

EFR summary

Empirical Marketing, FEB12018X
2025-2026



Lecture 1-3

Week 1-2

Deloitte.

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Details

Subject: Empirical marketing

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Empirical marketing – IBEB –

Lecture 1, week 1 – Introduction

What is Empirical Marketing & Marketing Research?

Marketing research is the function that links the consumer, customer, and public to the marketer through information - information used to identify and define opportunities and problems; generate, refine, and evaluate actions; monitor performance; and improve understanding of it as a process. It specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyses the results, and communicates the findings and their implications. (Approved 2017)

Brief history of marketing strategy

Strategy arose from a military context: *“The forces available must be employed with such skill that even in the absence of absolute superiority, relative superiority is attained at the decisive point”* - Karl von Clausewitz, On War (1832)

- Management scholars added two elements to apply the strategy concept to business: the need to make the differential advantage sustainable and the idea that the objective of any business strategy is to enhance firm performance (60s and 70s)
- Marketers argue that it must be from the perspective of the customer (90s)

Marketing strategy consists of decisions and actions focused on building a sustainable differential advantage, relative to competitors, in the minds of customers, to create value for stakeholders.

Why is marketing strategy essential for financial performance?

A large amount of research documents its impact on financial performance, but many people don't realise the scope of its influence on sales and profits.

- Expand market size (new products and services, lower prices)
- Increasing Market Share (offering superior products or services and building customer loyalty)
- Enhancing profit margin (improve loyalty, brand image, relationships, products, targeting of high margin customers)
- Reduce costs (WOM, brand, relationships, retain with loyalty)

First principles approach to marketing strategy

The first-principle approach argues that marketing strategy is the pursuit of solutions to four fundamental marketing problems and organises all frameworks, processes, and analyses to address them. Thus, a key requirement for making good marketing decisions is to identify underlying factors on which the decisions depend.

The underlying ideas or presumptions upon which a theory, system, or approach is built are known as "first principles." Each First Principle, when paired with its associated marketing decisions, yields a Marketing Principle (MP). These First Principles (followed by their Marketing Principles) are:

1. All customers differ

MP#1: Managing customer heterogeneity

2. All customers change.

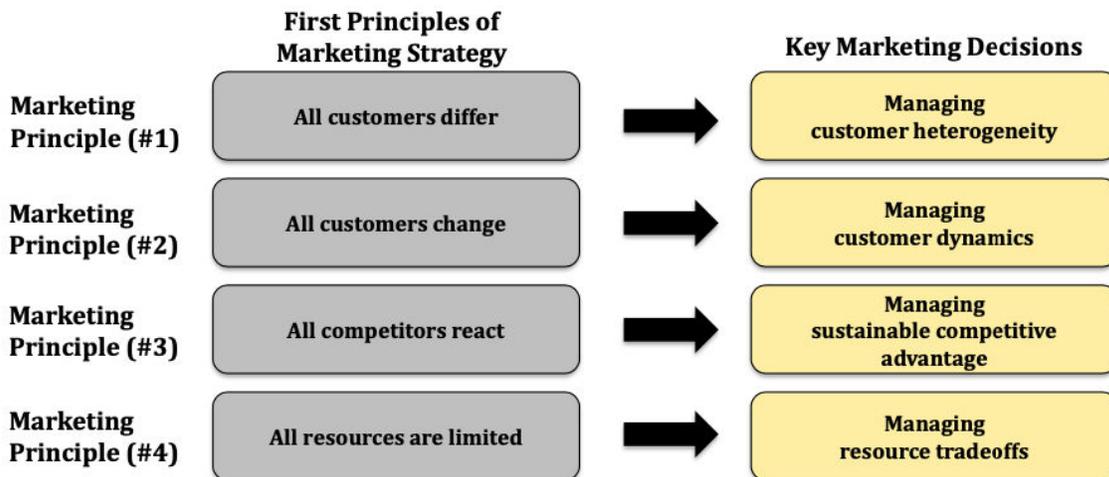
MP#2: Managing consumer dynamics

3. All competitors react.

MP#3: Managing sustainable competitive advantage

4. All resources are limited

MP#4: Managing resource tradeoffs



Source: Lecture 1, Marketing Principles (Karpienko, 2026)

First principle #1: All Customers Differ -> Managing Customer Heterogeneity

- **For most products and services, customers vary widely on desires/needs**
 - E.g. Grocery stores can carry 60,000 + SKUs, even for commodities
- **Thus, firms are targeting smaller & smaller segments**
 - Mass marketing => niche marketing => 1-to-1 marketing
 - Competitive race as firms target smaller segments
- **Why?**
 - Matches inherent customer desires (real, perceived)
 - Faster response to customer trends and changes
 - Technology enabled (more economical to target/customise)
 - Only limited by the tradeoff in efficiency (cost) versus the benefit of a better match to the need (solution)

Example: Godiva (Belgium)

Addressed MP #1 by developing different products for different consumers.

3 reasons people buy chocolate

1. To gift to others
2. To eat by themselves
3. To share

Expanded product line to meet all these needs (individually wrapped candies for candy dishes, fondue baskets for sharing with a group, packaged candy bars for people to eat themselves)

⇒ **Sales have increased by more than 10% per year for many years**

MP#1: Managing Customer Heterogeneity

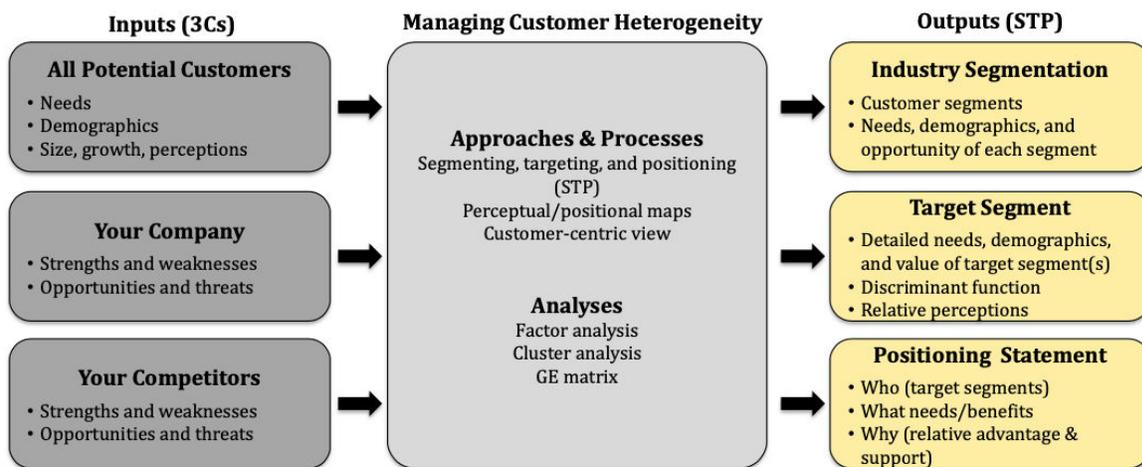
The difference among consumers in terms of their wants, desires, and subsequent behaviours is known as **customer heterogeneity**.

Managing Customer Heterogeneity

The figure below shows the input-output framework for managing customer heterogeneity. It shows approaches, processes and analyses that help managers to make decisions.

The key inputs required are:

1. All Potential Customers: gather their needs, desires and preferences (like segmentation)
2. Your Company
3. Your Competitors



Source: Lecture 1, Managing Customer Heterogeneity (Karpienko, 2026)

Inventories of the company's and its competitors' strengths and weaknesses are needed to evaluate the firm's strength in each segment, which supports the targeting and positioning statement.

Ways firms can manage customer heterogeneity

1. Ignore customer heterogeneity, focus on matching average consumer needs
 - a. Result: temporary profitability. Soon, a competitor will appeal to one of their subsegments, and the firm will lose profits.
2. Offer a range of products to satisfy the needs of different consumers
 - a. Result: Highly effective but costly & difficult
3. Predict that customers will take a good-enough product if the price is sufficiently low.
 - a. Result: Can be viable
4. Select a specific Segment of customers and target them
 - a. Known as Segmentation, Targeting, and Positioning (STP) approach
 - b. A customer-centric approach where firms recognise their long-term value
 - c. Strong brand that consumers know and respect

Outputs - Segmentation, Targeting, and Positioning (STP)

1. Industry segmentation
 - a. Subdivided into homogenous groups?
 - b. What does each group of customers want?
2. Target Segment
 - a. Which segments to pursue?
 - b. How can the firm identify with each target consumer group?
3. Positioning statement
 - a. Whom should the firm target?
 - b. What needs and benefits are being fulfilled?
 - c. What are the relative advantages of this offering versus competitive offerings?

