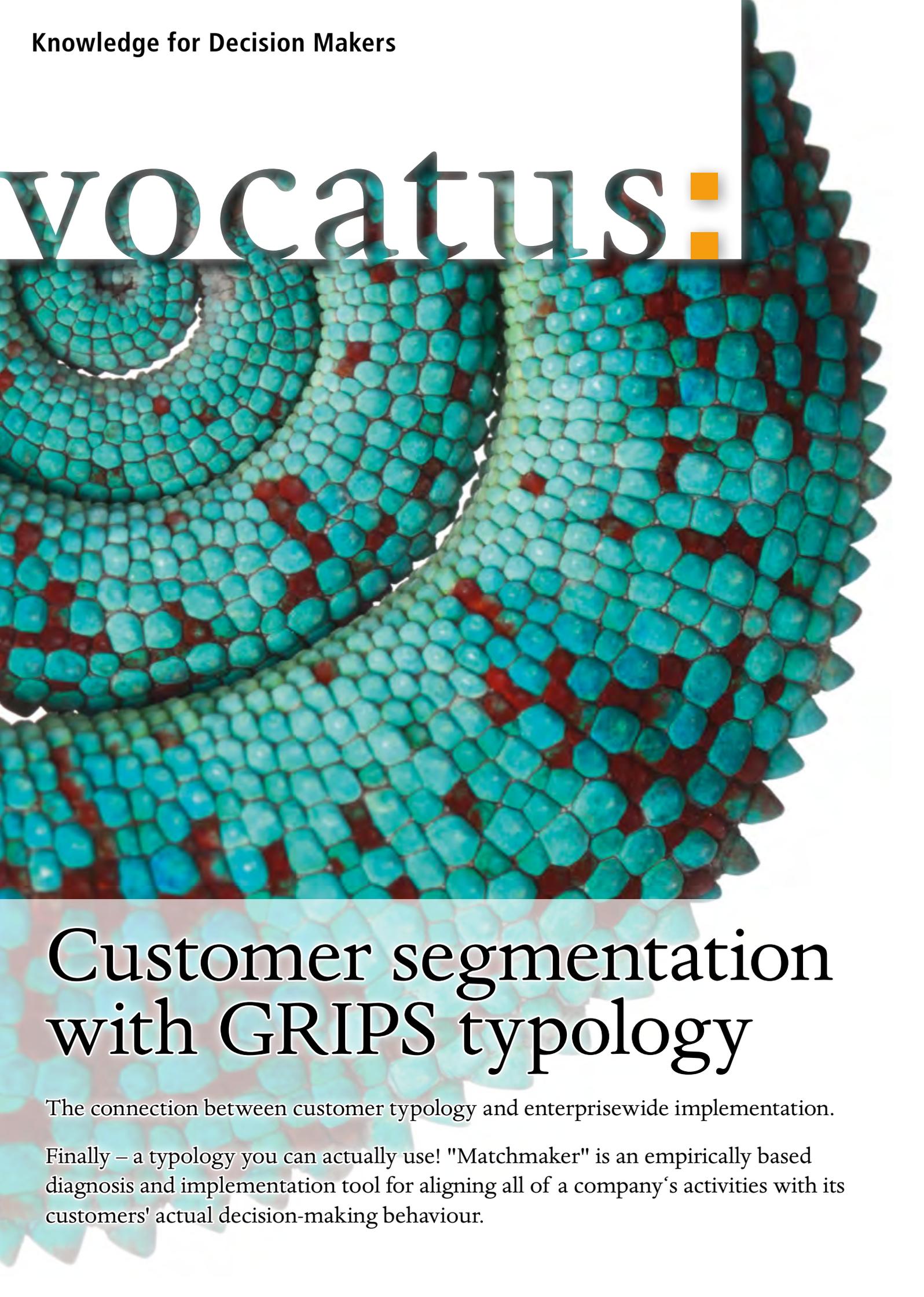


vocatus:



Customer segmentation with GRIPS typology

The connection between customer typology and enterprisewide implementation.

