



Lifestyle Segmentation

How an integrated view of the customer
creates opportunities for growth

Lifestyle Segmentation

How an integrated view of the customer creates opportunities for growth

For years, mass marketing has been losing effectiveness as a way to engage customers. In order to meet the changing needs of unique customers, it has become essential to understand the motivation (the why) behind the desired behavior (the what). By engaging in a dialogue with a customer, a company can establish a learning relationship that is relevant and provides value to both parties. The future of marketing rests in a company's ability to establish and maintain learning relationships with its customers. But how do you do it?

Imagine a crowded city street. People are walking in different directions. One person is trying to catch a taxi; another is checking his watch at the bus stop. A couple walks swiftly to catch a promotion at the supermarket across the street. Two people are having an intense discussion about which TV to buy in front of a display window. We can assume a lot about what a person is doing by observing him for a few seconds. But if we bring in more information that does not readily meet the eye we can begin to understand the "why" behind the behavior.

Imagine the value of that insight for a business. Consider the opportunities that exist for a company that knows what one of the customers on the street buys in the supermarket, the car that he drives, the number of children he has, and the amount of furniture he has purchased in the past year. Factors like brand selection, time and frequency of purchase, amount per transaction, and location of the purchases give significant insight into the "why" behind the "what." We call that the customer lifestyle. After examining a specific relationship between purchase patterns and lifestyles, customer profiles can be determined and customers that meet that lifestyle can be targeted.

This white paper will describe how one company, Koç Group, put behavioral analysis and lifestyle segmentation to work to increase revenue, lock in loyalty, and improve the bottom line across its portfolio of businesses. It will examine how Tani, a Koç Group company and Koç's center of excellence in CRM services, worked with Peppers & Rogers Group (PRG) to conduct a lifestyle segmentation study and develop marketing strategies based on customer lifestyle profiles. It will also discuss how Tani developed customer insight to develop long-term, more profitable relationships with its customers.

Table of Contents

The Journey to Customer Insight	3
Lifestyle Segmentation Based on Consumption Habits	4
Lifestyle Segmentation Based on Product Usage	6
Conclusion	7

About Koç Group, Tani and the Paro Coalition program

The Koç Group, a *Fortune* 500 conglomerate comprised of 114 consolidated companies, is the largest conglomerate in Turkey with more than 93,000 employees and combined revenues of \$39.5 billion. Tani is a Koç Group company that was established in 2002 to provide CRM services to other Koç Group companies as well as to non-Koç companies. A key to this effort was Tani's launch of its Paro Coalition Program.

The Paro Coalition Program was designed to integrate customer databases from different Koç companies into a single pool. The goal of the consolidation was to create cross-sell opportunities and to enhance the effectiveness and ROI of targeted marketing initiatives. The vision for the strategy is to reward members of the Paro Coalition Program for every purchase from any of the program member companies. Most member companies are part of Koç Group, however a few member companies are not.

The program helped Koç Group build on its leadership position and better understand its customers. The journey to customer insight started with existing data with a focus on building deeper relationships among customers and with the individual company and the complete family of Koç Group companies.

Paro in action

The new, unified database created by the Paro initiative allowed Tani to identify customers, divide them into segments and grow the business by:

- Cross selling products to customers from different Koç and non-Koç companies
- Up selling to customers by analyzing their preferences from different companies
- Retaining customers through customer satisfaction feedback and an ongoing dialogue

Since its launch in 2004, the program has helped Koç:

- Create customer segments based on behavior and value to Koç, an effort that has increased campaign ROI
- Increase customer retention through predictive churn modeling for Paro customers
- Lower coupon costs for campaigns through real-time earning and burning capabilities
- Create a single customer touchpoint by integrating all call centers and Web services of Paro companies
- Improve customer communication and campaign management through the implementation of a new technology

The Paro coalition program has provided Koç Group and non-Koç companies an excellent platform to create value-building opportunities and lock in competitive advantage.

The Journey to Customer Insight

The Paro Coalition Program includes nearly 10 million Koç customers from 15 different Koç Group companies. To tap into the potential of this vast audience, Koç needed to understand its customers better. The company began by categorizing customers in different segments with distinguishing features.