The process of converting customer, company, and competitor (3Cs) inputs into a representation of the firm's environment, using industry segmentation, target segments, and positioning statement (STP) outputs, is a critical first step in developing a marketing strategy.

First principle #2: All Customers Change

Customers' desires/needs for most products and services change over time or due to specific events. This is called **customer dynamics**:

- **Consumer needs** change: cars, clothes, food, financial services, and healthcare as consumers age
- **Trigger events:** marriage, kids, job change, finances, move, graduation, acquisition, new managers, legal changes
- **Industries/markets** change: experience curve, diffusion, competitive responses, overproduction

Customers' needs vary not only because of inherent differences among people (heterogeneity) but also because people and markets change (dynamics). Thus, segmentation and targeting need to account for lifecycle changes/customer dynamics

Customer dynamics

The processes by which customers' desires and needs change over time are called customer dynamics. The drivers of it are the following:

1. Seminal events
 - a. E.g., graduation, accident, promotions
2. Life stages
 - a. E.g. single → married → children
3. Knowledge/expertise
 - a. Learning effect (e.g., first-time guitar buyer focuses on price and colour, musician eventually focuses on fretboard material, tone woods, etc.)
4. Product category maturity
 - a. Another learning effect (i.e., given that practically everyone now is familiar with these technical specifications, thanks to the development of this market, digital photographers are likely to take a camera's pixels and zoom rates into account)
5. Regular exposure to relevant information

MP#2: managing customer dynamics

While MP#1 concentrates on the market as a whole, MP#2 focuses just on current clients. It proves that a business must make an effort to comprehend how its clients develop over time. This can be done through:

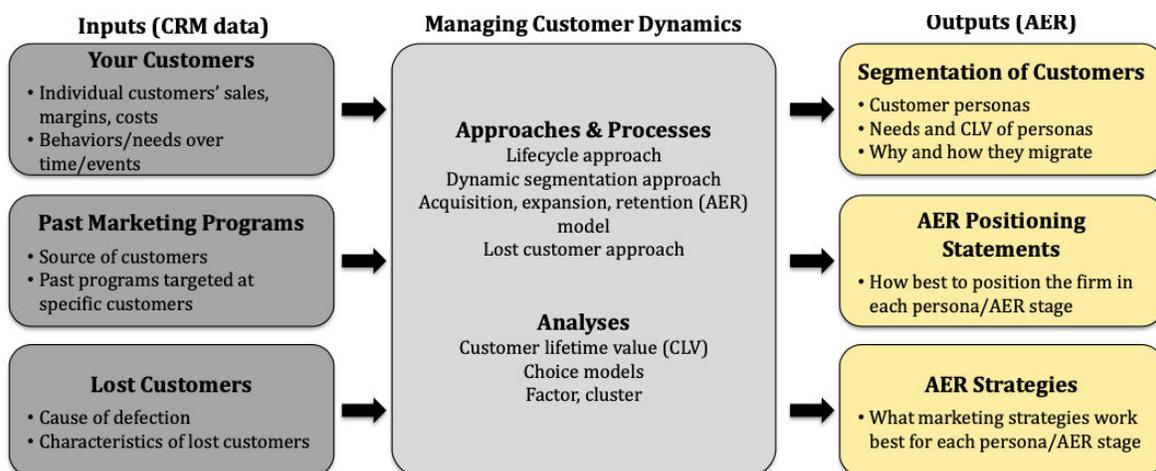
1. **Lifecycle perspectives**
 - a. Consumer lifecycle: average changes that customers undergo as they age, independent of the specific product or industry.

- b. Product/industry life cycle: reflects changes as the product category matures, which leads to different typical user experiences and industry effects.
- 2. Acquisition, expansion, retention (AER) approach**
- a. For existing customers
 - i. Grouping them into 3 stages: recently acquired, longer-term customers, and those lost or at risk of being lost
 - ii. Then create personas for each group
- 3. Customer lifetime value (CLV)**
- a. capture the financial contribution of each customer by determining the discounted value of the sales and costs associated with them, according to their expected migration path over the entire relationship with the firm.
 - b. Accounts for the heterogeneity of consumers.
 - c. Calculated at the individual level

Managing Customer Dynamics

The framework has three categories of input:

1. Your Customer: It should provide detailed, customer-level data, such as financial accounting data and product purchases.
2. Past Marketing Programs: It describes how customers have responded to specific marketing programs in the past, such as advertising, new-customer promotions, and their costs.
3. Lost customer: It is to figure out what they chose instead and why. It can help to suggest some potential recovery strategies.



Source: Lecture 1, Managing customer dynamics (Karpienko, 2026)

The second (AER positioning statements) and third (strategies) outputs are closely related, in that they represent strategic decisions that managers must make to manage customer dynamics. The process of identifying where specific personas/segments want to go, then developing strategies to guide them reach these positions, shows the process by which a firm establishes its market positioning.

First principle #3: All Competitors React

Competitors are always copying successful strategies and innovating new ones

- Only one firm remains from the original Dow 30 firms (GE)
- Given enough money and time, most strategies can be copied

Thus, companies need to build a “barrier” to copying, giving them time to adapt to others' innovations. These barriers are termed **sustainable competitive advantage (SCA)** and are critical to long-term superior financial performance

SCAs must meet 3 conditions

1. Customers care
2. The company does “it” better than competitors
3. Hard to duplicate

Sources of SCA

1. Building brands and relationships
 - a. Awareness, image, status, meaning, reciprocity
 - b. Unconscious psychological barriers
2. Innovative offerings
 - a. Products, services, and experience (value)
 - b. Patents, trade secrets, habits, switching costs
 - c. Costs, scale, location, first mover

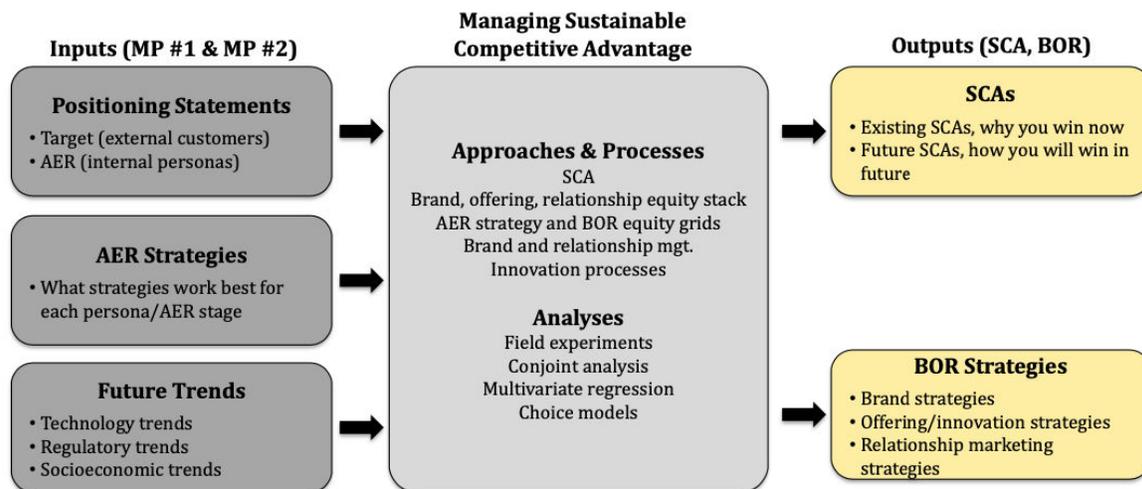
First, the firm should make brand decisions according to its overall positioning objectives. Second, the firm should make choices about its offering because product and service innovation, as well as R&D efforts, must align with both brand strategies and the firm's positioning. Third, relationship strategies get determined last. They involve the delivery and experience of offerings

MP#3 Managing SCA

This can be done through the **brand, offering, and relationship (BOR) equity stack**

- Representative of firms' overall customer equity
- At an individual level, customer equity is analogous to customer lifetime value (CLV).