Finally – a typology you can actually use! "Matchmaker" is an empirically based diagnosis and implementation tool for aligning all of a company's activities with its customers' actual decision-making behaviour.

Finally!

A typology that actually works

Matchmaker is an empirically based diagnostic and implementation tool which enables companies to align all their activities with the way their customers actually make decisions.

Are you satisfied with your customer base? Do you just take whatever customers your company can get? Or would you rather have a customer base that fits well with your corporate strategy, and thus helps you to maximise your profit? A company can only acquire and retain the right customers when it consistently aligns all areas of its business to meet the needs of the customer segments that it wants to serve. This alignment begins with product development, pricing, advertising and sales, and extends all the way to customer care and to measures for winning back former customers. However, these efforts can only be implemented properly when the corresponding customer segments have first been adequately defined. The segmenting methods that market researchers have traditionally used to define these groups are often ill-suited to achieving this objective. Customers are usually classified into segments according to geographic criteria, demographic criteria (age, gender, income, social class or Mosaic code, for instance) or psychographic criteria (such as their values and lifestyles). Unfortunately, these approaches share a common weakness: it's usually impossible for a company to deduce any concrete actions from these details, let alone draw precise conclusions for individual parts of the company. Would you be able, for instance, to develop

a car model for someone from a "traditionally-minded intellectual milieu"? What level of discount would you offer Yuppies? What specific measures would have to be taken in a call centre to stop a 35 year-old woman from the North East from cancelling her life insurance policy? Answering questions of this kind is more than difficult; until now, it has been virtually impossible. For this reason, few companies even try.

Every business unit and employee can immediately recognise the advantages of this strategy.

If, however, the segments are established on the basis of purchase-relevant criteria, it suddenly becomes easy to answer exactly these types of question. Before we examine how that works, let us briefly remind ourselves of the fundamentals: What exactly is "segmentation" and why is it important?

According to Wikipedia, market segments are used "to identify groups of customers that have similar needs and demand similar products and/or services with regard to the recognised qualities of these products, e.g. functionality, price, design." The goal here, of course, is to be able to meet all these needs systematically.

Regrettably, the inability to meet this goal is precisely the

Chameleons primarily change their colours to communicate with other chameleons. Their colouring also depends on external factors, such as temperature, exposure to sunlight, the time of day, and air humidity.





limitation that conventional approaches share. While groups resulting from a typical segmentation might have a lot in common, they don't necessarily share the same purchasing behaviour. Therefore, while it might make sense to use a segmentation for one area of a business, it doesn't make any sense to align a whole business to match these groupings.

The Matchmaker programme uses empirical data to create a precise match between a specific type of customer and a business – across all areas of the company, from strategy and

The GRIPS typology makes it possible to gain a true understanding of a customer's decision-making process.

product development, through advertising and marketing, and all the way to the call centre. This enables the entire company to focus on its strategic target customers.

To make this possible, Matchmaker employs a typology based directly on the actual decision-making and purchasing behaviour exhibited by the relevant customers of a specific company.

In order to understand the background to this, we must first take a quick look at the typology that the system is based on:

Back in 2006, Vocatus published an international baseline study which has since been recognised with numerous awards. This study, which is referred to as GRIPS (an acronym from the German for "Large-scale International Pricing Study"), included over 30,000 data sets from more than 20 countries. It showed that it is possible to categorise customers according to their actual decision-making behaviour by dividing them into five distinct types of decision-maker which encompass all countries, industries and demographics. This insight led to the establishment of the GRIPS types (Fig. 1).

What's new here is the recognition that the same person behaves in different ways depending on the specific situation, product and

brand involved. When purchasing a new mobile phone contract, for instance, a certain woman might shop around for the cheapest deal. When choosing a new computer, however, she might trust the advice given by a John Lewis assistant, and when buying tissues, she might never have bought anything else but Kleenex.

