

# FEEDBACK

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Communication between Customer and Company

## Customer-centred Pricing Strategy

Classic pricing research methods are based on the assumption that people always decide rationally. Nevertheless, a new pricing study conducted by Vocatus in six sectors and sixteen countries demonstrates that, depending on the product, people deal quite differently with the issue of price. Pricing psychology yields a total of five different consumer types who must accordingly be addressed in different ways.

Something that is standard procedure when designing products still often receives short shrift when it comes to optimising prices: the conviction that consumers pursue



different needs and motives when choosing various products, and that the product range must ac-

cordingly be optimised to suit these differing customer segments.

However, various customer groups do not just differ in terms of how they rate individual product features such as quality or functionality and performance; the same applies to price. This is because consumers not only differ in terms of how much they are willing to spend on a product or service; they also differ in terms of the extent to which price actually influences their purchase decision.

Moreover, situative influences often matter just as much as the type of product that is bought. After all, only very few people apply the same yardstick or heuristic when  
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*Classic pricing research methods are based on the assumption that people decide rationally and in a similar way in every sector. Nevertheless, a new pricing study conducted by Vocatus in six sectors and sixteen countries demonstrates that, depending on the product, people deal quite differently with the issue of price.*

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#### **One Price, Five Meanings**

*Contrary to previous assumptions, the rational consumer remains an unfounded rumor. One is far likelier to encounter Discount Hunters, Loss Avoiders, Comparison Avoiding Loyals, Price Indifferents, or Dynamic Price Accepters.*

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#### **Consequences for Strategic and Tactical Pricing**

*Different consumer types require different pricing strategies. In addition to the pricing structure, this affects communication and the PoS strategy.*

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# Customer-centred Pricing Strategy

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buying a car, a mobile phone, or an evening dress that they would when purchasing a bottle of shampoo.

Classic pricing research methods are based on the assumption that consumers decide rationally.

Nonetheless, the classic pricing research methods such as conjoint analysis, price sensitivity measurement, or brand/price trade-off essentially assume a uniform decision process – regardless of the respective sector or consumer type. All these tools are based on the assumption that consumers are very au fait with the market and accordingly buy the product that promises them the greatest utility at the most competitive price. Prices are thus solely optimised for this “rational” consumer type: the textbook “homo oeconomicus”.

However, this is contradicted by a wealth of empirical insights. Con-

sumers are often simply unable to select the offer that is best for them out of a range of comparable products, either because they are virtually unaware of the prices set by providers/suppliers, or the complex tariffs are so impenetrable, or they simply cannot be bothered to waste time and effort on comparing offers. Amongst many other things, this applies for example to mobile telecoms contracts, current accounts, insurance, and cars.

Depending on the product, people assign a totally different meaning to price.

This is thus reason enough to scrutinise the role of price in purchase decisions. For the first time, Vocatus therefore systematically examined the various consumer needs and price motives in ten different product categories and six sectors – from fast-moving consumer goods (FMCG) to automobiles and airlines, mobile telecoms, and financial services (see also Figure 1).

This study revealed that decisions are only rarely as rational as pricing research has hitherto assumed. There are a total of five different

consumer types who differ markedly in terms of their attitudes to price when making purchase decisions, and who to some extent pursue totally different decision strategies which providers/suppliers must address in a differentiated manner (cf. article “One Price, Five Meanings” on page 3).

These consumer types can be found in every country and sector – though with varying frequency. Nonetheless, only when armed with this knowledge (namely, how one’s own consumers actually deal with price) can pricing and pricing communication actually be optimised to promote additional profits (cf. article “Consequences for Strategic and Tactical Pricing” on page 5).

The study thus heralds a change in paradigms: it builds the foundation for more valid results in the future. Above all, the research findings make it necessary to adapt the pricing research methods that are deployed. Thus, for example, it is possible to markedly increase the validity of conjoint analyses if the not quite so rational decision behaviour of many consumers is included in the analysis from the outset. ■

Figure 1:

Sectors and products examined in sixteen countries

Sector	Product category
Airline	Private flight booking (not a package tour)
Automobile	Purchase of new car from authorised dealer Purchase of used car from dealer
Bank	Private instalment credit Private property finance
FMCG	Soft drink (food) Body care (non-food)
Mobile telecoms	Private mobile telecoms contract (with phone) Private mobile telecoms contract (without phone)
Insurance	Insurance to cover private risk without accumulation of capital)

# One Price, Five Meanings

Contrary to widespread assumptions, those people who make rational decisions about price remain an unfounded rumor. One is far likelier to encounter Discount Hunters, Loss Avoiders, Comparison Avoiding Loyals, Price Indifferents and Dynamic Price Accepters.