Managing Sustainable Competitive Advantage (SCA)



Source: Lecture 1, Managing SCA (Karpienko, 2026)

MP#1 focuses on identifying what consumers want in the general market and how the company should occupy this space. To determine which AER techniques work best as customers change over time, MP#2 focuses on the company's own customers. The next logical step is MP#3. It explains how to create and keep up strong barriers to fend off competitors' attacks on high-value client segments. These obstacles, or long-term competitive advantages, are the result of marketing initiatives to create brand, offering, and relationship (BOR) equities.

First principle #4: All Resources are Limited

Most marketing decisions require trade-offs across multiple objectives where resources are constrained and often interdependent

- Advertising vs. salespeople vs. discounts vs. channel co-ops vs. R&D vs. online
- Many "messages" are mutually exclusive (high status and low price) or (high performance and economical)
- Short-term vs. long-term trade-offs

Thus, need to balance marketing resources across:

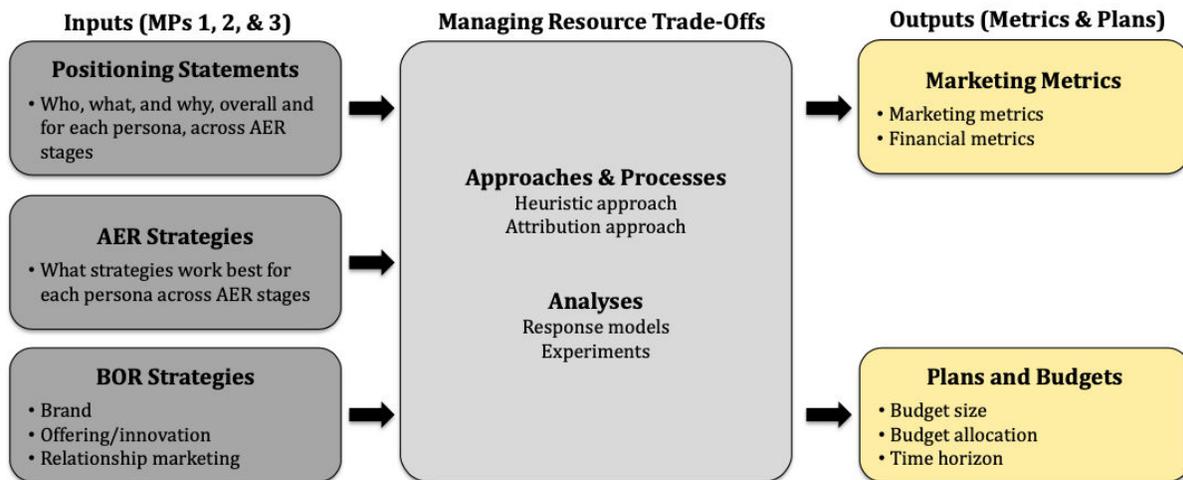
- Customers (STP)
- Acquisition, Expansion, and Retention stages (AER)
- Brand, Offering, Relationships (BOR)
- Marketing mix elements (4 to 7 Ps)

MP#4: managing resource trade-offs

Two approaches:

- 1. Heuristic-based process:** a decision-making process where an individual uses lay theories or common beliefs to make decisions with uncertain outcomes.
 - a. Used if: lacking data about the attractiveness of each resource option
 - b. Use simple rules of thumb, driven by intuition and judgment, such as allocating some percentage of sales to marketing.
 - c. Con: Mostly incorrect, lacks a scientific basis, assumes that advertising works just as well today as it did in the past, even if customers change.
 - i. Solution: “anchoring & adjusting” heuristic processes.
 - ii. Ex: For instance, managers may use an initial heuristic to decide how to allocate resources (i.e., anchors), then modify their choices each period in response to the results.
- 2. Attribution-based process:** a method for assessing marketing effectiveness that attributes causal economic effect to a marketing investment, in environments where multiple marketing and complicating events may shape an economic event.
 - a. improved computing power and advances in statistics and data management.
 - b. Review historical data

Managing Resource Trade-offs



Source: Lecture 1, Managing resource trade-offs (Karpienko, 2026)

Empirical marketing – IBEB – Lecture 2, week 1 MP#1: All consumers differ

Introduction

5 sources of customer heterogeneity:

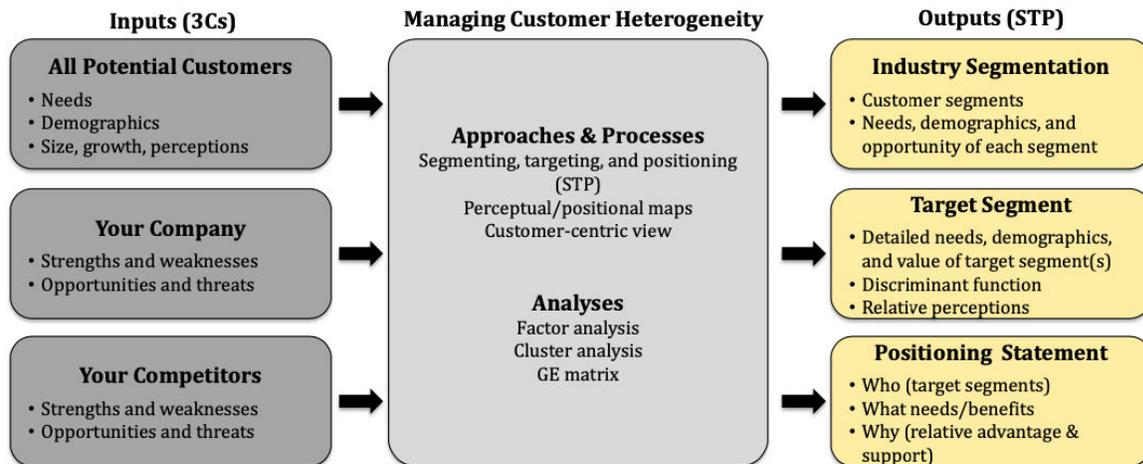
1. Individual differences
2. Life experiences
3. Functional needs
4. Self-identity/image
5. Marketing activities

Source	Description	Examples
Individual difference	A person's stable and consistent way of responding to the environment in a specific domain	Favourite colors, Big 5 Personality traits,
Life experiences	An individual's life experiences capture events and experiences unique to his or her life that have lasting impact on the value and preference he or she places on products and services, which in turn affects preferences independent of individual differences	A child raised closer to the equator, in warmer climates, will typically have a higher preference for a spicy food, as a carryover of past periods when spices were used to preserve and help mask the taste of food more likely to spoil in warmer climates.
Functional needs	An individual's personal decision weightings across functional attributes based on his or her personal circumstances.	What price can they afford to pay (income), how long does the product need to last (quality, warranty), when will they use the product (battery powered, size) and are there any special usage features that they need (waterproof)?
Self-identity/ image	Customers actively seek products that they feel will support or promote their desired self-image.	Motorcycle riders often wear leather (functional and image driven). Goths like the color black because of their desire to identify with the image of a specific user or a social group.
Marketing activities	Firms' attempt to build linkages between their brands and prototypical identities or meanings.	BMW paid \$25 million to have James Bonds drive a BMW in the movie "Skyfall".

Source: Lecture 2, Five Sources of Customer Heterogeneity (Karpienko, 2026)

Framework for managing customer heterogeneity

MP#1: All customers differ → Managing Customer Heterogeneity



Source: Lecture 2, Managing Customer Heterogeneity (Karpienko, 2026)

Inputs to Managing Customer Heterogeneity

Framework

1. All potential customers - needs, desires, and preferences across customers in an industry, geographic region, market segment, or product category
2. Your company - an inventory of the company's strengths, weaknesses, opportunities, and threats (SWOT analysis)
3. Your competitors - an inventory of your competitors' strengths, weaknesses, opportunities, and threats (SWOT analysis)

SWOT and 3C analysis

A **SWOT analysis** appraises the strengths, weaknesses, opportunities, and threats that affect a company's success. It assesses the internal and external nature of the business across current and future situations.



