases. There is immense scope for the companies to differentiate themselves by designing and delivering that unique customer experience.

Anshu: You are right! One interesting finding from an article "Engineering Customer Experiences,"¹² says, "Customers always get more than they bargain for, because a product or service always comes with an experience."

Moreover..., **Anshu** explained further, "In mature markets, differentiation based on pricing and product alone is no longer a sustainable strategy. Several companies have beaten the economic odds by offering differentiated customer experience. Research conducted by Right Now (now a part of Oracle) in 2012 revealed that 86% of customers are willing to pay more for greater customer experience."¹³

Selva: (Referring to one of the articles "Knowing a Winning Business Idea When You See One" that he read as a part of his Strategy Course) You mean that companies should craft the experience right from the first stage of the purchase to the last stage of disposal (Exhibit III), as each stage encompasses a wide variety of specific experiences?¹⁴

Exhibit III: The Six Stages of the Buyer Experience Cycle

The Six Stages of the Buyer Experience Cycle							
		Purchase	Delivery	Use	Supplements	Maintenance	Disposal
The Six Utility Levels	Customer Productivity						
	Simplicity						
	Convenience						
	Risk						
	Fun and Image						
	Environmental Friendliness						

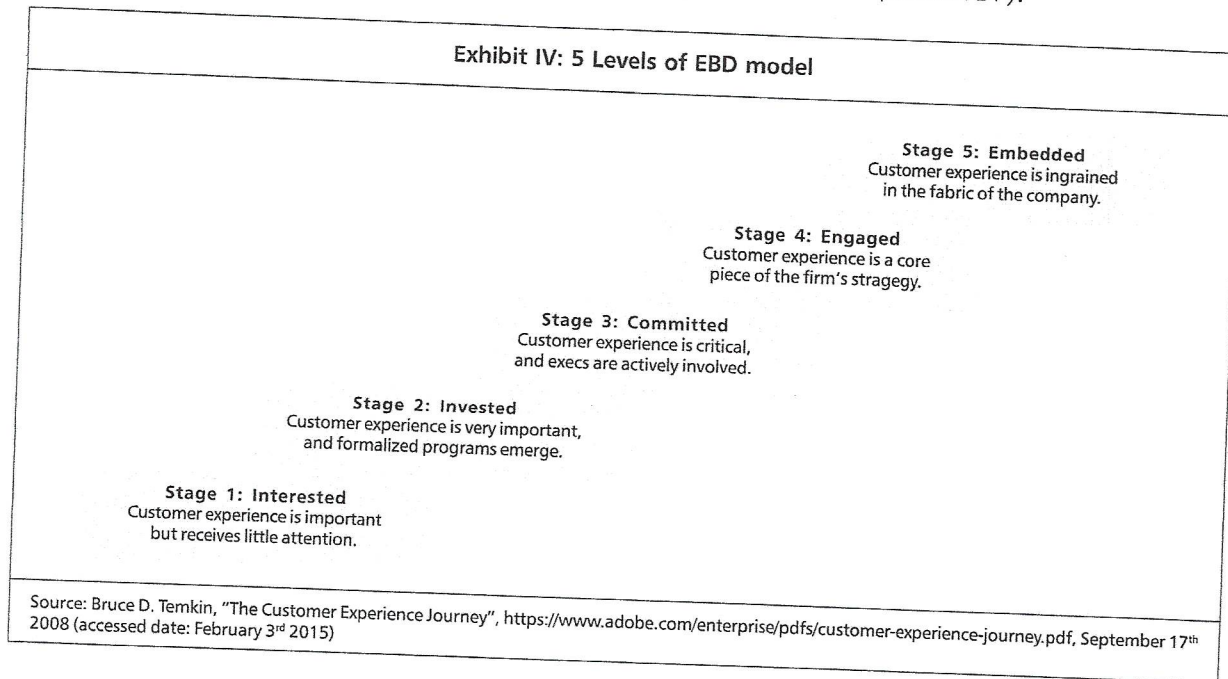
Source: Chan Kim and Renee Mauborgne, "Knowing a Winning Business Idea When You See One", <https://hbr.org/2000/09/knowning-a-winning-business-idea-when-you-see-one/ar/1>, September 2000

¹² "What Experience Would You Like with That?", op.cit.

¹³ "Is the Indian Consumer Willing to Pay More for better Customer Experiences?", op.cit.

¹⁴ Chan Kim and Renee Mauborgne, "Knowing a Winning Business Idea When You See One", <https://hbr.org/2000/09/knowning-a-winning-business-idea-when-you-see-one/ar/1>, September 2000 (accessed date: February 3rd 2015)

Anshu: Now you guys are hitting it right! According to "The Customer Experience Journey" a Forrester's Research finding, while EBD (Experience Based Differentiation) represents a blueprint for excellence, most firms are still in the early stages of their customer experience journeys. They identified following five levels of maturity that companies progress through on their way toward EBD¹⁵ (Exhibit IV).