Before the lifestyle segmentation effort, Tani only knew which company the customer did business with. This one-dimensional information was not very effective in terms of cross-sell or up-sell efforts. The lifestyle segmentation program was created to capture buying behaviors and the underlying demands. By using a bipartite methodology on Paro customer data, 10 million customers were analyzed and placed into related lifestyle segments. The study involved 15 different companies representing nine industries:

- Automotive
- Car Rental
- Durable Goods
- Food and Beverage
- Gas
- Insurance
- Oil Station
- Retail/Consumer Package Goods
- Tourism

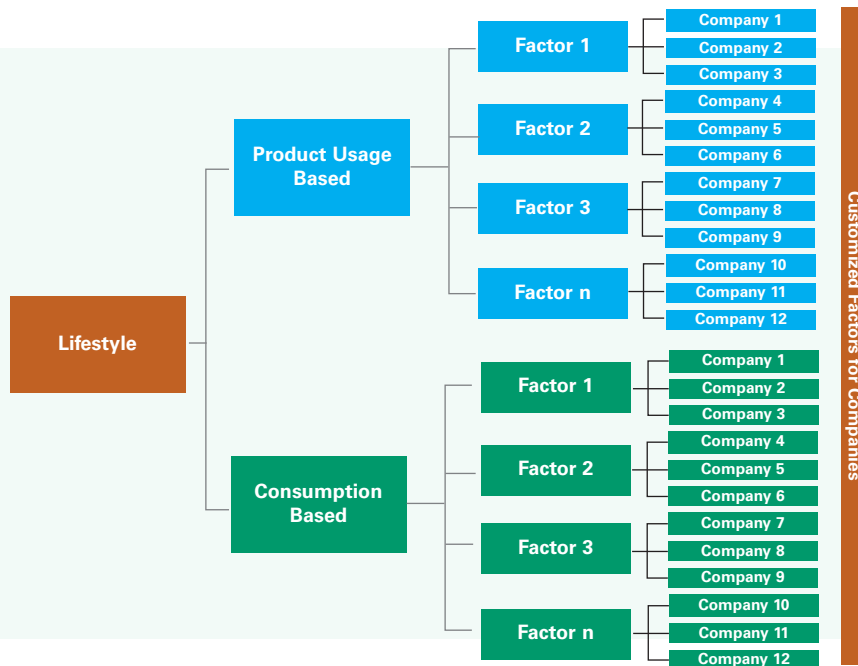
Peppers & Rogers Group began by creating customer profiles that were relevant to the participating companies. It started by identifying what customer attributes would make up each profile.

Peppers & Rogers Group experts defined a long list of attributes that combined the basic needs of customers, benchmark data and the opinion of Koç business experts. The profile list was adapted based on recommendations made by participating companies, which represent a diverse section of industries. Initially 46 lifestyle profiles were established for the study and lifestyle analysis was conducted in two distinct steps: "Lifestyles based on consumption habits" and "Lifestyles based on product usage".

After PRG determined the profiles and analysis method, each profile and strategy had to be customized according to the types of companies involved in the study. For instance, frequency of a customer shopping from a durable goods company is very different than frequency of a customer shopping for consumer package goods. So it should be noted that business rules and factors were customized for each company *and* for each profile.

Figure 1: Determining Factors for Different Companies

Peppers & Rogers Group executed lifestyle segmentation by taking into account product usage and consumption factors that contributed to customer profiles and the types of companies involved in the study.



Source: Peppers & Rogers Group

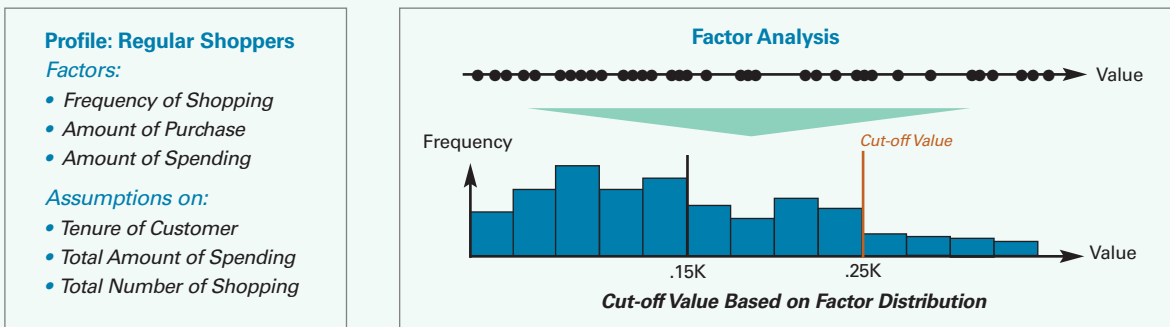
Basing lifestyle segmentation on consumption habits

To define lifestyle segments, Peppers & Rogers Group created customer profiles based on consumption habits that were determined through distribution-based factor analysis. (See Figure 2.) Time and frequency of shopping, amount of purchase, and location of purchase were some key indicators around the consumption habits. For instance, a non-regular

shopper is expected to have a specific pattern in terms of shopping frequency, amount of purchase and level of spending. On the other hand, a summer visitor is expected to shop only in summertime from specific summer vacation locations. Determination of the required shopping frequency for non-regular shoppers was based on the customer's distribution or definition.