Depending on the product, sector, and people's personal attitudes and experiences, the role of price can vary greatly when deciding on a product. Moreover, consumers do not decide like a "homo oeconomicus". This insight, which is evidently still surprising in terms of common pricing research, is the key finding of an international cross-sector pricing study conducted by Vocatus.

There are five consumer types who clearly differ in their dealings with price.

The consumer typology based on the "psychological price profile" that Vocatus came up with on the basis of the research findings comprises a total of five types: the "Discount Hunter", the "Loss Avoider", the "Comparison Avoiding Loyals", the "Dynamic Price Accepter", and the "Price Indifferent".

ing Loyal", the "Dynamic Price Acceptor", and the "Price Indifferent". All five types clearly differ in the way in which they critically appraise price within the context of their decision and purchase process (c.f. Figure 2).

In fact, we have not found evidence that a consumer type like the "homo oeconomicus" exists at all. Nevertheless, this theoretical consumer type is the basis of virtually all economic modelling, and more-over of all classic pricing research methods (c. f. box next page). Their underlying analytics build, for example, on the assumption that consumers know all the prices of relevant competitors, which is simply not the case. In fact, consumers sometimes do not even know the price of a product they have just bought – let alone the prices of potential substitutes.

Figure 2:

The pricing psychology consumer types clearly differ when it comes to critically appraising price (selected aspects)

Items	Price Indifferents	Discount Hunters	Loss Avoiders	Comparison Avoiding Loyals	Dynamic Price Accepters
I held off from buying until I found an offer that matched my ideas concerning the price.					
I only paid attention to the price once I had already actually opted for the product.					
I basically wanted to stick with my usual brand, so long as the price didn't far exceed my expectations					
I had the actual price of a specific product in mind, and I used it as a yardstick until I made the purchase decision					
I compared how much extra I would get for a slightly higher price.					
I compared to see how much I would have to do without if I wanted to pay a somewhat lower price.					

Legend: = least agreement = greatest agreement

The higher the financial risk, the more rarely is the decision based on rational criteria.

Rational consumer behaviour cannot be found even in decisions involving considerable financial risk – for example, in connection with instalment credit or property finance. By contrast, "Discount Hunters" are relatively widespread here. Depending on the product category and sector, they are even the clearly predominant group. As the name suggests, this consumer type is primarily interested in attractive discounts. For this reason, they make in-depth comparisons and want to be "smarter" consumers who are better than others at shopping. It also frequently transpires that "Discount Hunters" buy a product even though they do not absolutely need it, but simply because it is reduced. Strictly

speaking, one could say that the Discount Hunter buys “because of” the price, whereas other consumer types buy something “in spite of” the price. Their behaviour is not rational insofar as they in fact tend to buy the “price” instead of the “product” and selectively focus on specific price elements, often forgetting some additional cost that is associated with the product.

Other aspects such as liking, image, or price guarantees often play a crucial role.

“Loss Avoiders” likewise attach great importance to the price, though they are also very mistrustful as a result of earlier frustrating experiences. They at all costs want to avoid falling for a supposed bargain where ultimately they are still being ripped off. This is why, in addition to the actual price, they pay attention to other confidence-inspiring factors such as simple pricing structures or price guarantees.

Price assumes quite a different role for “Comparison Avoiding Loyals”. They are not especially interested in discounts, in-depth price negotiations, or long-winded decisions; they simply want to feel they are getting a trusted product. Instead of expending vast amounts of energy on comparing the prices of various providers/suppliers, they manifest particular brand loyalty and prefer to pay attention to other aspects such as spontaneous liking or the presumed reliability they deduce from the brand, the image of the provider/supplier, or previous experience of the latter. In short, they basically try to concern themselves as little as possible with the issue of price.

Instead of risking being disappointed by a supposedly competitive offer, “Dynamic Price Accepters” for their part are likelier to see each purchase decision as an

opportunity to get a better product; they accordingly approach things in a very open, interested, and product-centred rather than price-centred manner. Although they have a price in mind, they are simultaneously open to quality, brand, and image aspects. In return, they are also willing (if the product is suitably attractive) to exceed their original budget from time to time. For example, one is especially likely to come across this type of decision when it comes to buying a car, where during the purchase process people are happy to exceed the previously planned purchase price by 15-20% (see also box: “Buying a New Car” on page 5).

And yet, some people just do not care.

Last but not least, there are a significant number of consumers who simply do not care about price – or about the product either. They do not really go through a “decision-making process”. Their choice and decision is merely driven by a current need and the fact that they do not want to spend time comparing prices or product attributes. A “good enough” product is just fine if it is readily available. These consumers are very attractive from a marketing perspective, but ways of get-

ting them to buy one’s product differ significantly from the best way of approaching the other segments.

How people decide depends on the product itself rather than their character.