Does that make her irrational or a hybrid personality? No, from a psychological perspective, her behaviour is perfectly reasonable. One need only make the effort to understand

the underlying decision-making processes. That's where the GRIPS typology comes in.

Depending on the specific product and the purchaser's personality, different criteria are emphasised for a given purchase decision. In one case, the person is bargain hunting; in the next, she's just looking to solve a problem; and in another case she's focusing on security or purchasing out of habit without giving the decision a single thought.

Gaining a sound understanding of the exact motivation that underpins such decisions—and then systematically aligning operations accordingly—opens the door to unimagined potential for sales and higher profit margins.

The typology that Matchmaker employs reflects a customer's real-life behaviour with regard to specific industries and brands, in order to make recommendations that are both concrete and actionable. Applying a typology of this kind makes it possible to fine-tune all the relevant activities within an organisation – to effectively align the enterprise with a customer's actual type-specific needs (see Fig. 2, page 6).

When Matchmaker is used in practice, we typically begin with a baseline study to establish how the different types of decision-maker are distributed across a company's market. In some cases, we also look at how they are distributed across different product divisions within the market. The frequency with which the decision-making types arise varies significantly from industry to industry and from brand to brand. Contrary to popular opinion, Bargain Hunters do not dominate every market. In fact, quite the opposite is true: in many areas, customers focus squarely on the product or brand, and price is relegated to a position of secondary importance in the decision.

This market analysis is then complemented by a customer analysis for each of the five types of customer. Depending on the product and industry, the overall level of attractiveness is determined for each of these types using factors such as average revenues, customer "life span", and profitability – characteristics that tend to differ sharply among the individual types. This analysis provides a basis for defining which types the company should target.

This is a crucial step for corporate strategy, and it serves as the foundation for further communication. Companies that focus their advertising content on discounts, for instance, will primarily attract Bargain Hunters as their future customers. In this way, they invest in acquiring customers who are most likely to be fickle or only minimally profitable.

Fig. 1:
Five types of decision-maker



Routine Buyer

A loyal customer who has a lot of trust in the brand and product



Bargain Hunter

Likes to research the best deals and loves discounts, gifts and extras thrown in for free



Risk Avider

A cautious consumer who primarily fears getting ripped off



Price Acceptor

Gets enthusiastic about products and frequently spends more than originally planned



Indifferent Buyer

Uninterested in comparing products and prices – a low-involvement customer

Fig. 2:
Matchmaker



While it might be easy to convince these individuals to make a purchase, they will be gone again as soon as a competitor offers its next deal. At the same time, the company fails to realise the potential margins among those who would be willing to pay a higher price (Price Accepters) and among its own loyal customer base (Routine Buyers).

Matchmaker is a programme for pairing every area of a company with specific customer types.

The example of a German direct banking start-up shows just how dramatic changing target customers can be. The bank was originally founded to focus primarily on affluent customers with a take-home income of more than 3,000 Euros per month. The goal was to build a solid customer base of personal accounts and support these customers remotely, but with service of the highest quality – similar to First Direct in the UK. The customer type that they were seeking to reach wasn't very price-sensitive, and they tended to remain with their bank for a long time. Unfortunately, it quickly became clear that it was difficult

