

EXECUTIVE SUMMARY

Local service providers (e.g., dry cleaners, fitness centers, and beauty salons) increasingly collect customer personal information such as postal codes to identify their trading areas and develop a better understanding of the geographical repartition of their customers. This understanding is critical in competitive situations as customer patronage depends not only on competitor's marketing activities, but also on their location. Typically, customers in the vicinity of a provider could be considered as captive customers because they incur minimal travel costs, while remote customers may easily prefer alternative offerings to minimize travel costs. Local providers therefore battle to acquire and retain some customers more than others based on their proximity/remoteness. From a strategic perspective, the challenge for local providers is to decide whether to focus on serving captive customers or to target remote customers and expand their market boundaries.

This paper proposes a comprehensive framework to assist service providers in the development and targeting of their local marketing strategies. In particular, we investigate whether service providers should undertake defensive marketing targeted at the nearest customers who typically prefer their offering and/or offensive marketing directed to relatively remote customers who favor alternative offerings.

We find that, under some conditions, service providers can exclusively undertake either defensive marketing or offensive marketing or combine the two in a full differentiated strategy at the equilibrium. For instance,

“Focusing exclusively on defensive marketing and combining both offensive and defensive marketing are not viable alternatives when travel costs are very small.”

An exclusive offensive marketing strategy can only be considered when the rival's retaliatory offensive marketing capacity is weak. Conversely, focusing exclusively on defensive marketing and combining both offensive and defensive marketing are not viable alternatives when travel costs are very small.

Pursuing these three strategies leads to different outcomes. The decision to implement any of them should consider the following four factors, including the travel cost, the strength of the retaliatory offensive marketing attack of the rival, the extent of cost difference between offensive and defensive marketing, and the relative effectiveness of offensive and defensive marketing. For instance,

“Neither defensive nor offensive marketing is conducted when travel costs are very small and the rival's offensive marketing retaliatory capacity is at least of the same strength.”

Targeting exclusively the rival's market base is the best strategy either when the travel cost is small or the relative cost to protect own customer base is very small and the rival's offensive marketing retaliatory capacity is weak. Otherwise, competitors find it optimal to either target exclusively their own customer bases or target the two market segments in some areas of the parameter space. Neither defensive nor offensive marketing is conducted when travel costs are very small and the rival's offensive marketing retaliatory capacity is at least of the same strength. This is because there is no real competitive advantage due to location, as in the case of two adjacent competitors in a shopping center.