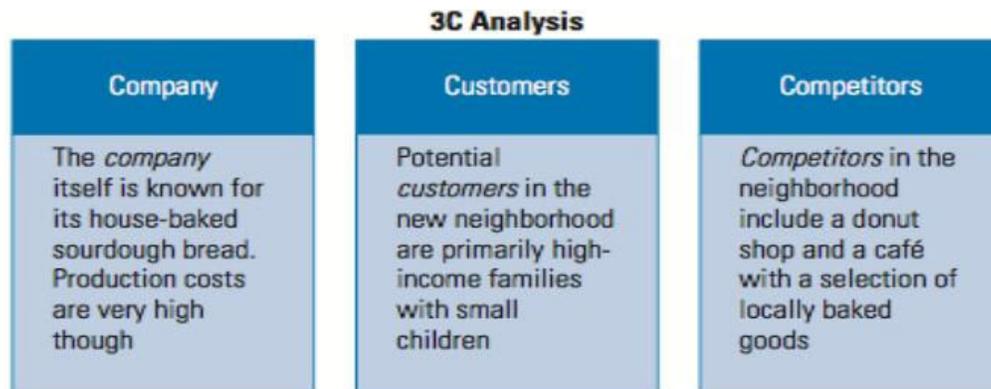
	Explanation	Strategy implications
Internal (company-level) factors: core competencies, market share, competitive advantages		
Strengths	Current strengths, such as a strong financial performance or a reputed brand	The firm can develop new products to leverage these strengths
Weaknesses	Current weaknesses, such as a slow customer response rate	Strategies need to be implemented to eliminate these weaknesses
External (environmental) factors: relevant legal structure, competitors' core competencies and market share, changes in customer demographics		
Opportunities	Future opportunities, such as environmental factors that may work in the company's favor	Strategies need to be devised to take advantage of the potential opportunities
Threats	Future threats, such as increasing competition	Strategies need to be devised to overcome the threats, such as lowering prices or increasing promotions

Source: Lecture 2, SWOT analysis (Karpienko, 2026)

The **3C analysis** evaluates customers, competitors, and the company. It focuses on these three perspectives to gain competitive advantages.

Inputs 3Cs:

1. All potential Customers (needs, desires and preferences across customers in an industry, geographic region, market segment, or product category)
2. Your Company (an inventory of the company's strengths, weaknesses, opportunities, and threats or SWOT analysis)
3. Your Competitors (an inventory of your competitor's strengths, weakness, opportunities, and threats or SWOT analysis)

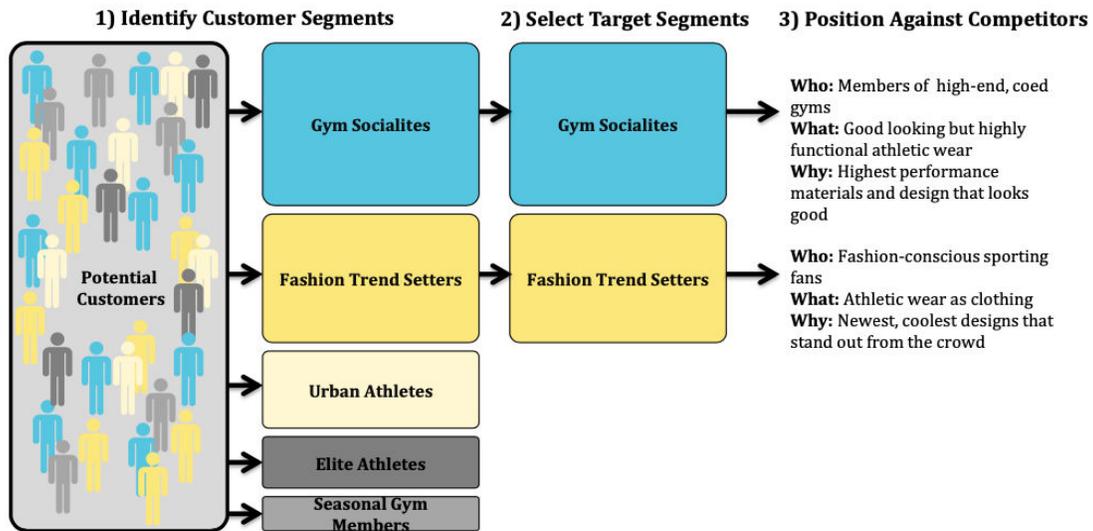


Source: Lecture 2, 3C analysis (Karpienko, 2026)

Process for Managing Customer Heterogeneity

To convert inputs into outputs, marketers conduct a series of process steps:

1. **Segmenting:** To initiate the segmentation, managers need to identify the key purchase attributes, that is the needs and desires that a potential customer evaluates when making a purchase decision for this category
2. **Targeting:** The targeting process follows naturally from segmentation, to identify which segments the firm wants to sell to, based on the attractiveness of each segment and the firm's competitive strength in each segment
3. **Positioning:** The separation between targeting and positioning is often blurry. Many of the factors used to evaluate competitive strengths to select a target segment also impact the difficulty of executing an effective positioning strategy for that segment
4. **Building Customer Centricity:** Building a customer-centric organisation is different from executing an STP process, in that it requires a top-down, enduring commitment from senior leaders to institute a customer-centric philosophy across the firm's entire organization



Source: Lecture 2, Example of Managing Customer Heterogeneity (Karpienko, 2026)

Outputs of Managing Customer Heterogeneity

Industry Segmentation describes industry segments and includes, for each named segment, salient purchase preferences, demographic variables, and potential demand opportunities.

Target Segmentation moves from the overall market landscape to the specific segment(s) of interest, thereby extending the first output with a very detailed description of each target segment.

Positioning Statements encapsulate the three questions into one concise statement that firms use to guide their internal and external marketing activities: who should the firm target, what needs and benefits are being fulfilled, and why this offering provides a relative advantage over competitive offerings.

Building Customer Centricity is different from executing an STP process, in that it requires a top-down, enduring commitment from senior leaders to institute a customer-centric philosophy across the firm's entire organisation.

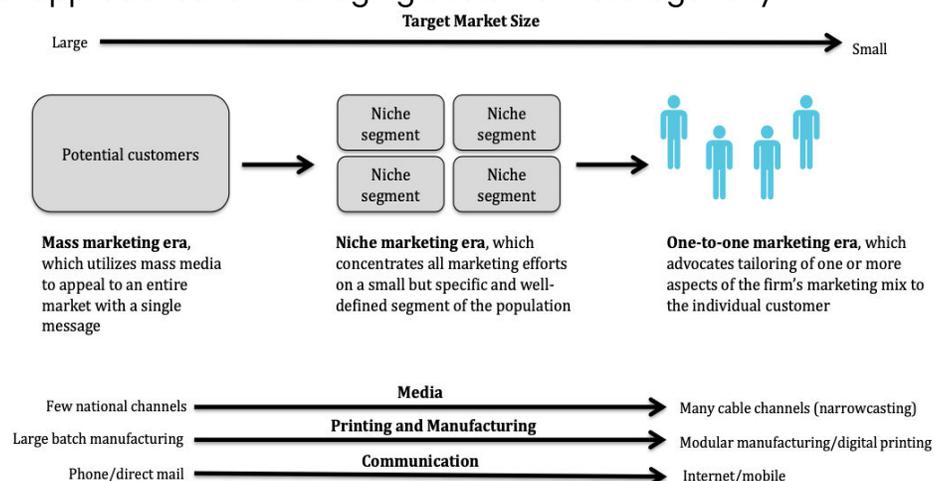
A **customer-centric firm** places the customer at the centre of the organisation's vision/mission/strategy/structure/culture/metrics. As of now, the firms are shifting towards a customer-centric structure.

Customer Heterogeneity: A Fundamental Assumption of Marketing Strategy

Customer heterogeneity is a fundamental “problem” that all firms must address when developing an effective marketing strategy. Assuming all customers are the same is a recipe for failure, at least in the long term, as competitors will better satisfy subsegments with more aligned offerings. This leads to a downward spiral in which the firm has fewer, less profitable customers that are more costly to serve.