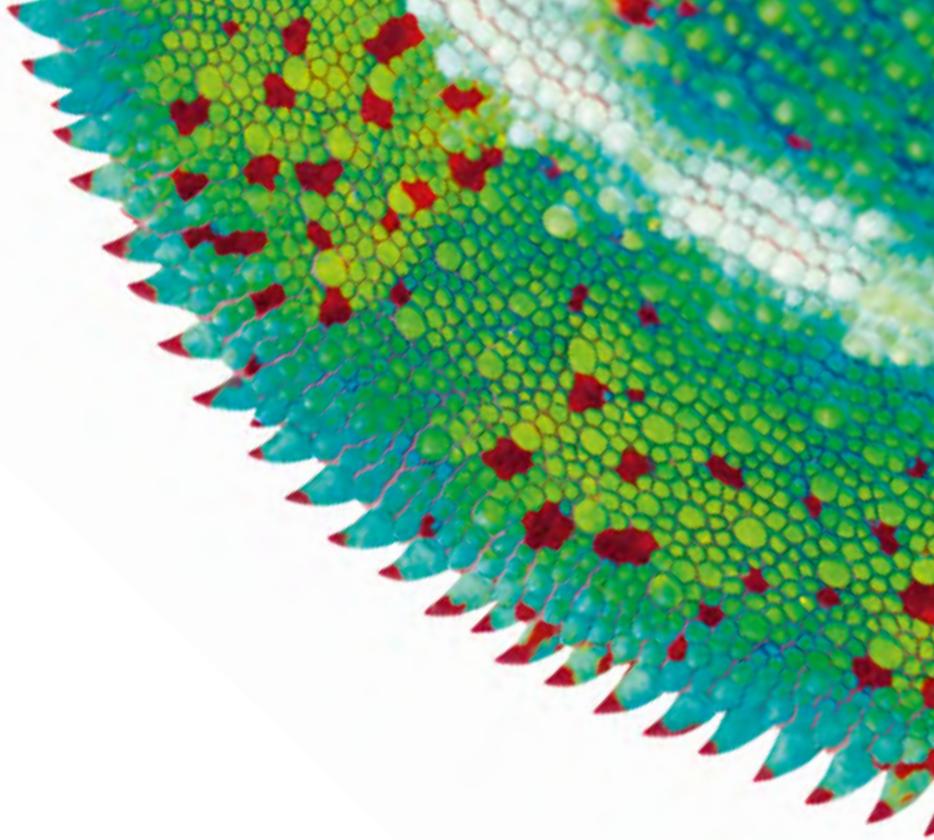
to motivate these customers to make a switch from their existing bank for exactly these reasons.

Since the customer numbers failed to meet investor expectations in the early phase, the advertising was changed. A campaign was launched which promised above-average interest rates on money-market accounts for a limited

period of six months. The number of new customers rose quickly, and the investor expectations were met, at least at a superficial level. Nevertheless, these measures acquired Bargain Hunters

rather than customers from the original target group. These customers didn't belong to the targeted income category, nor did they need the support services that people from higher income levels require. As a result, the increase in customer numbers didn't lead to the expected profits.

Moreover, they withdrew their funds once the initial six months had passed – moving on to the next good deal from a different bank. Consequently, while on paper they continued to bolster customer numbers, they did not contribute to the bank's profitability at all. It will come as no surprise that this direct bank was sold several times in



Customer Care

- Determine how to address customers in a type-appropriate manner based on their concerns (inquiries, complaints, etc.)
- Increase closing rate, customer loyalty and customer satisfaction by training staff on the GRIPS typology

the years that followed, before it was ultimately closed down.

It's often the case that such changes in direction or discrepancies between the original strategy and the current advertising aren't noticed in time, because many companies fail to define their target customers clearly enough to provide a basis for action. As a result, the question of whether a campaign appeals more strongly to Bargain Hunters, Risk Avoiders or Price Accepters, for instance, is often left to the unsystematic creativity of an external ad agency.

Matchmaker enables actionable recommendations based on how customers behave in the real world.

Few companies fail to realise the need to define their target customers. In general, all parties are aware that customers aren't equally attractive to the company, and that they can't all be won over with the same line of reasoning. The decisive advantage of the Matchmakers GRIPS methodol-

ogy is that it's the first of its kind to be so pragmatic and so readily implemented within a company that everyone in the organisation has a clear idea of which product variants are in demand. Numerous Vocatus projects have demonstrated this unique benefit over and over again.