However, whether a consumer belongs to a specific pricing psychology type is not a question of character. Instead, this depends on the respective sector and product category. The self-same consumer is thus perhaps a Discount Hunter when buying foodstuffs, yet at the same time decides like a Dynamic Price Acceptor when it comes to their new car. Which type somebody belongs to in a given situation is merely a question of the preferred decision strategy in relation to price.

The “hybrid” consumer is the norm.

What this means is that virtually every consumer is “hybrid” with regard to their price decisions. Yet if we think about our own purchase decisions, this notion that is so “revolutionary” in terms of pricing research immediately appears to be far less surprising – it is actually perfectly normal instead. ■

### The “Homo Oeconomicus”

A “homo oeconomicus” takes a very matter-of-fact view of the topic of price – he does not think he is at risk of being ripped off, and neither does he deem it particularly desirable to use in-depth price comparisons to get a bargain and thereby become an apparently “smarter” consumer.

The reason for this is that he is already very familiar with prices and providers/suppliers. He accordingly selects (in a relatively competent and independent manner) the offer that promises him specific performance at a competitive price.

# Consequences for Strategic and Tactical Pricing

Depending on the distribution of the various consumer types in the respective market, it makes sense to deploy different pricing strategies. In addition to the pricing structure, this affects communication and the PoS strategy.

The results of the study above all demonstrate one thing: it is not enough to adapt the product portfolio to the needs of the various customer segments. The pricing strategy must also be geared towards existing consumer types that are based upon pricing psychology.

When optimising prices, this means not exclusively relying on the price acceptance that has been ascertained; if a consumer says they are willing to pay 10 euros for a specific product, that tells us little or nothing about how much they would actually spend. Thus, for example, Discount Hunters pay far more attention to a promised dis-

count than the end price. However, if only the end price is ascertained, this ignores this group's essential incentive to buy.

For example, Comparison Avoiding Loyals and Loss Avoiders even tend to be frightened off rather than tempted by aggressive low-price campaigns – the former because they are reluctant to examine this topic, and the latter because it further fuels their already-existing mistrust of the provider/supplier.

Depending on which types of decision-maker predominate in the respective market, the pricing strategy must highlight different aspects,

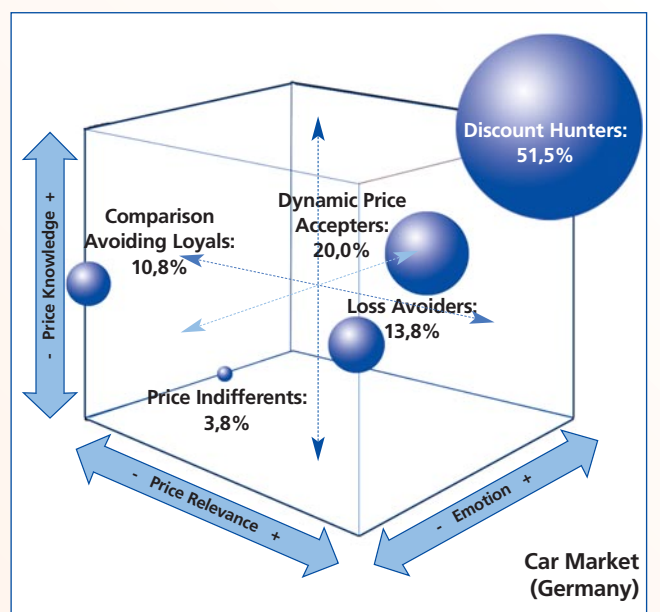
whether that be a discount, an emphasis on particularly competitive price elements, the brand image, or a straightforward pricing structure. The strategy at Point-of-Sale (PoS) also plays a vital role here: this can refer to the shop layout as well as a retailer's room for manoeuvre when granting discounts. Moreover, the product design may need to be adjusted too – whether it be with the help of sub-brands which in each case address the various consumer types, or by assembling various packages whose features are, for example, aimed at the price motives of Loss Avoiders or Dynamic Price Accepters.

A successful pricing strategy ultimately consists of not merely establishing individual price points, but price communication and a price-related PoS strategy too. These aspects must accordingly be included in the conception of market research projects at an early stage so as to end up with valid results. ■

## Example: Buying a New Car

The vast majority of car buyers belong to the group of Discount Hunters, and a further 20 percent are Dynamic Price Accepters.

What this means for a successful pricing strategy is that corresponding discounts must be considered as part of the pricing strategy from the very outset – whether this takes the form of special promotions or a generous trade-in price for one's old car. But it also means that the communication strategy largely influences the importance of prices in people's minds. The example here is taken from Germany, where customers are offered discounts the minute they walk into the showroom. Given this kind of sales strategy, one should not be surprised that people turn out to be Discount Hunters. Furthermore, Dynamic Price Accepters can be wooed with various equipment lines and additional attractive elements (e.g. driver assistance systems, leather



seats, high engine specification). Depending on the make of car, this distribution of types can of course turn out differently. ■

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