Harpreet: I have a point! In the product categories referred earlier (Exhibit I), there is immense scope for the Luxury category than other categories (low cost, entry level, value for money, mid-range, higher range) to craft that unique customer experience (across the product purchase stages Exhibit III) as the segmentation basis.

Selva: Harpreet seems to have a point. What really intrigues me therefore is: What kinds of companies/industries are amenable to customer experience as a segmentation basis?

Anshu: While Luxury category seems an obvious choice for customer experience-based segmentation, I think it would be prudent to contemplate on extending the customer experience premise to other categories as well given the fact of intense competition and reduced platforms for differentiation. Therefore, the pertinent question, instead of limiting ourselves to luxury, is to ask ourselves: What would it take for companies operating through the remaining categories (low cost, value for money, etc.) to design and deliver unique customer experiences?

Manav: That's cool. Let me put it this way, what would it take for every/any product line (based on the product-price performance) to think of offering unique customer experiences (Exhibit V)?

¹⁵ Bruce D. Temkin, "The Customer Experience Journey", <https://www.adobe.com/enterprise/pdfs/customer-experience-journey.pdf>, September 17th 2008 (accessed date: February 3rd 2015)

Manav: Even more intriguing is the question, “Can companies which offer products and services at the entry level i.e., at the bottom of the pyramid, differentiate themselves by designing and delivering unique customer experience?”

Anshu: There is scope for differentiation. I would get back to Pine & Gilmore article, where they say that “Manufacturers must explicitly design their goods to enhance the user’s experience as well – essentially experientializing the goods”.¹⁶

Throwing light on the efficacy of customer experience as the segmentation basis across the pyramid, they said, “Automakers do this when they focus on enhancing the driving experience. But what could a valve manufacturer do to improve the pumping experience, a furniture producer the sitting experience, a publisher the reading experience?... Any good can be inged.”¹⁷ If that is the case we have to invert the pyramid (Exhibit VI).

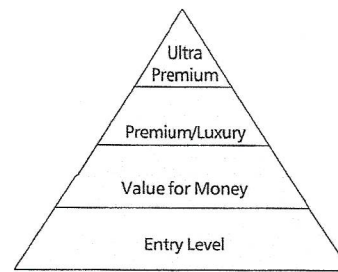
Manav: Well, you are saying that there is immense scope for the segmentation. I wonder, whether customer experience can be looked at as a complement or a substitute for the existing segmentation bases?

Anshu: Thank you guys for your contribution. Excuse me for cutting short this animated discussion. Appreciate your view points and with your permission would like to integrate our discussion into my class note for tomorrow’s discussion. Would surely circulate the note by late evening.

Assignment Questions

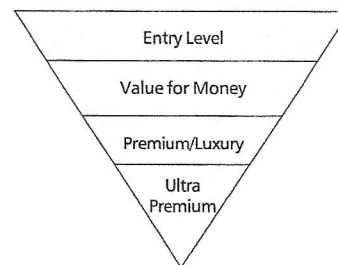
- I. What are the conventional bases of segmenting the target audience? What relevance do segmentation platforms like Demographic, Geographic, Psychographic and Behavioral (including VALS & PRIZM models) hold in the wake of increased competition, private label proliferation, rivalry from unorganized sector and e-tailing gaining traction?
- II. How do you characterize the nature of competition (between the companies in an industry and also the intense rivalry from private labels/unorganized sector) and the efficacy of segmentation bases?
- III. On what basis do you think the companies/in the industries featured in the Exhibit I of the case study across the product-price pyramid have segmented their markets, targeted their customers and positioned their products?

Exhibit V: Pyramid of Product Lines



Prepared by the authors for classroom discussion

Exhibit VI: Inverted Pyramid of Product Lines



Prepared by the authors for classroom discussion

¹⁶ “What Experience Would You Like with That?”, op.cit.

¹⁷ Ibid.

- IV. What is the difference between CRM and CEM? For what kind of companies/industries do you think customer experience can be an ideal or suggested segmentation basis?
- V. Do you think Customer Experience Management can be applied more effectively in Service Sector than Manufacturing Sector?
- VI. In the wake of experience economy, should customer experience be looked at as a complement or a substitute for the existing segmentation bases?

Mandatory Readings

- Leon G. Schiffman, et al., "Market Segmentation and Strategic Targeting", *Consumer Behavior*, 10th Edition, Pearson Publications, 2010 – To understand the efficacy of designing and delivering unique 'customer experience as the basis of consumer segmentation
- B. Joseph Pine II and James H. Gilmore, "Welcome to the Experience Economy", *Harvard Business Review*, July-August 1998
- Theodore Kinni, "What Experience Would You Like with That?", *Strategy + Business*, Booz & Co, August 24th 2010 – To understand the basic tenets of customer experience as the major differentiator for companies