The primary reason why companies achieve such success with Matchmaker is that this typology makes it possible to derive highly specific, practical and readily understandable measures for all areas of the business – from strategy to customer care. We find that Matchmaker generally spreads on its own from one area of a company to the next, because concrete measures are so easy to implement and because each area and employee can immediately see the advantages of this typology.

It's possible to begin the process by only using Matchmaker to focus on optimising a specific area of a business, or it can form the foundation for all of a company's products, customer contact points and communications. The next two articles show how Matchmaker can be implemented in two specific areas: marketing and sales activities and in customer care.

Matchmaker in Marketing and Advertising

Matchmaker is employed by marketing teams to align all of a company's marketing communication with the needs of the individual customer types. With the rise of targeted marketing and the advent of social media, it's even more critical that communications should be optimised for each individual customer type. And even for one-to-many communications where the same message is used for all customers, there are still numerous ways to optimise these communications by using Matchmaker.

As a starting point, in-depth analysis of the different customer contact points reveals which communications channels each of the GRIPS types typically uses to gain information. Bargain Hunters, for instance, frequently don't want any recommendations from a customer advisor. They're convinced they know exactly what they need and they feel certain that there's nothing new that a sales consultant could tell them. For this reason, they primarily form their opinions based on information from the internet, and they like to buy direct online.

Risk Avoiders, on the other hand, value personal contact and prefer to go to a store where someone can provide advice. For them, discounts are disconcerting because they

Matchmaker makes it possible to secure crucial percentage points to boost advertising efficiency.

fear they'll lose their overview of what's available and will be taken in.

These are just two examples – we find, in fact, that each customer type has different preferences for gaining information. We can use Matchmaker to ensure that each channel of communication is aligned with the preferences for the dominant typologies in a market. The benefits of having a typology that can be implemented on a practical level become clear in this further example:

For example, a study conducted for a travel company demonstrated that when they're booking a trip online, Price Accepters are primarily looking for ways to customise their trip by taking advantage of additional offerings. Bargain Hunters, on the other hand, prefer websites that sort last-minute deals according to the maximum available discount. For Bargain Hunters, the absolute price paid for the trip and the travel destination itself are secondary – it's all about the deal.

The key to Matchmaker's success is its ability to gain a clear understanding of what motivates each of the GRIPS types. For example, it might be impossible to sell cars in the midst of an economic crisis because many potential customers

are afraid they might lose their job and become unable to afford the monthly amount for the car. In this case, offering a higher discount on the overall price won't lead to the desired result.

For someone who's about to become unemployed, even the reduced price for the car is still too high.

However, with the knowledge that Matchmaker brings it's possible to pick up on the Risk Avoider's needs and guarantee that they can return the car if they lose their job. By using this strategy, Hyundai was able to boost its sales in the US by nine per cent during the economic crisis in 2009, whereas all the other car makers dropped by 20 to 50 per cent.

Within a given channel, it is important to optimise and test new communications to ensure that they convey the right

message to the advertiser's most important customer types for the given market. Before a new campaign is launched, a pretest is performed to see if the ads will actually appeal to the relevant target groups. Fig. 3 shows how Price Accepters and Routine Buyers react differently to the same TV commercial.

TV commercials must focus on the customer types that dominate this particular market.

Although this commercial leads to a slightly positive overall change in the customer's perception, the detailed analysis with a breakdown for each individual customer type reveals serious issues. The TV commercial was very well received by Price Accepters, but it had a negative effect on Routine Buyers. Performing such an evaluation that separates the results according to customer type makes it possible for the first time to recognise these effects and avoid them in future communications.