Approaches for managing customer heterogeneity

Evolution of approaches for managing customer heterogeneity



Source: Lecture 2, Evolution of approaches for managing customer heterogeneity (Karpienko, 2026)

The mass marketing era, which used mass media to appeal to an entire market with a single message, is a marketing strategy in which a firm mostly ignores customer heterogeneity, with the assumption that reaching the largest audience possible will lead to the largest sales revenue

The niche marketing era focused marketing efforts on well-defined, narrow segments of consumers, and by specialising, this method seeks to give the firm a competitive advantage

The one-to-one marketing era is marked by a shift towards one-to-one marketing, such that firms attempt to apply marketing strategies directly to specific consumers

Across all three eras, the underlying method for dealing with customer heterogeneity is the same: focus on smaller and smaller groups of customers, so that the needs of each group become more similar as they are subdivided into smaller units, until the focus reaches an individual customer.

Segmenting, targeting, and positioning (STP) approach

In order to better match heterogeneous customer needs, firms focus their efforts on small “homogenous” customer groups

- **Segmenting:** Dividing the market into groups of similar customers (slicing the pie into pieces)
- **Targeting:** Selecting the best customer group to sell to (picking the slice to eat)
- **Positioning:** Improve your relative advantage in the minds of your targeted customers (also addresses Marketing Principle 3 by building SCA)

Segmenting

Consists of dividing the market into groups of customers where:

- Segmentation starts with a random sample of *potential* customers (not just existing ones)
- Customers within the group have very similar needs
- Customers across groups have different needs (maximise the difference between segments)

Needs: Needs and benefits desired by customers for your offering

- Segment on needs/benefits, not descriptors
- Uses one of the “Cs” as input: customers

Descriptors: Observable customer characteristics that help you find and classify customers (e.g., gender, age, income, size, education, etc.)

Segmentation steps:

1. Identify and refine pool of potential customers’ needs and descriptors (qualitative research)

2. Collect data from a random assortment of potential customers on the “importance” of needs/benefits to the purchase decision
3. Use needs to segment the market into 3 to 7 homogeneous customer groups
 - a. Often need to group like questions together using factor analysis before clustering customers
 - b. Choose the number of segments based on the results and the ability to manage them
4. Name segments (communication tool)

Example 1

A company conducted an annual customer satisfaction survey for an advertised product, collecting perceptions of the product’s price, quality, and distribution (on a 5-point scale). To improve customer satisfaction and design more efficient targeting strategies, the company conducted a partition-based clustering analysis of the data and thereby identified three segments: consumers who are dissatisfied on all three attributes (Segment 1), consumers who are highly satisfied on all three attributes (Segment 2), and consumers who are highly satisfied on quality and distribution but dissatisfied on price (Segment 3). The table gives the mean statistics for each segment.

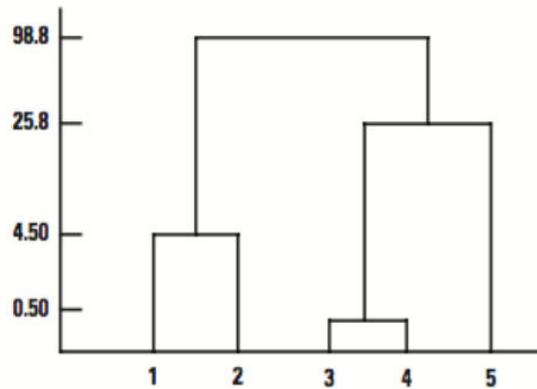
	Price	Quality	Distribution
Segment 1	1.82	1.97	2.95
Segment 2	4.31	4.05	4.57
Segment 3	2.75	4.45	4.32

Source: Lecture 2, Cluster Analysis Example 2 (Karpienko, 2026)

Example 2

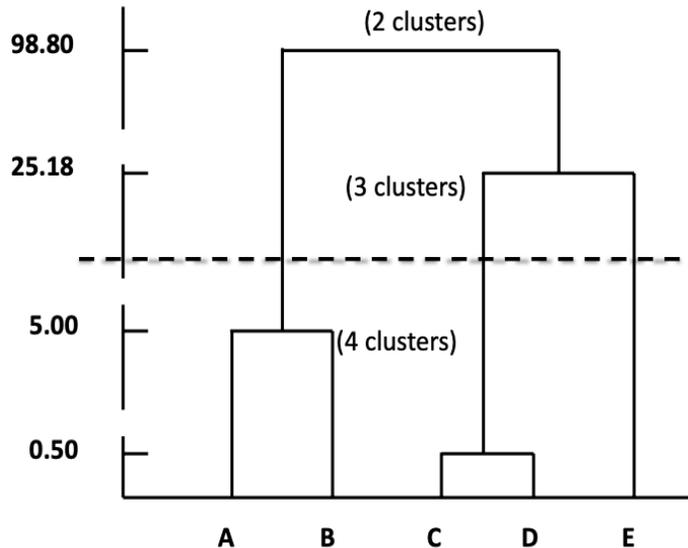
Imagine there are five customers, rated on their intention to purchase (1–15 scale). A hierarchical clustering procedure, based on Ward’s minimum variance criteria to minimize the sum of the square of errors, starts by assuming each customer is its own cluster. However, combining customers 3 and 4 seems intuitive since they have similar purchase intentions and it results in limited loss of information (0.5 on the dendrogram). Similarly, combining customers 1 and 2 results in limited loss of information (4.5). Thus, five customers could be combined into three segments (1,2), (3,4), and (5). If we then try to combine (3,4) and (5) as one customer, the loss of information (25.8) is prohibitive. Thus, we stop at three segments (1,2), (3,4), and (5)

Customers	Purchase Intentions
1	3
2	6
3	10
4	11
5	14



Source: Lecture 2, Cluster Analysis Example 1(Karpienko, 2026)

Hierarchical clustering procedure gives a Dendrogram



- Numbers represent amount of variance explained (don't worry about actual numbers but rather change)
- Pick number of clusters where variance explained is relatively large
- 3 clusters look best since 4 clusters only gives "5" more units versus 99 and 25
- But, look at 4 clusters to see what is different

Source: Lecture 2, Dendrogram (Karpienko, 2026)

Targeting

A market needs to select segments to target based on certain selection criteria:

- Market attractiveness (size, growth rate, price sensitivity, etc.)
- Competitive strength (captures the relative strength of a firm, versus competitors, at securing and maintaining market share in a given segment)

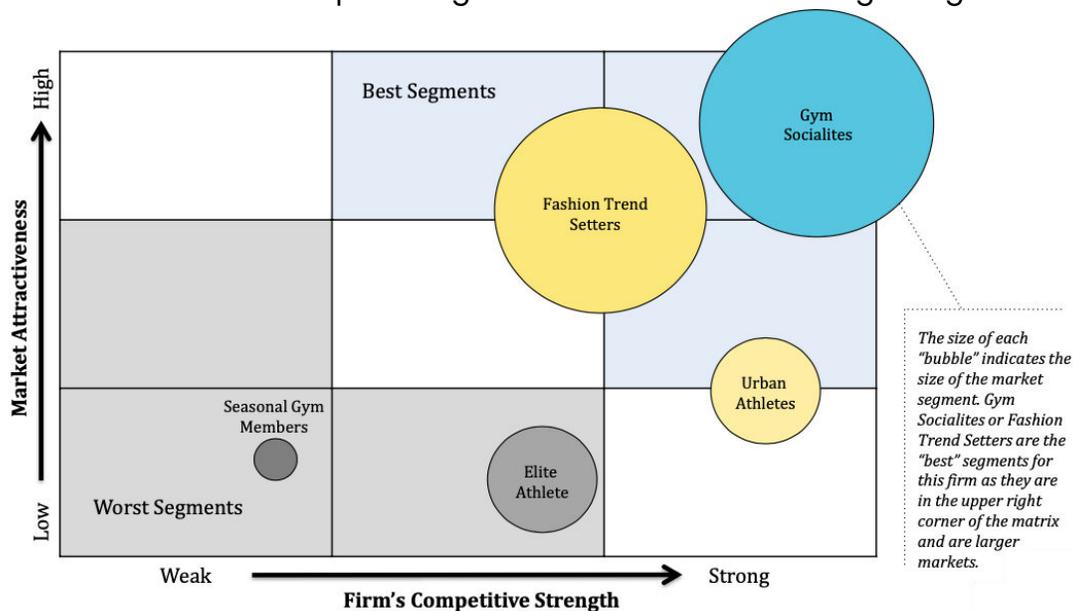
This uses all three "C's" as input: customer, company and competitors

An ideal target segment should meet six criteria:

1. Based on customer needs (customer care)
2. Different than other segments (little crossover competition)
3. Differences match the firm's competences (the firm can execute within resource constraints)
4. Sustainable (can keep customers)
5. Customers are identifiable (can find targeted customers)
6. Financially valuable (valuable in the long term)

GE matrix

Analysis tool: GE Matrix → help managers visualize and select target segments



Source: Lecture 2, GE Matrix: Analysis tool for targeting (Karpienko, 2026)

Positioning

Is a process of improving your relative advantage in the minds of your targeted customers by changing both your actual (e.g., innovation) and perceived offering (e.g., branding, relationships)

Uses all three "Cs" as inputs: Customer, Company, Competitors

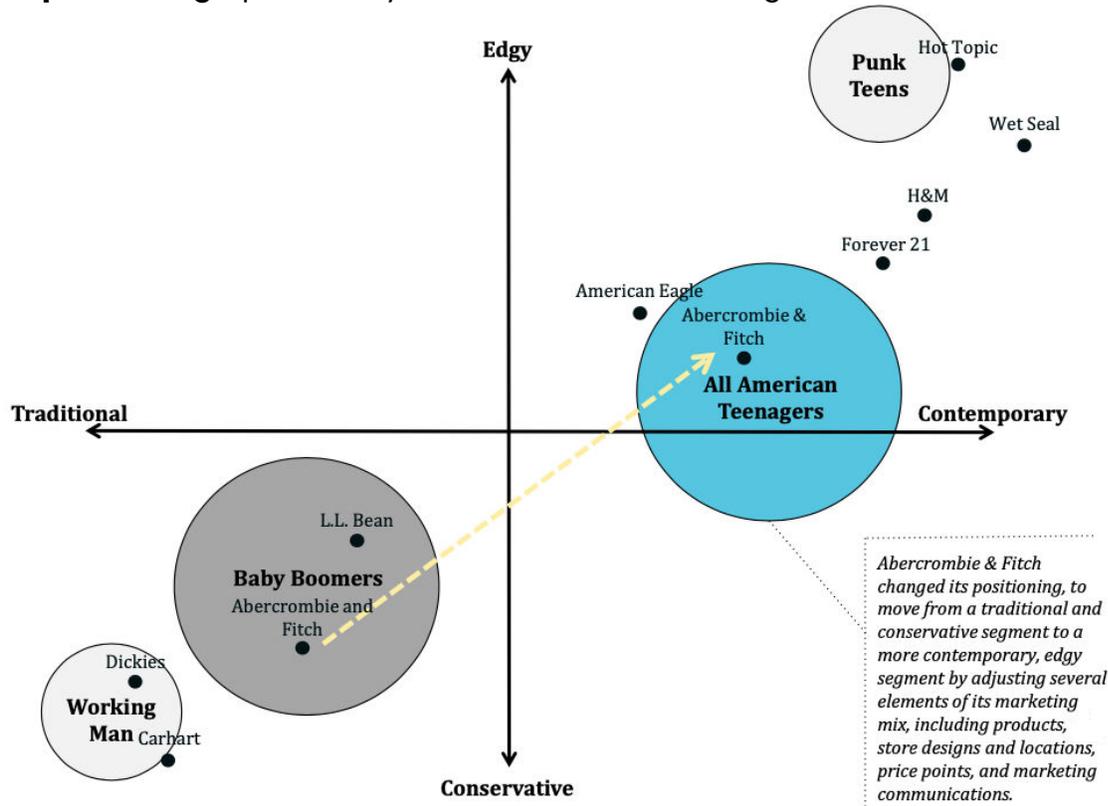
Nearly everything you do impacts your positioning:

- Place (Channel): E.g. Samsung dropping Kmart
- Price: E.g. No discounts at Tiffany

- Promotion: E.g. Tiger Woods at Nike, Starbucks
- Product: E.g. Bose, Apple

Perceptual Maps - analysis tool to aid in positioning decisions

Repositioning - process by which a firm shifts its target market



Source: Lecture 2, Perceptual Map: Analysis Tool for Positioning (Karpienko, 2026)

Positioning Statement must address three key questions:

1. Who are the customers?
2. What is the set of needs that the product or service fulfills?
3. Why is this product/service the best option to satisfy your needs (relative to competition or substitute; support for why)?

This statement is the roadmap for a plethora of implementation decisions involved in marketing a product (both inside and outside the company)

Factor Analysis

Factor analysis is a data reduction technique that can be used to identify a small number of latent "factors" that explain the major variation in a large number of

observed variables.

When to use it?

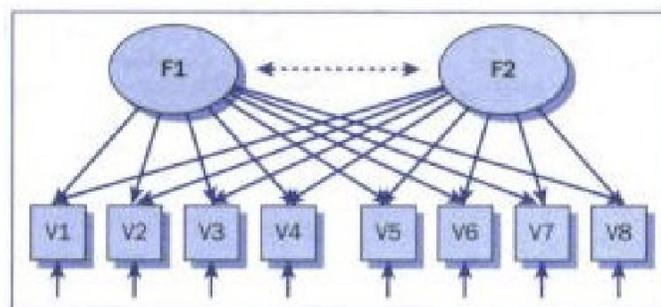
- To condense a large “pool” of potential customer needs, wants, and preferences into a short set of similar characteristics
- To reduce high correlation among predictors

How does it work?

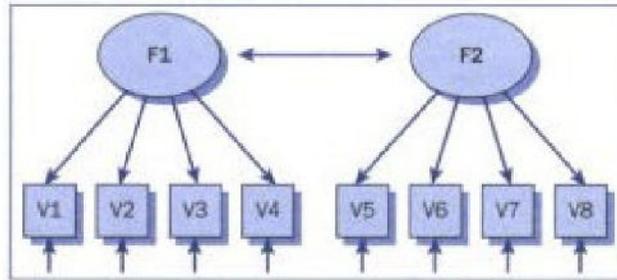
- Start with a large number of measured variables (eg., 30) from customer surveys.
- Synthesise these many variables into smaller sets (eg., 3-4) of latent “factors” that capture the meaning of measures.
- To choose the total number of factors to retain, we observe how many factors have an Eigenvalue greater than 1. The strength of the association between a measure variable and its factor is called the “factor loading.” When a measured variable has a factor loading greater than 0.3, it is generally associated with a factor. We categorise the measured variable by the factor with the highest loading (e.g., if a variable shows factor loadings of 0.01 and 0.8 on Factors 1 and 2, we associate the measured variable with Factor 2). Finally, we interpret each latent factor based on the conceptual commonalities that explain why the measured variables load on it.

Types of factor analysis

Exploratory (EFA) - look for structure in the data (“let the data speak”)



Confirmatory (CFA) - confirm theoretically derived structure



Source: Lecture 2, Types factor analysis (Karpienko, 2026)

Empirical marketing – IBEB –

Lecture 3, week 2

MP#2 All customers change

Sources of customer dynamics:

Individual level:

1. Discrete life events
 - Immediate
 - Daily purchasing habits are hard to change, and preferences shift after life events, which can alter spending patterns.
 - Using specific product purchases as predictors of preference changes is standard in marketing analytics
2. Typical lifecycle
 - Slow
 - As people get older, they become more focused on risk reduction, comfort and health
3. Learning effect
 - Medium
 - Enhanced product knowledge and experience changes the importance each consumer attaches to different attributes
 - Example: Increasing importance of social media for learning effect: increase brand awareness and reputation through effective communication

Product Market level:

4. Product lifestyle
 - Medium
 - In the early stages, consumers buy multiple new features, and in later periods, they become more price-sensitive.