Figure 2: Factor Analysis for Lifestyles

Consumption habits were determined through a distribution-based factor analysis.



Source: Peppers & Rogers Group

Figure 3: Lifestyle Segmentation Based on Consumption Habits

Peppers & Rogers Group created lifestyle segments based on factors such as shopping frequency, amount of purchase and level of spending.

Lifestyle	Shopping
Regular Shopper	Same quantity with regular time intervals
Big-time Shooter	Big quantity with limited time intervals
Wholesale	Big time, big quantity
Daily Comer	Little quantity in frequent time intervals
Pioneer	The newest products as soon as they are launched
Dedicated Campaign Follower	Products with campaign offers
Campaign Ignorant	Without considering campaigns
Tester	Different products in the same category
Clumsy	Car repair services regularly
KOÇ Brand Lover	From different KOÇ companies regularly
Summer Visitors	In summertime and from "summary" locations
Summer Escapees	Nothing or very little in summertime
Winter Escapee	Nothing or very little in wintertime
Holiday Lover	During holiday times
Special Day Lover	On special days (New Years', Valentine's Day, etc.)
Workaholic	Early in the morning, late evening or on weekends
Traveler	Regularly from more than one city

Source: Peppers & Rogers Group

Process for Defining Lifestyle Segments

In establishing the Paro Coalition Marketing Program, Peppers & Rogers Group used a proven methodology for defining customer lifestyle segments.

1. Determine the companies to be involved in the analysis
2. Determine the profile-related factors and patterns (ie. Frequency of shopping, time of shopping, etc.)
3. Determine the assumptions: Which set of customers will be included in the analysis. For instance, new customers may need to be eliminated for some profiles.
4. Determine the distributions, normalize factor values and eliminate the outliers: Each set of factors may have a different distribution in order to obtain comparable values. Factors should be normalized and outliers should be eliminated.
5. Score all customers based on factors: All customers can be scored according to their factor values. Intention is to give a score to each customer between 0 and 1.
6. Determine a cut-off point for customer elimination: Based on the score distributions, the number of customers to be included in that profile can be determined and the cut-off limit can be set accordingly.
7. Flag the customers scored above the cut-off (See Figure 2.)

Creating lifestyle segments based on product usage

Product-usage-based lifestyle segmentation is much more complex than consumption-habits-based segmentation due to the product trees of the different companies. The following methodology was used to determine 26 lifestyles based on product usage. (See Figure 4.)

Product mapping Mapping products to specific profiles was required to find the related products for that profile. For instance, cheap products were flagged under the “economics” profile, whereas diapers were flagged under the “family with babies” profile. Any product could be flagged under more than one profile.

At Tani, approximately 15 workshops were arranged with different companies from different industries. Nearly 400,000 products were analyzed and 260,000 were flagged to 26 product-based profiles. The process included: **analyzing** the product tree and determining relevant barcodes to be used in the analysis. Then the companies’ products were **mapped** to profiles. (One product can be flagged under more than one profile.) Finally, the companies that would be involved in the analysis were **determined**. If a company had no products flagged for that specific profile, the company was not involved in that particular analysis.

Selection of additional products Some profile connections to products were not obviously identified through product mapping. But customers who bought primary products may offer clues about the propensity for other customers to purchase those products. For example, diapers are flagged as a primary product for families with babies. However, cookies targeted to children are not a primary product due to the fact that they can be purchased and consumed by families who do not have children. To gain additional insight, a two-step analysis was conducted:

Customer elimination: The goal of this first step was to

determine the primary products for customers in a specific lifestyle. The lifestyle was defined by primary product consumption and mapping was based on elimination factors such as purchase amount and purchase frequency. Only those customers that showed significant performance compared to average customers in terms of selected factors were marked as primary customers.

Secondary product flagging: Next Peppers & Rogers Group created baskets of various lifestyle groups and determined product-based factors. A study was conducted regarding the baskets of customers in specific groups, then the significance of the product usage in reflecting a specific profile (e.g. basket share, product penetration etc.) was analyzed. This process allowed PRG to identify products that were not flagged but scored high and observed to be meaningful for that profile.

Statistical analysis After determining primary and secondary products for each profile, a statistical analysis using predictive modeling was conducted to forecast behavior based on the profile. For each profile, primary customer segments were analyzed based on their primary and secondary product consumption habits to predict secondary customer segments.