When using Matchmaker, the main purpose of an ad campaign is always to target the specific customer types that are most important for the company. Matchmaker has an additional major advantage when briefing agencies. It

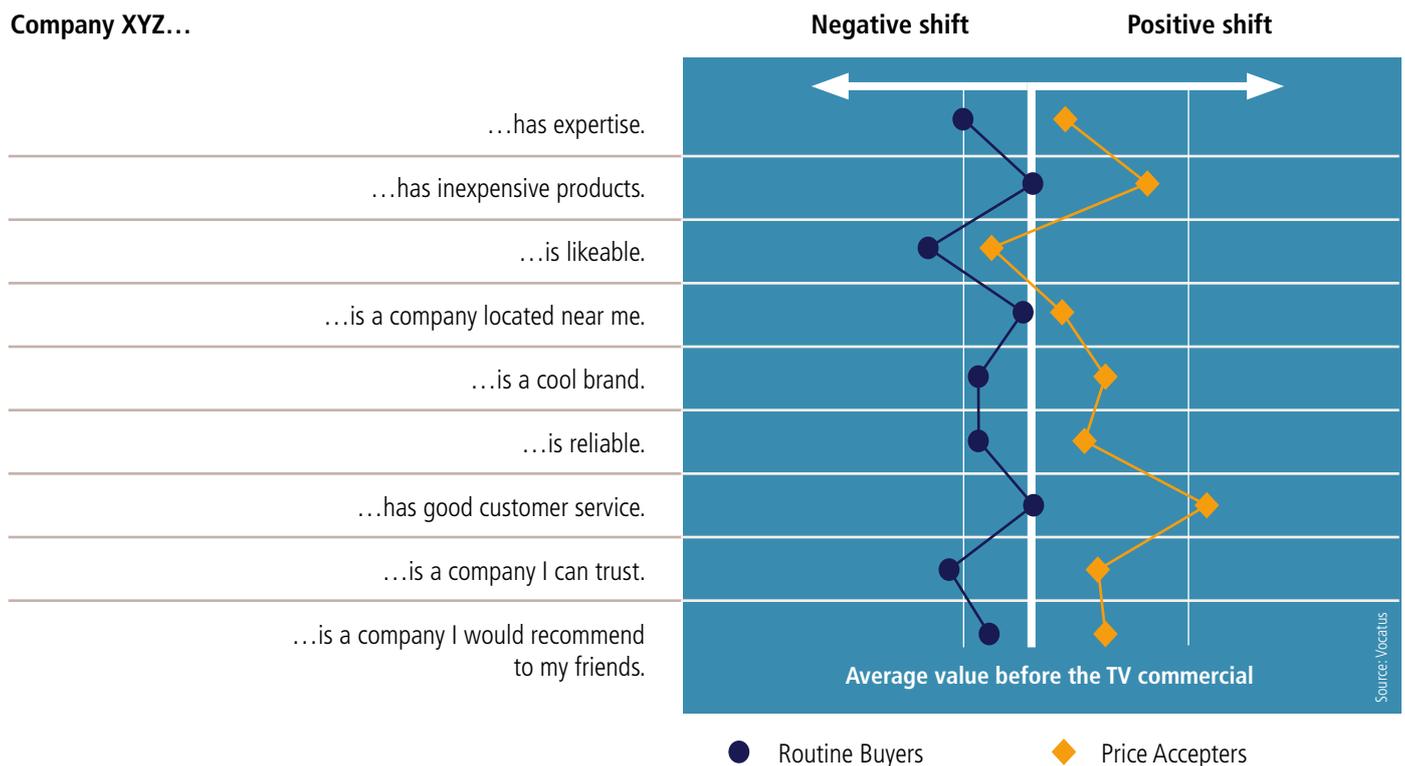
delivers the first typology that not only describes who you want to target, but also the precise message the ad must convey.

Based on an awareness of how information habits and decision criteria vary across different types of customers, it's possible to provide agencies with a very detailed briefing about the criteria communications must meet in order to achieve ideal results among the main target groups. Moreover, this applies to all messages within the marketing mix.