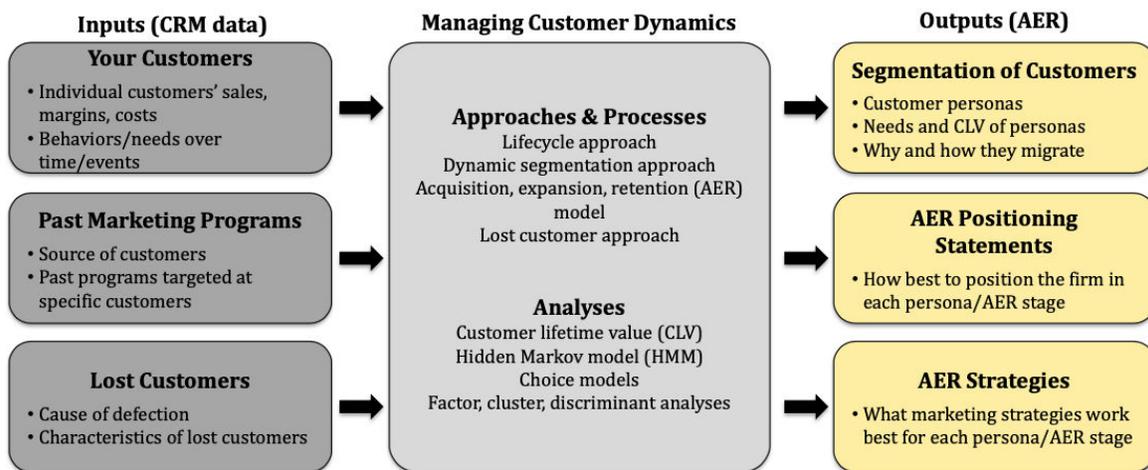
Environmental level:

5. Constantly changing environmental context
 - Slow to immediate
 - Governments, lobbyists, and marketers are working to change perceptions and regulations in climate, health and technological development.
 - Discrete events, such as COVID, also have an impact on the environment.

Interaction between sources:

- An individual's life cycle also interacts with the environment and life events.
- Younger segments react more strongly to an economic shock when compared to older segments.

MP #2: Managing Customer Dynamics



Source: Lecture 3, Managing Customer Dynamics (Karpienko, 2026)

Inputs to the Customer Dynamics Framework

1. **The firm's existing customer portfolio** – ideally a firm's CRM system provides detailed customer-level data for the dynamic segmentation analysis

2. **Data linking past customer responses** with specific marketing programs and the programs' cost
3. **The qualitative and quantitative information** gleaned from the lost customer analysis, which reveals the causes of customer defection, where they go, and potentially effective recovery strategies

Outputs of the Customer Dynamics Framework

1. A description of the firm's customer personas and expected migrations to understand how they change, including:
 - Critical life event triggers
 - The products and services they buy at different points in their lifecycle migration • When they stop buying and why
 - How they feel at different stages in their lifecycle
 - The CLV of customers in each persona
 - When consumers stop buying and why
2. AER Positioning statements – how to best position the firm in each persona/AER stage
3. AER strategies – what marketing strategies work best for each persona/AER stage

Process for Managing Customer Dynamics

To convert CRM, marketing program, and lost customer input data into dynamic segmentation and AER positioning statements and strategies, managers should follow a series of steps:

1. Dynamic segmentation
 - a. Depending on how long they have been clients and other pertinent information, existing customers should be split into AER stages. Finally, using surveys and CRM data, the cluster analysis technique can be used to analyze current clients in each of the three stages.
2. Migration Paths and Triggers
3. Customer Lifetime Value of Segments and Migrations
4. AER positioning statements
 - a. These statements are:
 - i. Internally focused on existing customers
 - ii. customer needs over time

- iii. Addresses “when” queries, triggers, and migration mechanisms, which are not included in typical positioning statements.

5. AER strategies

Evolution of Approaches for Managing Customer Dynamics

The Lifecycle Approach uses generic stages of growth and their position in the lifecycle to determine customer preferences and associated strategies

Pros	Cons
Simplicity	Assumes all customers follow one curve
Ease of use	Averages all customers
	Ignores causes of customer dynamics

Dynamic Customer Segmentation segments a firm’s existing customers based on their similar, expected migration patterns

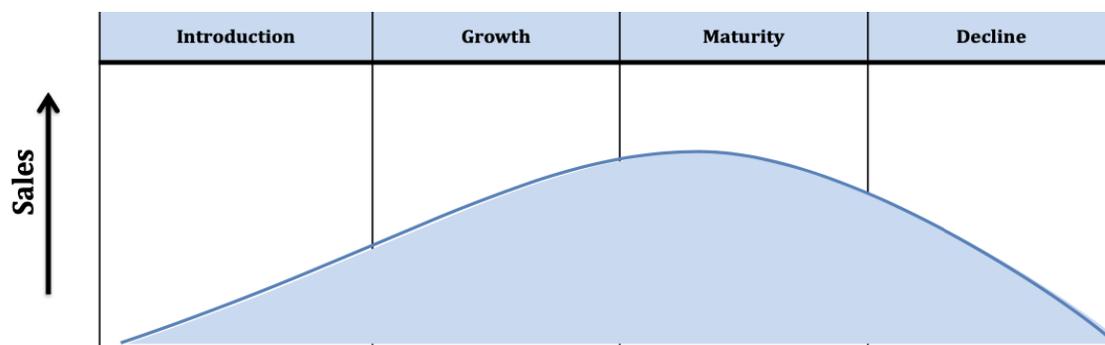
Pros	Cons
Combines lifecycle and segmentation methods.	Segments are not perfectly homogeneous
Matches strategic marketing thinking	Puts continuous change into discrete stages
Identifies temporally homogenous groups	

Customer Lifetime Value captures each customer's contribution based on their expected migration path over the customer's entire lifetime with the firm.

Pros	Cons
Provides insights for AER decisions	Requires insight into future migration
Supports a customer-centric culture	Requires detailed financial data
Captures dynamics and heterogeneity.	

Different Lifecycle Approaches

- **Customer lifecycle** attempts to capture how individuals typically change as they age and reach common age-related milestones
- **Product lifecycle** proposes that various products go through four typical stages in relation to their acceptance by society: introduction, growth, maturity, and decline



Source: Lecture 3, Typical Customer Product Lifecycle (Karpienko, 2026)

Descriptions of the Stages

Introduction

- Product just launched on the market, often perceived as risky by customers.
- Most relevant features are still unknown to customers and sellers.
- High prices.
- Seller focuses on finding new customers and promoting product trials.

Growth

Product gains acceptance in the market, and sales expand quickly.

- Users are more comfortable with the product and know which features they want.
- More focus on retaining customers and generating repeat sales.
- Customers become increasingly price sensitive.

Maturity

- Product is widely accepted, and growth begins to slow, because fewer new users are available.
- Market becomes competitive, and some firms drop out.
- Intense price competition reduces profits.
- Some sellers focus on niche segments to avoid competitive pressures.

Decline

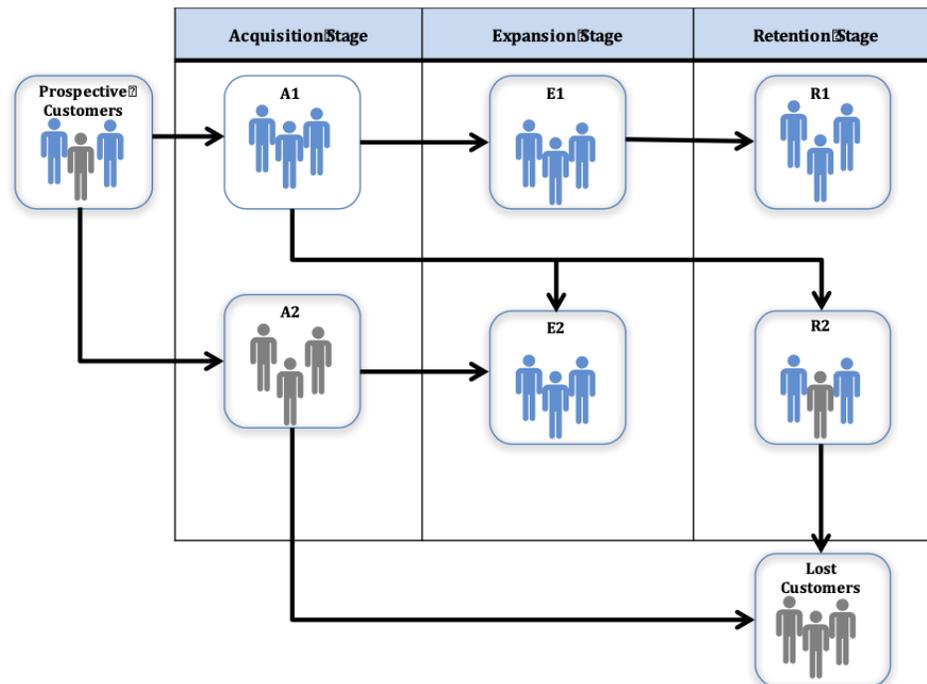
- Destructive competition and changing consumer needs and desires lead to product decline.
- Firms' sales and profits decline.
- Firms with higher costs and those without a unique advantage exit the market.
- The market often consolidates with fewer suppliers.