Engaging lifestyle segments with marketing efforts Lifestyle segments are applicable for a myriad of purposes including the identification of cross-sell and up-sell opportunities in support of a new product launch.

Up-sell opportunities Once customer needs are understood, it is easier to market more profitable products to those customers. A customer’s affinity to one kind of product will also inform his affinity to other products. For example, a business might be more successful offering a higher-end car model with extra luxury accessories to a customer who is already in the “Car Lover” segment and the “Luxury Lover” segment. Another way to use the information would be to compare the purchase amounts of customers with the segment average, and

then implement up-sell campaigns to those customers who spend less than the segment average.

Cross-sell opportunities Since all the products used in this study have been mapped to certain lifestyles, a customer's lifestyle segment will be an indicator of other products that the customer is likely to be interested in.

An example is the customer in the "pioneer" segment. This customer is interested in trying new things and therefore is likely to be interested in newly launched products. Since the Paro program provides news of these new products, it may make Paro more valuable to the customer and hence the customer will become more loyal to the Paro program.

Joint campaign design By analyzing the buying behaviors of customers from different companies and considering the

proximity level of companies within the same segment, joint marketing campaigns can be designed more easily, which will yield a higher ROI.

For example, a "cuisine lover" customer could be offered discount coupons on meat/seafood/snacks products through the kiosks which she can use for any of the CPG companies participating in the Paro program.

Target customer selection for new product launches The Paro lifestyle segmentation helps program companies target their customers more cost effectively with new product launches as well. By selecting the customers who have already shopped for products that are similar to the new product, program companies are able to target their promotion much more effectively. For instance, the "Modern" customer would be the first segment to learn about a new technology product.

Figure 4: Lifestyle Segmentation Based on Product Usage

Peppers & Rogers Group used its proprietary methodology to create 26 lifestyles based on product usage.

Lifestyle	Buys
Traditionalist	Traditional goods, such as Turkish Delight, associated with culture
Sensitive	Environmentally friendly goods such as eco-food or special air conditioners
On Diet	Goods to stay in shape such as light, fat-free, or sugar-free products
Healthy	Products considered healthy such as organic bread
Well Groomed	Personal care products such as perfumes and cosmetics
Gourmet	Tasty products such as sauces, wines, exotic fruits
Luxury Lover	The most expensive product in its category
Economical	The cheapest product in its category
Big Families	King-sized product in its category
Families with Baby	Products for babies, such as diapers
Families with Kids	Products for children, such as children's books
Brand Addicts	Specific brands
Modern	Modern and fashionable products
Carpe Diem	Snacks, liquors, barbecue products
Domestic	House-related products such as design lamps
Ride-a-Hobby	Hobby-related products
House & Gardener	Products for gardens and detached houses
Commercial	Commercial products such as transport trucks and construction materials
Athletes	Products related to sports and athletics
Safe Siders	Insurance or safety accessories for automobiles
Cleaners	Cleaning chemicals and appliances
Pet Owners	Pet food and products
Bookworms	Books and magazines
Music / Movie Lovers	CDs, DVDs, camcorders, etc.
Cuisine Lovers	Kitchen-related products and appliances
Car Lovers	Special car care products

Source: Peppers & Rogers Group

By analyzing the buying behaviors of customers from different companies and considering the proximity level of companies within the same segment, joint marketing campaigns can be designed more easily, which will yield a higher ROI.

Conclusion

The Paro project distilled data from 2.3 million customers and 260,000 products into 43 different lifestyle groups. These lifestyle groups are providing Paro Program companies with a unique competitive advantage. They know what their customers buy and they have a sense of why they buy them. Tani is now using this customer insight to create an ongoing dialogue with these customers and is getting even smarter about them everyday. This learning relationship enables Koç and the other program-member companies to market to their customers in a more relevant and valuable way, thereby locking in loyalty across their various businesses. ■

About Peppers & Rogers Group

Peppers & Rogers Group is dedicated to helping its clients improve business performance by acquiring, retaining and growing profitable customers. As products become commodities and globalization picks up speed, customers have become the scarcest resource in business. They hold the keys to higher profit today and stronger enterprise value tomorrow. We help clients achieve these goals by building the right relationships with the right customers over the right channels.

We earn our keep by solving the business problems of our clients. By delivering superior customer-centric business strategy, we remove the operational and organizational barriers that stand in the way of profitable customer relationships. We show clients where to focus customer-facing resources to improve the performance of their marketing, sales and service initiatives.

For more information, visit www.peppersandrogersgroup.com

Peppers & Rogers Group strategy. execution. results.

Peppers & Rogers Group
901 Main Avenue, Suite 212
Norwalk, CT 06851
Tel: 203 642 5121
Fax: 203 642 5306