For example, it's possible to simultaneously appeal to groups as diverse as Bargain Hunters and Risk Avoiders by offering fact-driven communication. Facts reaffirm Bargain Hunters in their role as smart shoppers, and the same facts help Risk Avoiders feel good by confirming they have made a sound decision on the basis of objective criteria. We have also found that agencies are enthusiastic about this new type of briefing, because it provides them with a solid empirical basis for their creative work.

These examples show how a clear and decision-relevant definition of the target groups can improve advertising efficiency by crucial percentage points and make it possible to align the marketing mix with the relevant target groups.

Fig. 3: Changes in perceptions for different types of customers following a TV commercial



Matchmaker in Sales and Customer Care

Matchmaker enables employees to identify which type of customer they're talking to, and to then respond in the best way for that specific type – with resounding success.

If the products have been designed to suit the target customers and the marketing efforts have been deliberately aimed at precisely those types of customers, it's only logical that the sales and customer care staff should also be trained to meet the needs of exactly these types. It is precisely in

Staff members are already intuitively familiar with the different GRIPS types.

this kind of one-on-one communication that Matchmaker is able to show its full potential, because Matchmaker gives staff a way of predicting and meeting the needs of an individual customer with great accuracy.

Thanks to their day-to-day interaction with customers, experienced sales and customer care professionals are already intuitively familiar with the types of decision-maker identified by Matchmaker. For this reason, Matchmaker trainers often find themselves "preaching to the converted" during the training process.

Employees immediately recognise the value of Matchmaker's customer typology because it offers them a clear and systematic view – Matchmaker makes sense out of what they had previously perceived as customers' contradictory needs and requirements. Matchmaker provides a clear description of the customer types that have been discovered empirically, and thus it also helps the different parts of the company find a common language.

Matchmaker training can help call centre or sales staff to use an informal discussion at the beginning of a contact to identify what type of decision-maker a given customer corresponds to. After the training is complete, employees are usually able to correctly identify the different types of decision-maker with a reliability of up to 90 per cent, after just a brief conversation with the customer.

After they've learnt how to recognise the type of decision-maker, employees then receive very specific and empirically validated recommendations regarding the most promising ways to address each customer type (see Fig. 4).



Fig. 4:

Handling objections in customer care differently, according to the type of decision-maker



Risk Avoiders

...want you to lead them through the conversation and provide them with good support and advice. They need to have the feel this is the right offer for them and that it's fair.



Suitable phrases to use:

"This product is a perfect fit for what you're looking to do."

"You won't have to pay any additional costs."

"Everything will stay just as it has been."



Bargain Hunters

...expect you to negotiate with them and give in to their wishes. Let Bargain Hunters go away with the feeling that they won in the end.



Suitable phrases to use:

"This is really worth it."

"With this option, you can save..."

"This will enable you to cut your costs in half."

"Altogether, you'll save ... per year."

Source: Vocatus

Their performance is monitored by mystery shoppers playing the role of a particular customer type in order to check if the employees are really adapting their behaviour to accommodate all the different types. Customer satisfaction and call centre metrics such as call length and closure rates, are monitored too. The results are positive: the focus on the needs of customer types can raise the call centre's closure rates, while the price reductions offered by employees to customers can be reduced, which increases margins.

At the same time, the duration of calls can be noticeably shortened and the overall customer satisfaction level of customer care services rises too.

Focusing on customer types raises the call centre's closure rate.

These examples show how Matchmaker is able to establish a link between the different types of decision-maker and the way these types are treated by all areas of the business. In this way, this empirically founded typology can focus all the company's efforts – from strategy and product development to sales and customer care – on maximising the return from individual customer types, thus making a significant contribution towards increasing a company's sales and profits.



vocatus:

At Vocatus we develop pricing strategies and sales concepts for B2C and B2B business models. In doing so, we do not rely on the assumptions of classic pricing theory. Instead, we systematically leverage the latest insights from behavioral economics to open up additional margins and conversion potential for our customers. For our innovative projects and the successes we have achieved with them, we have already received numerous international awards.

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