Customer Dynamic Segmentation Approach

Dynamic-based segmentation is sometimes called the **Acquisition–Expansion–Retention (AER) model**, because it captures customers entering the firm's portfolio and expanding over time, even as other customers slowly leave

- **Acquisition stage** begins with the first contact, typically before the first purchase occurs, when prospects and early customers have similar needs
 - *Customer onboarding* is the planned process of introducing new customers to a firm to improve their long-term satisfaction and loyalty.
- **Expansion stage** has firms that are trying to upsell or cross-sell to expand their sales and engagement with existing customers
- **Retention stage** deals with customers who migrate not because of a mismatch in the core offering or a life event but because they have a basic propensity to switch, in pursuit of "greener pastures"

Customer Dynamic Segmentation Approach:



Source: Lecture 3, Customer Dynamic Segmentation Approach (AER Model)
(Karpienko, 2026)

Lost Customer Analysis Informs AER Strategies

Identify the cause of customer churn and work backwards to ensure other customers don't leave for the same reason.

Three-step process:

1. Set regular intervals for contacting lost customers to identify the cause of churn (choice models).
2. If the lost customer is not in the firm's main target segment:
 - Change acquisition criteria
 - Evaluate an expansion to address customers
3. If the lost customer is in the firm's target market, firms should:
 - Fix the problem
 - Implement strategies to build brands and relations

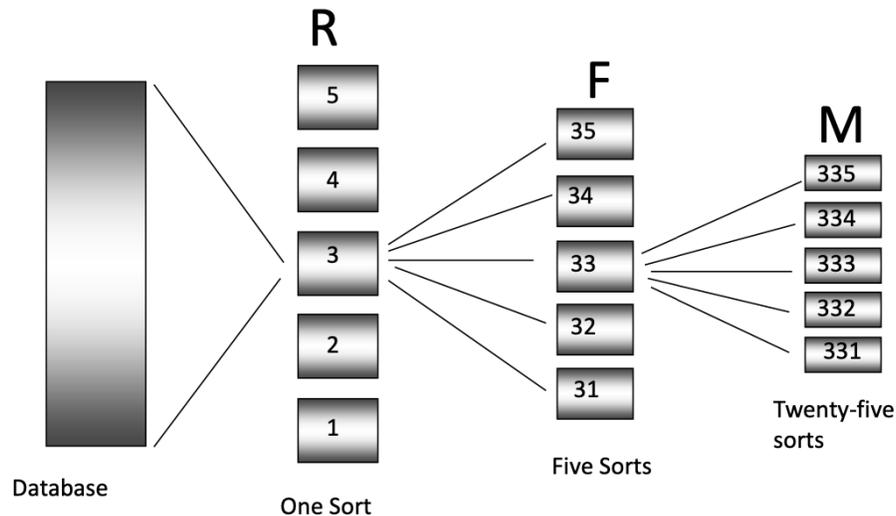
RFM Analysis for Segmentation

Direct marketers have been using a simplified version of CLV for decades, targeting customers for expensive catalogue mailings. They use three readily available customer behaviours:

- Recency or time elapsed since last purchase
- Frequency of purchases in the last period
- Monetary purchases in the last period

These **RFM variables** put customers in rank-ordered groups, based on their value in the past year (not by modelling but by rank-order sorting)

Using the profits generated from a test mailing to a few customers from each group, direct marketers then mail the catalogue only to the groups with an acceptable return on investment:



Source: Lecture 3, RFM Code Construction Where Higher Numbers are Better (Karpienko, 2026)

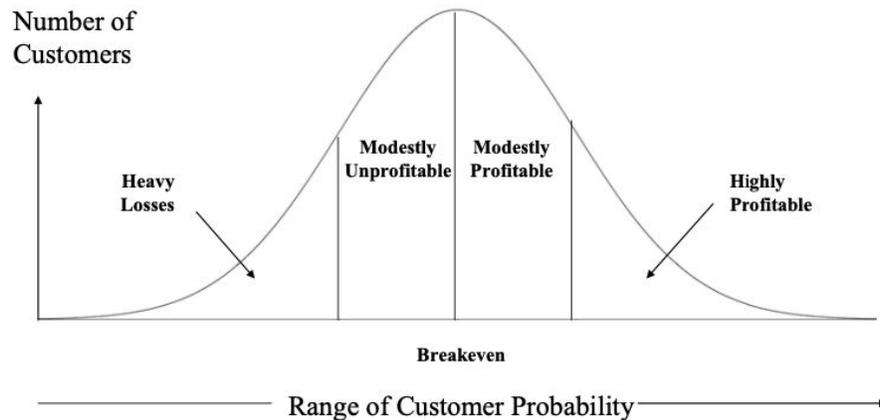
Customer Lifetime Value (CLV) approach

Customer Lifetime Value (CLV) is a key analysis tool for making AER decisions.

CLV approach evaluates a firm's profit as the sum of each customer's lifetime discounted cash flows.

CLV also accounts for varying profits across customers:

- Beyond the 80/20 rule: firms earn 150% of their profits from 30% of their customers
- CLV captures these differences in your existing customers so you can acquire, expand, and retain the “best customers”



The Right Customers: Acquisition, Retention, and Development (HBR Press)

Source: Lecture 3, CLV Accounts for Varying Profits Across Customers (Karpienko, 2026)

On average, annual earnings typically increase over a customer's life due to cross/up-selling; but, some customers are more costly to acquire or retain (lowering prices, high service levels)

Customer Lifetime Value (CLV) Analysis

- Net cash flow (sales-cost) for individual customers or a group of customers
- Calculate CLV of each customer:

$$CLV_i = \sum_{t=0}^T \frac{CF_{i,t}}{(1+d)^t}$$

Where

$CF_{i,t}$ = net cash flow generated by the customer i at time t

T = time horizon for estimating the CLV

d = discount rate

CLV is the “value” added by an individual customer to the company - a form of **customer-centric accounting** where a firm's value is the sum of all its customers' CLV.

Simplified Customer Lifetime Value Analysis

Several simplifications make CLV calculations even more straightforward. Assuming that $T \rightarrow \text{infinity}$ and that the contribution margin and marketing costs (weak) do not vary over time. Assuming that the contribution margin and marketing costs do not vary over time, the CLV in dollars for an i_{th} customer reduces to five inputs:

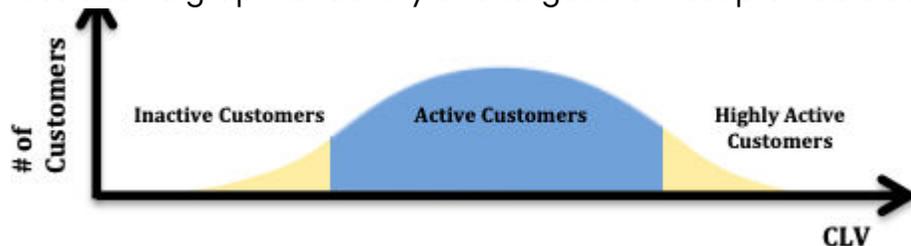
1. M_i = margin for an i^{th} customer in \$ (sales \$ and margin as %)
2. C_i = annual marketing cost for an i^{th} customer in \$
3. r_i = retention rate for an i^{th} customer as a %
4. d = discount rate as a %
5. AC_i = acquisition cost for an i^{th} customer in \$

$$CLV_i = [(M_i - C_i) / (1 - r_i + d)] - AC_i$$

When to use it?

- To identify which customers are worth acquiring and retaining
- To determine where to target marketing programs to maximise the firm's return on marketing investments
- To understand the true value of a customer to the firm

Firms can use such a graph to identify and target the most profitable customers:



Source: Lecture 3, Customer Lifetime Analysis (Karpienko, 2026)

Customer Referral Value (CRV)

Customer Referral Value (CRV) is the lifetime value of a customer bringing the firm another customer.

Highest CLV customers do not always generate the highest CRV! "Advocates" real value is higher than a CLV would predict, so you need to protect these customers.

Identifying advocates: protect, enable, expand

- E.g., Referral programs

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